

Munich Re Investment Partners

Climate Risk as Financial Risk: Implications for Mainstream Investors

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Munich RE



Munich Re (Group)

More than 50 years of natural disaster and climate change expertise



Munich Re (Group)

1880

Foundation

€6.1bn

Consolidated Result 2025*

44,000

Staff as at 12/2025

€60.4bn

Insurance Revenue 2025*

Reinsurance



Primary Insurance



Asset Management



Munich Re
Investment Partners

Munich Re's Climate Journey

1973

Munich Re's first "global warming alert"

1974

Foundation Geo Risks Research Department

1978

First physical map released
"World map of natural hazards"

2000

First CD-ROM "World map of
natural hazards"

2007

Climate Change defined as
strategic topic for Munich Re

2011

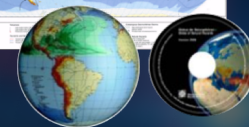
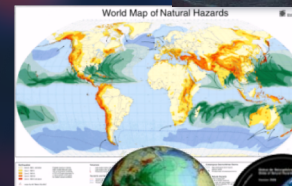
NATHAN: first web-based
client analysis tool

2020

Climate Risk Score (SaaS)
Munich Re Ambition 2025

2025

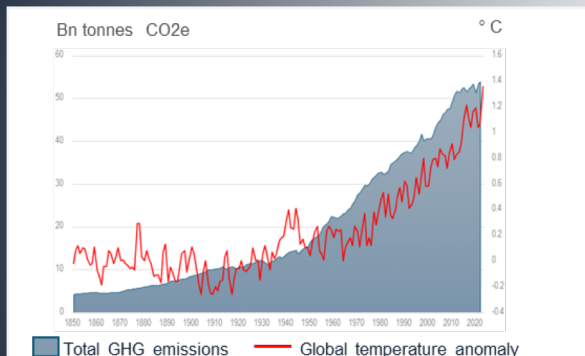
Climate Ambition 2030



Climate change = Risk of change

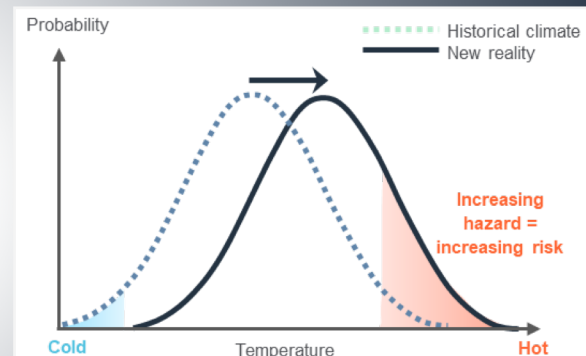
Small increase in average temperature – large increase in probability of extremes

Rising global emissions and
global temperature increase



Risks remain
insurable at a price
adequate to the risk

Changing probability distributions

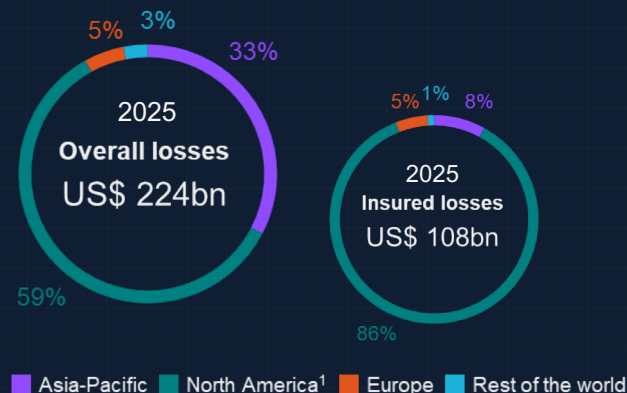


Three reasons why even a small increase in mean temperatures has major consequences

- Physics of the atmosphere (more moisture in warmer air)
- More energy in the climate system atmosphere + oceans
- Changing weather patterns

