



Impact and responsible investments

2020 Sustainability scorecard achievements

Support impact investing as a means to direct capital to address global environmental and social issues while creating appropriate financial returns

68 securities valued at \$1.1 billion in impact investments as part of Premiums4Good



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Invest up to \$100 million in social impact bonds



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i View our 2021 Sustainability scorecard on [page 68](#).

As a global, multi-asset, multi-currency investor and signatory to the Principles for Responsible Investment (PRI), we believe that factoring ESG considerations into investment decision making will improve long-term, risk-adjusted financial returns and aligns to stakeholders' and community expectations. As a responsible global investor, we recognise that our decisions have an impact on the economy, environment and society at large.



Key for progress symbols:

✓ Achieved

••⇒ On track

⇐•• Behind

↻ Refreshed

As an asset owner, we seek to responsibly invest our proprietary assets, including our premium income, across the globe. QBE maintains a multi-asset, multi-currency portfolio. Our fixed income portfolio represents 93% of our overall investment assets, with the portfolio largely managed directly using in-house portfolio managers and analysts. Our growth assets portfolio represents the remaining 7% of our investment assets, and we use external managers and funds to access the various asset classes. For a detailed breakdown of our portfolio, refer to the [2020 Annual Report](#).

Advancing our Impact and Responsible Investments (IRI) approach

In 2020, we updated our Investment Philosophy Framework (Framework) and principles which are designed to deliver an investment outcome that supports and facilitates the protection and growth of appropriate stakeholder value. The Framework provides an overview of our approach to RI, commitment to responsible investing and integrating ESG factors into our due diligence, managing climate-related risks and opportunities, and appropriate transparency and reporting. QBE aims to maintain leadership among its insurance peers in impact investment and industry development. The Framework is applicable to all of our assets under management.

During the year, we advanced our RI approach, updating the Impact & Responsible Investments (IRI) Guidelines to reflect our advances in past years, and the deepening of environmental and social factors in our investment decision-making processes and systems, including considerations outlined in our Environmental and Social Risk Framework.

QBE has formalised guidelines on ESG factors. ESG analysis is integral to QBE's approach to investment due diligence and monitoring. We apply

screens through use of third-party data, and ESG Score thresholds and controversies assessments for credit issuers. ESG factors are prioritised based on materiality considerations for the issuer or sector.

Engagement policy

QBE prefers engagement to affect change in companies and external investment managers, rather than divestment. QBE adopts limited and targeted engagement with key issuers

reflected in the fixed income portfolio, and in line with the Group ESG Risk Standard, Group Energy Policy and [Global Sanctions Policy](#) – and other policies as they are developed.

In 2020, we used passive, index Exchange Traded Funds (ETFs) to gain exposure to developed and emerging market equities and, as such, do not cast proxy votes directly.



Investing in Australia's first climate, equity-linked green bond

QBE collaborated with BNP Paribas, the Clean Energy Finance Corporation and Aware Super to invest in Australia's first climate equity-linked bond. The eight-year BNP Equity-Linked Green Bond has a fixed coupon component and a variable component to the return. The variable portion is linked to a forward-looking climate index called the Australian Climate Transition Index (ACT Index), meaning that QBE is aligning capital and returns towards those companies expected to perform better in the transition to a low-carbon economy.

Integrating ESG into our fixed income portfolio

Our fixed income portfolio represents 93% of our overall investment assets. Our guidelines apply to all assets under management, including our non-corporate and corporate fixed income investment process.

We apply an ESG assessment to each corporate entity, considering independent external ESG ratings and portfolio manager assessment. Selection and monitoring include materially negative ESG developments.

All issuers are subject to the Group ESG Risk Standard, Group Energy Policy and Global Sanctions Policy, while positive screening for leading ESG performance is applied to determine the investment universe for fixed income.

Our focus on managing climate risk

QBE is committed to managing climate risk in all investment decisions, where we deem it material. Climate change also provides investment opportunities. As an investor, QBE supports climate-positive investments in various asset classes and through our Premiums4Good program.

We commit to measuring and managing climate metrics and targets in the portfolio, such as Weighted Average Carbon Intensity (WACI). A baseline established in 2019 identified that the corporate credit portfolio's exposure to carbon risk is low¹ and is therefore well-positioned for the transition to a low-carbon economy relative to the broader corporate bond market. In 2020, we continued to monitor the WACI of the credit portfolio, with the intent to maintain a low WACI. This monitoring informs new investment selection and decisions.

In November 2020, we announced our membership of the UN-convened Net-Zero Asset Owner Alliance, an international group of institutional investors committed to transitioning investment portfolios to net-zero greenhouse gas emissions by 2050. Joining the Alliance means QBE will consider the best available scientific knowledge and collaborate with other global institutional

investors on developing standard industry frameworks. We will also benefit from the technical support of the UN Environment Program Finance Initiative and PRI.

