GP Reinsurance EAD

INVESTMENT STRATEGY

Investment strategy of the institutional investor
Arrangements with asset managers
Public disclosure pursuant Insurance Code art 197b

generali.com

Document Summary

Title	Investment strategy
Date of issuance	21.01.2021
Signed by	The CEO of GP Reinsurance EAD, Minutes of Meeting 21.01.2021

INDEX

1 Glossary and definitions

Acronym/Term	Explanation/Definition
ALM	Asset - Liability Management
Group Asset Management Companies (or GAM Cos)	Asset Management Companies, belonging to Assicurazioni Generali Group, managing assets on behalf of Group Insurance Companies through an Investment Management Agreement or other specific contractual agreement.
SAA	Strategic Asset Allocation - target weights assigned to the various Asset Classes with respective upper/lower boundaries. Next to it, the duration target, boundaries and net FX exposure target are defined

2 Investment strategy

GP Reinsurance EAD manages all of its investments in a prudent way according to the so-called **Prudent Person Principle** and following the provisions set in the Group Investment Governance Policy, and strives to optimise the return of its assets while minimising the negative impact of short-term market fluctuations on its solvency position.

Regarding GP Reinsurance EAD as an institutional investor, the **traditional life savings business is long-term in nature**; therefore, the GP Reinsurance EAD holds mostly long-term investments – including equity – which can withstand short-term decreases and fluctuations in the market value of assets.

To ensure comprehensive management of the impact of financial and credit risks on assets and liabilities, the annual GP Reinsurance EAD Strategic Asset Allocation (SAA) process is liability-driven. Since the SAA is highly interdependent with liability requirements and other insurance-specific constraints (regulatory, capital, liquidity) the GP Reinsurance EAD has **integrated Asset Liability Management (ALM) and Strategic Asset Allocation (SAA) within the same process (ALM&SAA)**: this is aimed at defining the most efficient combination of asset classes – including equity – that, according to the prudent person principle, maximizes the investment contribution to sustainable value creation in the mid-to-long term integrating the solvency, actuarial and accounting perspectives.

The annual integrated ALM&SAA process allows not only to mitigate risks but also to define an **optimal risk-return profile** that satisfies both the return target and the risk appetite over the business planning period.

3 Agreements with asset managers

Following the abovementioned ALM&SAA approach, the asset portfolio is invested and rebalanced according to the asset class and duration weights. The main risk mitigation techniques are liability-driven management of the assets and the regular use of rebalancing. The **liability-driven investment is the cornerstone of the standard investment management agreement** and it helps to grant comprehensive management of assets whilst taking into account the liability structure, alongside the related tolerance ranges defined as investment limits.

The **approved SAA resulting from the annual ALM&SAA process is directly and fully translated into the investment management agreements** awarded by the GP Reinsurance EAD to GAM Cos. The agreements requires the asset manager to carry out its management activities under the GP Reinsurance EAD’s portfolios management guidelines, containing:

- the **prescribed asset allocation targets and boundaries** applicable to each portfolio(s), which the asset manager should achieve and maintain over a specific agreed period;
- the **investment limits and constraints** deriving from:
  - (i) Group risk policies and guidelines adopted by the GP Reinsurance EAD;
  - (ii) Specific restrictions according to local regulatory constraints.

3.1 THE ASSET MANAGER INCENTIVES, REMUNERATION AND ENGAGEMENT

The investment management agreements in place between the GP Reinsurance EAD and asset managers discourage excessive short-term risk taking and managers’ interest in short-term returns. On the contrary, they are built to be aligned with the profile and duration of the liabilities – mostly long-term liabilities – of the insurance companies. This alignment is achieved by the way agreements themselves are constructed. In fact, they:

- Prescribe binding **portfolio management guidelines fully aligned to the SAA** defined by the GP Reinsurance EAD through its ALM&SAA process, taking into account the long-term nature of insurance investments and the GP Reinsurance EAD goal of achieving a sustainable value proposition for the mid-to-long term. The asset manager shall indemnify and keep indemnified the Inc Co against all reasonable damages, losses or costs suffered or incurred by GP Reinsurance EAD arising as a result of any breach of the investment management agreement.
- Set **fix recurring asset management fees** calculated on the monthly basis from the average assets under management in market value, excluding any type of incentive based on returns or success fees.

Moreover, the GAM COs are required to abide by the **Group Active Ownership Guideline** setting principles on the monitoring of investee issuers, the engagement process, and the Group process on voting and exercise of other rights attached to shares.

3.2 MONITORING OF PORTFOLIO TURNOVER COSTS

GP Reinsurance EAD agreement with asset managers contains detailed **communication and reporting duties**. The asset manager is required to provide monthly disclosure to the client company on executed transactions that allow for turnover control.

Based on the MIFID II legislation the asset manager provides the annual report on the costs and associated charges related to the service. The announcement is reviewed by the GP Reinsurance EAD.

Duration of the agreement

The Company agreement with asset managers does not provide for a predetermined duration, without prejudice to the possibility of termination (in writing and in compliance with the prior notice agreed).