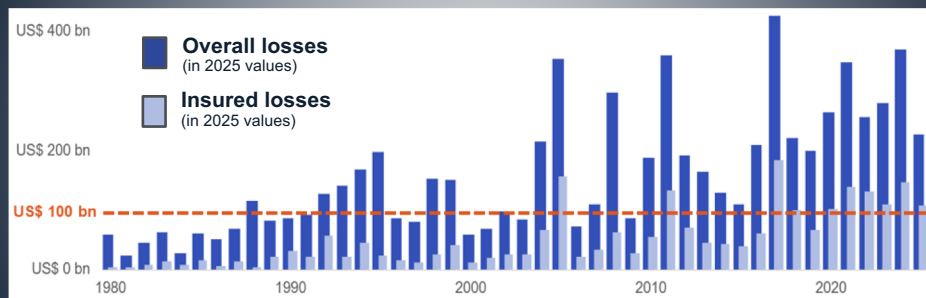
The natural disaster year 2025 at a glimpse and in comparison with previous years

- Insured losses again surpassed US\$ 100bn mark
- Front loaded year: costliest H1 insured losses on record
- Wildfire California:**
costliest event with US\$ 53bn / thereof US\$ 40bn insured
- No direct hurricane hit in the USA, but still highest number of losses in 2025
- 2025's moderate losses were a product of luck, not lower hazard



Note: Droughts and heatwaves are not included.
¹ North America, Central America and Caribbean
 Source: Munich Re, NatCatSERVICE, January 2026

Development of natural disaster losses worldwide, 1980 – 2025



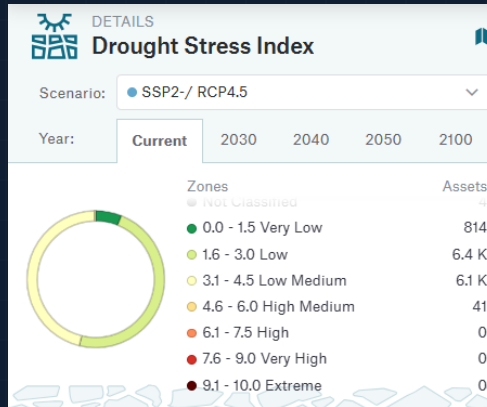
Losses inflation-adjusted via country-specific consumer price index and consideration of exchange rate fluctuations between local currency and US\$.

Source: Munich Re, NatCatSERVICE, January 2026
 Munich Re's NatCatSERVICE is a global database containing loss data from 1980 onward for all types of natural disasters, excluding drought, and heatwaves.

Know where your risks are – today and in the future

Drought stress index: Number of locations in higher risk areas will increase

Current



2050



Evaluation of
~13.000 portfolio
locations in Italy

**Risk assessment
today:**

The portfolio
locations currently
are in a low-medium
risk area

**Risk Assessment
2050:**

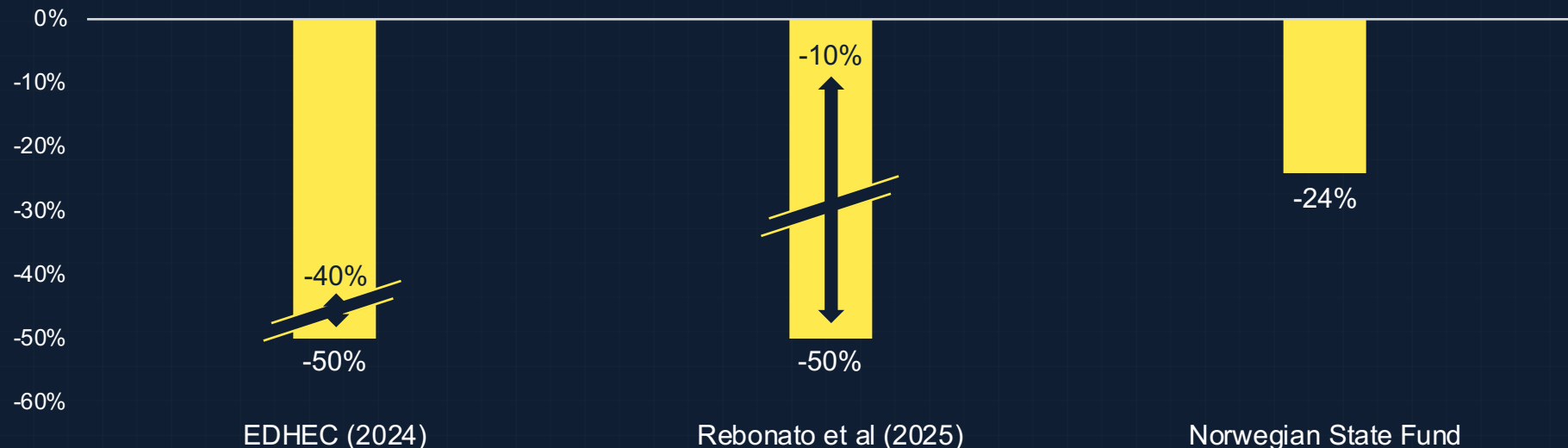
Under a medium
emissions scenario,
many locations will
be at higher risks