Since 2018, we have continued to engage with issuers that are identified as the highest emitters in our fixed income portfolio regarding their progress towards advancing to a low-carbon economy. We consider

carbon risk in our assessment of corporate credit issuers to identify corporations with high carbon intensity and identify concerns such as reduction targets, reduction programs and initiatives to better understand a company's strategy. We also actively engaged our managers on their TCFD plans, strategy and disclosures and performed a more detailed review of carbon-related assets to understand the climate-related risks in our portfolio.



¹ Using MSCI CarbonMetrics range based on the portfolio weighted average of issuer carbon intensity.

Our infrastructure, real estate and other investments

We use external fund managers to manage our infrastructure and real estate investments. We are pleased to note that over 80% of our external asset managers are signatories to the PRI, and we aim to maintain a threshold of 75% of all external managers being PRI signatories.

QBE joined the Global Real Estate Sustainability Benchmark (GRESB) as an investor member in 2018. The sustainability performance of our property portfolio has improved year-on-year and continues to be weighted average GRESB 4 Star and upper quartile sustainability performance. We incorporate ESG integration and analysis in our manager selection, appointment and monitoring process. We continue to strengthen our external fund manager reviews, and an annual ESG review applies for all existing managers in which we have an advanced ESG practice. In 2020, we increased attention to workplace health and safety (infrastructure assets), climate risk, TCFD, human rights, modern slavery and gender diversity and inclusion, as well as UN Sustainable Development Goals.

We engage with external managers in relation to carbon related assets and specific industry coverage – both risks and opportunities in a low-carbon economy. We have increased our focus on collaborative engagement opportunities through initiatives such as the UN-convened Net-Zero Asset Owner Alliance, and related asset manager initiatives.



Image by Claire Thomas

Save The Children Australia Impact Investment Fund

In 2020, QBE invested as the anchor investor in the Save the Children Australia Impact Investment Fund. The fund is aimed at supporting startups and enterprises that emphasise social innovation and address pressing social and humanitarian issues. The Fund will invest in enterprises working to improve the lives of vulnerable children, helping them to scale up and achieve meaningful social impact. It focuses on ed-tech, e-health and fin-tech innovations with the potential to change the lives of disadvantaged children and families in Australia and around the world.

Collaborating and engaging with industry

Through sector engagement and knowledge sharing initiatives, we have contributed to several industry events and forums including an Asia Pacific panel for The Global Steering Group on Impact Investing's recent Summit. We produced Premiums4Good case studies with the Australian Government, Big Society Capital (of the United Kingdom) and the Shared Value Project (Australia).

We provided input to the Australian Government's Department of Social Services and Social Impact Investing Taskforce and the UN draft SDG

Impact Standards for Bonds which are advancing impact practice in the green, social and sustainability (GSS) bond market and in private equity. These efforts are important to support the alignment of financial flows towards achieving the SDGs by 2030.

QBE representatives contribute to the Impact Investment Forum, Human Rights Working Group and as co-chair of the Impact Management and Measurement Community of Practice for the Responsible Investment Association Australasia.

Premiums4Good – a unique collaboration

QBE's impact investing initiative, Premiums4Good, continues to grow. The initiative directs a portion of insurance premium to impact investments to deliver an environmental or social impact or return alongside a financial return. Premiums4Good investments are made in asset classes as diverse as fixed income, private equity, infrastructure and renewables. We also make catalytic investments in alternatives such as social impact bonds. We communicate with our customers and business partners about the impact of these investments. Further information can be found in our [Premiums4Good Investment Impact Report](#).

In 2020, QBE extended the ambition to grow impact investments to \$2 billion by 2025. We have achieved our initial ambition of \$1 billion ahead of time. Premiums4Good has grown to 68 securities valued at \$1.1 billion as at the end of 2020.

QBE reviewed and updated the GSS Bond eligibility in Premiums4Good classifications and reclassified investments in line with our updated impact framework to reflect the growth of the GSS bonds market and QBE's intention of investing across the impact spectrum.

Consistent with our commitment to positive opportunities in relation to climate risk, more than US\$640 million is invested under environmental impact areas.

From March to June 2020, we made more than \$40 million in new investments to support private and public sector businesses and programs in countries and communities exposed to the economic and health effects of the COVID-19 pandemic. We invested in World Bank and International Finance Corporation bonds, which target financing to health sectors, microfinance and financing opportunities for women and small business owners.

Social impact bonds

In 2014, QBE committed to invest up to \$100 million in suitable social impact investments, specifically social impact bond (SIB) and pay for success (PFS) investments.