Climate stress scenarios reveal significant equity value at risk

Indicative model-based climate stress scenarios (not predictive)

Estimated Negative Change of Equity Portfolio Values

%



Note The scenario results shown above are derived from model-based climate stress tests and depend on specific assumptions regarding pathways, data inputs and parameter choices. They are not forecasts, do not represent expected outcomes, and may change materially with updated data or methodologies. The figures illustrate potential sensitivities only and should not be interpreted as indicating actual future losses or guaranteed financial impacts. Source: Munich Re Investment Partners based on: EDHEC-Risk Climate Institute (2024) "40% of Global Equity Value at Risk from Climate Inaction"; Rebonato et. al (2025) "The Impact of Physical Climate Risk on the Valuation of Global Equity Assets"; Norges Bank Investment Management – Stress Testing [per 31 December 2025], pages 7–8.

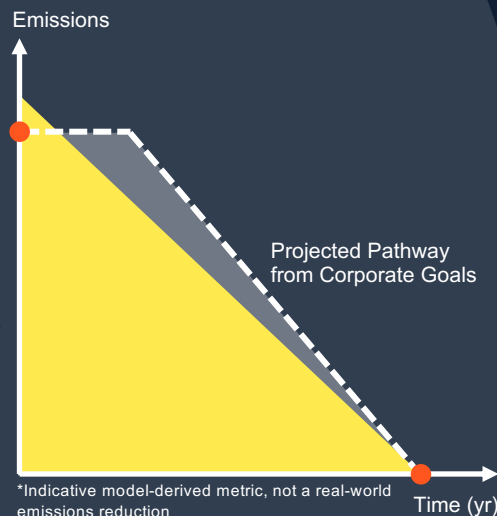
Rising Climate Extremes Make Carbon Mitigation Critical

Portfolio KPI CO-2 reduction



-X%
Underweigh/
exclude high
carbon intensive
holdings

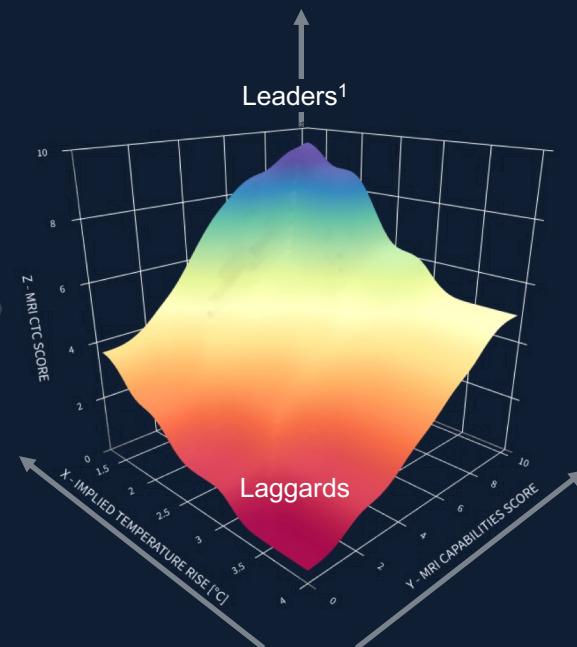
Asset-level Alignment ITR



■ Benchmark (budget or intensity)
from 1.5°C Pathways

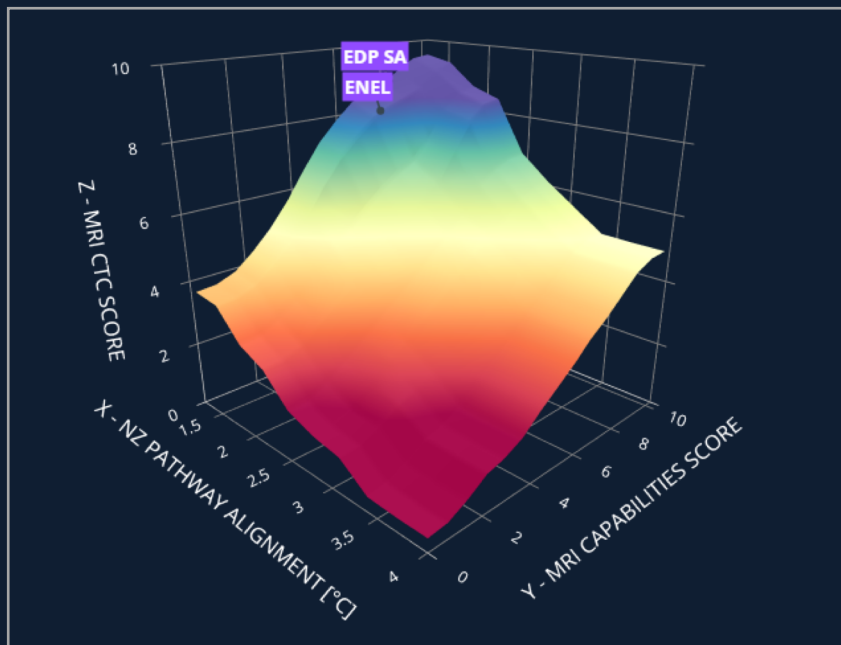
■ Over/Undershoot "Divergence"

Climate Transition Portfolio

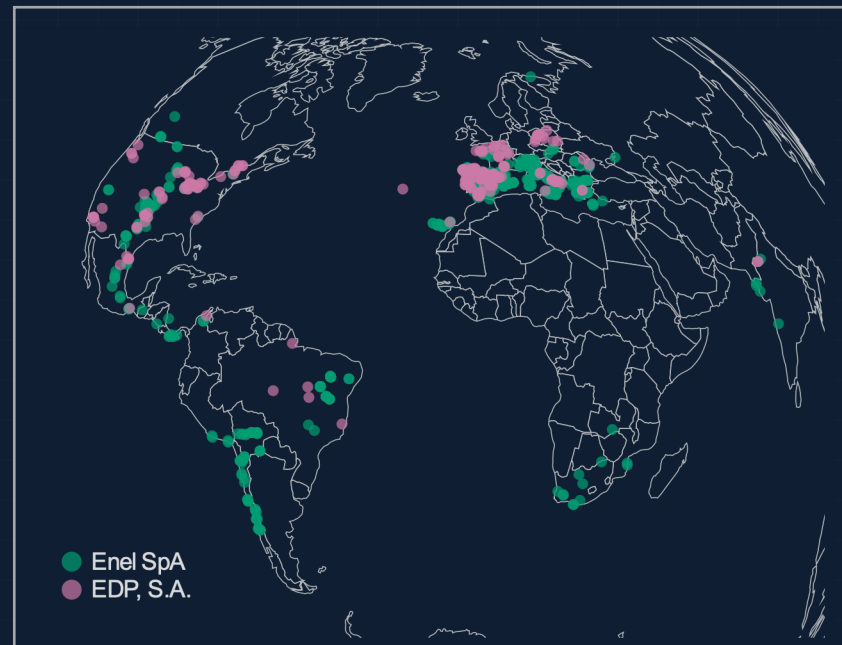


Note: Climate related metrics shown here are model based and scenario dependent. Definitions and methodological details are provided in the Glossary. These metrics do not imply real world climate impact or guaranteed outcomes. Definitions of sustainability-related and other important terms and details of the CTC Methodology can be found in the Glossary and Methodology section at the end of the document. 1) Leaders refers to a CTC Score of >7.0 (on a 0–10 scale), based on Munich Re Investment Partners proprietary Climate Transition Corporate Score. This score is a scenario and data dependent indicator and does not represent real world climate impact. 2) ITR based on estimates, depending on the provider, no exact temperature path