As a leading investor in impact bonds across the globe, we are one of the few to invest across different impact areas, currencies and geographies – and are committed to these catalytic investments.

Of the 200 impact bonds which have now been issued globally since 2014, QBE has invested in nearly 10% of the impact bonds on issue (direct and fund investments), with more impact bond investments in our pipeline. We have invested in Australia, the United Kingdom, Canada and the United States.

These investments seek positive outcomes across diverse impact areas. If our current SIB direct and fund investments achieve the intended outcomes, we have the capacity to positively impact more than 26,000 people in areas such as:

- reducing youth homelessness;
- improving education and employment outcomes;
- improving parenting skills to reduce the number of children removed into state care;

- reducing reoffending; and
- reducing long term cardiovascular disease.

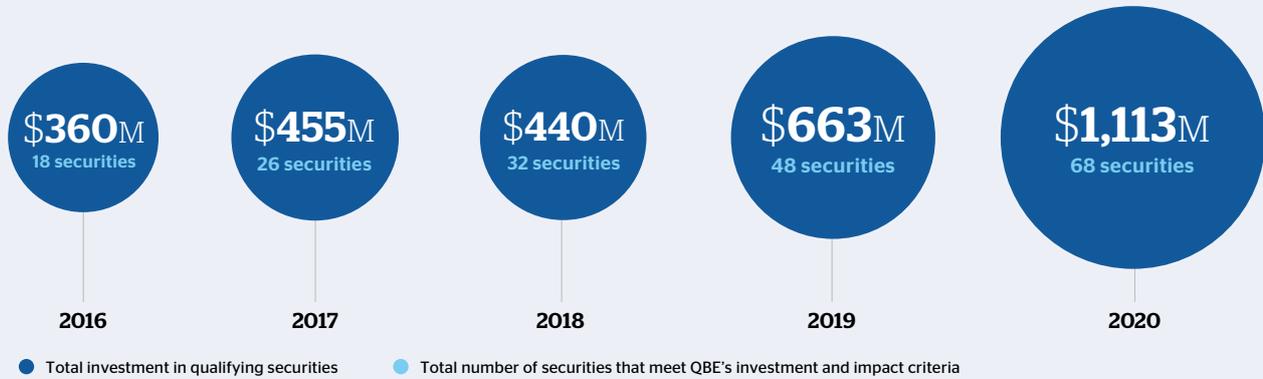
One of these SIBs we invested in and provided the up-front capital to develop and deliver is the Activate SIB, which matured in 2020.

QBE invested in Activate in 2016, the first Pan-Canadian SIB, a partnership between the Public Health Authority of Canada (PHAC), Heart & Stroke Foundation, MaRS Centre for Impact Investing, and other organisations and investors. In 2020, PHAC repaid investors due to the success of the program.

27% of all deaths in Canada are due to heart disease and stroke. The impact bond financed a lifestyle change and digital health program to reduce progression of high blood pressure for pre-hypertensive people over the age of 40. Activate launched in 2018, and screened thousands of people. It exceeded its target for participants maintaining or decreasing their blood pressure between their initial and six-month follow-up sessions, improving the lives of more than 4,600 people in Toronto, Greater Vancouver and Saskatoon.

Premiums4Good Investments

Securities and investment totals 2016-2020 (US\$M)



Global recognition of Premiums4Good

Since its inception in 2014, Premiums4Good continues to engage customers, employees and stakeholders. In 2020, Premiums4Good secured industry and peer recognition with a range of prestigious awards including:



Business Intelligence Group Sustainability Leadership Award (2020)



Inaugural Environmental Finance IMPACT Awards Re/Insurer of the Year (2020)

Current Premiums4Good investments: Impact area and location of impact as at 31 December 2020^{1,2}

	GLOBAL	AUSTRALIA AND NEW ZEALAND	EUROPE AND UK	NORTH AMERICA	DEVELOPING MARKETS	TOTAL
Environment						
Food & Agriculture					1	1
Resource Efficiency, Recycling, Re-use & Conservation					1	1
Sustainable Energy	2	9	12	11		34
Water	1					1
Total	3	9	12	11	2	37
Social						
Education & Employment			1		2	3
Financial Inclusion	1		3		1	5
Health	2	1				3
Housing & Social Real Estate		6	1	2		9
Social Care & Provision of Community Services		1	1	3		5
Social Inclusion, Diversity & Gender				1	1	2
Urban & Community Development		1		3		4
Total	3	9	6	9	4	31
Grand total	6	18	18	20	6	68

1 Impact areas, geographies and SDGs are mapped and categorised by QBE in line with our impact investment definitions and classifications. Please note that individual investments or investees may classify these differently.

2 Our methodology to reconcile number of securities was updated from 2018 onward.