Transition Leaders*, Different Physical Risk Exposures



Source: Munich Re Investment Partners (2026)



Source: Own visualization of Munich Re - Risk Management Partners Climate Expected Loss Data (2025)

*Climate Transition Leaders are companies with a high Climate Transition Corporate Score (CTC) relative to peers, based on Munich Re Investment Partners Research CTC Score: A proprietary, rules-based composite that aggregates backward- and forward-looking metrics from third-party research providers into a single measure of climate-transition leadership.

Climate change = Financial risk

- NatCat losses are structurally rising with US\$224bn losses in 2025
- Climate stress scenarios reveal equity portfolio value at risk of up to – 50%¹



Avoiding even more climate extremes is making carbon mitigation critical²

- From equity portfolio CO-2 KPI approach to asset-based carbon mitigation investing
- Investment Partners CTC approach to identify corporate transition leaders



Munich Re NatCat data and expertise key to assess and price physical climate risk

- Modelling PCR like financial risk for improving portfolio allocation
- Quantifying changes to tail risks, CoC and returns of corporates essential



¹ Scenario-based results shown here are model-dependent and illustrative only. They do not represent forecasts, expected outcomes, or guaranteed financial impacts.

² Reducing emissions is widely viewed as important in many climate policy pathways.

Note: Definitions of sustainability-related and other important terms and details of the CTC Methodology can be found in the Glossary and Methodology section at the end of the document.

Risks

Significant price drops from the entry point of the investment are possible. Losses could be the result of a decrease in stock prices due to various factors. The below is a non-exhaustive summary of more pronounced risks associated with the strategy:

Macroeconomic risks/default risks



The prices of the stocks may be negatively affected by adverse changes in the macro-economic environment. For example, climate transition leaders may also suffer from a lower than anticipated economic growth, potentially resulting in declining stock prices. A sudden default by invested companies cannot be ruled out.

Operational risks



The investment may be exposed to losses from the inadequacy or failure of internal processes, personnel, or systems, or from external events impacting the investment or its service providers. For example, externally sourced data for portfolio management may become unavailable or corrupted at any time. This can lead to unplanned costs or adversely affected trade signals which may negatively influence the investment.

Sustainability risks related to market price risk



The price of the stocks may be affected by risks from environmental, social or governance criteria. For example, the reputation of a company in the market regarding its climate commitment may change at any time and potentially adversely affect its share price.

Glossary

- **Aligned (CTC-specific):** refers to companies whose current and projected emissions are assessed, using model based and scenario dependent carbon budgets, as being broadly consistent with a 1.5°C compatible decarbonisation pathway. This is not a statement of real-world impact or Paris Agreement compliance
- **Aligning (CTC-specific):** Companies whose emissions are not yet within this carbon budget but that have set credible, time-bound targets and transition plan to converge toward a 1.5°C-aligned pathway in the future. This is not a statement of real-world impact or Paris Agreement compliance
- **Asset-level alignment:** Refers to the degree to which individual assets' emissions trajectories, performance, or transition plans are consistent with specified climate pathways or decarbonization targets
- **Beta:** Beta measures a stock's volatility in relation to the broader market. It indicates the level of risk that an investor takes on when buying a stock. A beta greater than 1.0 suggests higher volatility compared to the market
- **Climate Expertise:** Refers to the specialized knowledge and analytical capability required to understand, assess, and respond to climate-related risks, and opportunities - no implicit promise of impact
- **Climate Solutions:** refer to products, services, or technologies intended to support climate mitigation or adaptation objectives, as assessed within the investment framework, without implying any guaranteed environmental or financial outcomes
- **Climate Transition Corporate Score (CTC):** A proprietary, rules-based composite that aggregates backward- and forward-looking metrics from third-party research providers into a single measure of climate-transition leadership. The score combines two pillars:
 - a long-term, forward-looking assessment of a company's alignment with a Net-Zero, 1.5 °C limited-overshoot pathway, and
 - a short-term assessment of the company's current capability to decarbonize (e.g., near-term targets, execution evidence, governance).
- **Climate Transition Leaders:** companies with a high Climate Transition Corporate Score (CTC) relative to peers, based on Munich Re Investment Partners Research. It does not imply real economy impact or Paris alignment
- **Climate-solution revenue share:** the maximum of: (i) EU Taxonomy-aligned revenue share (Climate Change Mitigation), (ii) EU Taxonomy-aligned revenue share (Climate Change Adaptation), and (iii) MSCI Climate Impact Revenues share
- **Climate-solution capex share:** the maximum of: (i) EU Taxonomy-aligned capex share (Climate Change Mitigation), (ii) EU Taxonomy-aligned capex share (Climate Change Adaptation), (iii) Renewable Energy capex share, and (iv) Electricity Grids (transmission/distribution) capex share

These company-level shares are multiplied by each holding's portfolio weight and summed across holdings to obtain portfolio percentages (% NAV portfolio weight).



Glossary

- Cumulative projected financed emissions: model the future total GHG emissions financed through the current portfolio until 2050. For each portfolio constituent, this metric uses the latest available company emissions data and stated emission reduction targets to model a projection of future cumulative GHG emissions until 2050. Two calculation approaches are applied:
 - Face-value: assumes all corporate emission reduction targets are fully achieved as stated
 - Quality-adjusted: reduces projected emission reductions when target credibility is limited — for example, if short-term targets are missing, targets lack external validation (such as SBTi certification), or long-term commitments are incomplete
- As with Financed Emissions, these cumulative emissions are weighted by the investor's ownership share. The ownership share is determined by the investor's proportion of total financing, measured using EVIC as of the most recent fiscal year-end
- Decarbonisation pathways: modelled trajectories for greenhouse gas emissions reduction over time, referenced against defined climate scenarios. They are based on assumptions and do not represent forecasts or guarantees of future outcomes
- Financed Emissions: the total greenhouse gas (GHG) emissions attributable to a portfolio's investments. They capture the share of emissions that an investor finances by summing each portfolio company's GHG emissions in proportion to the investor's share of total financing. The ownership share is determined using the investor's proportion of each company's enterprise value including cash (EVIC) as of the most recent fiscal year-end
- Financed Emissions Intensity normalizes this measure by portfolio size. It is calculated as total financed emissions divided by the total value of the portfolio and expresses the tons of CO₂-equivalent (tCO₂e) financed per USD 1 million invested. This metric indicates the level of financed emissions relative to the scale of the investor's exposure
- Information Ratio: The Information Ratio is a measure of the risk-adjusted performance of a portfolio or investment compared to a benchmark. It quantifies the expected return of a portfolio or investment in relation to the amount of risk the investment is taking on compared to the benchmark
- NTR: Net total return
- Paris-aligned - An internal or external assessment of whether a company or portfolio is consistent with specific emission reduction pathways based on scenarios for limiting global warming to 1.5–2°C. It is not evidence of real climate impact, a guarantee of emissions reduction, or a statement of actual or verified Paris compliance. The results are model-dependent, scenario-based, and subject to uncertainty
- Paris-consistent: Refers to alignment with the temperature-limitation goals of the Paris Agreement, typically meaning actions or trajectories compatible with limiting global warming to well below 2°C and pursuing efforts toward 1.5°C



Glossary

- **Portfolio Implied Temperature Rise:** expresses the level of global warming the world would reach if the global economy exhibited the same carbon-budget over/undershoot as the portfolio. Each constituent's remaining Net-Zero-2050 carbon budget and credibility-adjusted projected emissions are attributed to the investor using EVIC-based ownership. Financed budgets and financed over/undershoots are then aggregated across holdings. The portfolio's net over/undershoot is converted to degrees Celsius using the Transient Climate Response to cumulative CO₂ Emissions (TCRE) and added to a 1.55 °C scenario baseline, yielding a single °C figure for portfolio alignment. This aggregated-budget approach follows GFANZ best practice for portfolio ITR aggregation and provides a normative alignment measure. ITR is a scenario based, model dependent indicator and not a measure of real economy impact or Paris alignment
- **Relative risk comparable to broad market:** refers to an objective within the risk management framework to maintain overall portfolio risk characteristics broadly aligned with those of a representative equity market benchmark, as measured using quantitative risk metrics. Actual portfolio risk may vary over time
- **Resiliency to Climate-Transition-Related Risks:** Refers to the strategy's potential to reduce exposure to certain climate-transition-risk factors, based on historical analyses and scenario-based research. This does not guarantee reduced drawdowns in the future. Results are subject to model assumptions and data limitations
- **SFDR disclosure:** Article 8 – the product promotes environmental or social characteristics and follows good-governance practices
- **Sharpe Ratio:** The Sharpe ratio is a risk-adjusted measure of return that helps investors understand the return on an investment relative to its risk. It shows how much extra return you get for holding a riskier asset
- **Tracking Error:** Tracking error is the difference between a strategy's actual performance and that of its corresponding benchmark. It is a measure of how closely the investment portfolio tracks its benchmark index, offering an indication of the portfolio's volatility and risk relative to the benchmark
- **Unintended factor tilts and concentration risks:** Refer to portfolio exposures that arise unintentionally through security selection or portfolio construction, resulting in disproportionate sensitivity to certain risk factors, sectors, or individual securities. The investment process seeks to monitor and manage such exposures, although they cannot be fully eliminated
- **Well-diversified:** The strategy typically includes exposure to several hundred equities across regions and sectors (based on the MSCI World/MSCI Europe investable universe). Values are target figures, not guarantees



Climate Transition Corporate Score

Methodology Overview

Objective

To what extent does a company exhibit Climate Transition Leadership by supporting its long-term **alignment** with **credible** action?

Definitions

Alignment means the divergence of a company's projected cumulative greenhouse gas emissions with its remaining 1.5 °C-aligned carbon budget, where the budget is derived by downscaling a global net-zero carbon budget using sector- and region-specific decarbonisation pathways from the NGFS REMIND-MagPIE Net Zero 2050 scenario. Alignment is assessed by comparing the absolute over/undershoot "divergence" between the projected emissions and the remaining budget over time.

Credibility means an assessment of current capabilities of a company to decarbonize by considering how well a company has managed and disclosed its emissions, its climate governance, its current and planned exposure to climate solutions, as well as its approach on phasing out fossil fuels.

Input sources

Multi third-party vendors and data modules (MSCI, ISS, LSEG).

Input types

Structured quantitative and qualitative data; raw and derived climate metrics, reported, estimated and modelled; back- and forward-looking.

Methodology

Input metrics on alignment and credibility are mapped to fuzzy sets using membership functions. A rule-based Mamdani inference system combines these inputs, and the resulting fuzzy output is defuzzified into a single continuous score.

Screening

The CTC Score does not, in isolation, assess SFDR requirements such as Do No Significant Harm (DNSH), Good Governance, or sustainability risk integration. These aspects are assessed at the strategy or product level where the CTC Score is applied, in line with the relevant SFDR classification and disclosure requirements.

Explainability

Inputs, aggregation steps, and outcomes are fully transparent, explainable, and logged for each company. The CTC score is fully deterministic.

Assumptions & limitation

Alignment assessments are based on a combination of company-disclosed targets, modelled decarbonisation pathways and carbon budgets, and estimated emissions data, all of which are subject to uncertainty. Modelled and estimated inputs may differ from realised outcomes. Results are therefore indicative, reflecting consistency with a reference pathway rather than forecasts of future emissions or real-world climate outcomes.

Missing corporate data are estimated using sector characteristics, with outcomes capped to prevent overestimation of performance.

Monitoring & review

Quarterly update of CTC Scores, with daily monitoring of structural changes in input data and corporate changes. Score computation includes built-in data validation and predefined validation rules. Methodology changes are subject to internal review and fully documented.

Portfolio usage

The CTC Score is designed as an issuer-level assessment tool and does not prescribe a single, standardised aggregation methodology at portfolio level. No default portfolio score, weighting scheme or outlier treatment is embedded in the CTC Score itself.

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