Transparency on sustainability factors

1 Transparency – sustainability risks

At Swiss Life Asset Managers, we consider the systematic integration of sustainability into the investment process a key success factor in building long lasting value for our clients and generating positive effects on society at large. Thereby, a sustainability risk is defined as an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment. Such impacts may affect the assets of the financial products managed by Swiss Life Asset Managers and thus negatively impact their financial performance as well as the reputation of Swiss Life Asset Managers. We have identified a spectrum of impacts, that may be induced through ESG risks:

- Standalone impact: Reduction of value and inability to meet growth/return targets
- Negative impact on other risks e.g. asset liquidity risk or reputation risk

Consequently, we embrace a broad set of ESG criteria throughout the entire investment process. The use of dedicated ESG indicators helps us monitoring significant social, environmental, and governance aspects of individual issuers or real assets. Climate-related metrics such as carbon intensity shall give us an indication about the carbon footprint of our portfolios, while scenario analytics such as climate value-at-risk support us in understanding the resilience of the portfolio in terms of their exposure to low-carbon transition (policy) and extreme weather events (physical).

As part of our holistic risk management approach ESG factors are integrated in our risk control processes within our asset management. The reporting of ESG assessments is a standing agenda item in our risk governance bodies. Furthermore, the continuous development of our Responsible Investment (RI) approach is steered by an overarching ESG Board that reports to Swiss Life's Group Chief Investment Officer. The ESG Board makes recommendations and advises the Executive Committee of Swiss Life Asset Managers on ESG matters, including but not limited to sustainability risks. The Executive Committee is ultimately responsible for Swiss Life Asset Managers' Responsible Investment approach. The local units of Swiss Life Asset Managers are responsible for local ESG strategies, its implementation, aligned and coordinated with the overarching Responsible Investment approach. Furthermore, Swiss Life Asset Managers local entities ensure that this is done in accordance with local legal and regulatory requirements and that sustainability (including but not limited to the consideration of sustainability risks) is adequately embedded in its local governance.

To address the variety of sustainability risks, our ESG approach accommodates the needs of the following asset categories:

1. **Securities:** Swiss Life Asset Managers has chosen to directly integrate ESG factors into its investment decisions. This means that ESG data and information flows directly into the analysis of investments as do traditional financial and business information. Data considered include indicators like ESG ratings and controversy flags, which help identifying companies which might be vulnerable to ESG risks, but also underlying data on polluting activities, revenue shares of critical products, industrial action, etc. to allow a more detailed analysis. This integration approach comes on top of exclusions covering companies involved in the production of controversial weapons, having a significant stake in thermal coal and other critical and sanctioned companies and issuers. To complement our analysis, we systematically engage with issuers and companies, especially when we see significant improvement potential.

2. **Real Estate:** Real estate is particularly vulnerable to climate-related risks. Whereas extreme weather events as flooding affects the value directly, low-carbon transition measures may induce indirect costs. We proactively look for effective sustainability measures and implement them across the entire real estate life cycle. Especially climate-related risks but also potential costs through demographic shifts or controversial businesses of tenants are analysed throughout all stages of the property investment cycle. Examples include considering climate risks during the purchasing process, energy-efficient renovation and repair and choosing developments suitable for the handicapped and the elderly. We also aim to increase tenants' awareness of the need to use resources efficiently.

3. **Infrastructure:** Sustainability risks – whether climate-induced policy and physical risks or social risks such as labour safety – are material for infrastructure investments throughout their long investment horizon. Swiss Life Asset Managers has developed a robust ESG framework for assessing both direct and indirect investments in infrastructure assets. We are using dedicated ESG-questionnaires in the transaction due diligence and the ongoing monitoring of our investments. During the due diligence potential ESG risks are identified not only for our investments in renewables as wind farms or solar power plants but for all our investments as e.g. telecom and transport sector. For indirect investments via funds we strive to partner with managers who clearly demonstrate awareness of ESG factors as well as capability and willingness to actively address sustainability risks in their portfolio investments.

"Swiss Life Asset Managers" is the brand name for the Swiss Life Group's asset management activities.

2 Transparency – adverse sustainability impacts

This due diligence statement has been approved by the Executive Board on 01. February 2021 of Swiss Life Asset Managers and is regularly reviewed.

This statement is based on internationally recognized standards for due diligence and reporting, in particular on the UN Global Compact (UNGC). In addition, Swiss Life Asset Managers adheres to the following due diligence/transparency standards which are relevant in the context of responsible investment:

- Principles for Responsible Investment (PRI)
- International Corporate Governance Network (ICGN)
- Task Force on Climate-related Financial Disclosure (TCFD)

Swiss Life Asset Managers is currently further developing its due diligence approach to human right to meet the standards of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

2.1 Adverse Sustainability Impacts

At Swiss Life Asset Managers, adverse impacts of an investment decision on sustainability factors (“Adverse Sustainability Impacts”) are adequately considered during the investment decision process. Sustainability factors’ mean, environmental, social and employee matters, respect of human rights, anti-corruption and anti-bribery matters. Swiss Life Asset Managers is a prudent asset manager and recognizes that its investment management activities may have Adverse Sustainability Impacts.

Swiss Life Asset Managers assesses and monitors Adverse Sustainability Impacts with adverse sustainability indicators. It has procedures in place to identify how its investment management activities are linked to Adverse Sustainability Impacts and how to prevent, mitigate and remediate them.

As encouraged by internationally recognized due diligence standards, Swiss Life Asset Managers prioritizes Adverse Sustainability Impacts into so called “Principal Adverse (Sustainability) Impacts”/“PAIs” based on their severity, probability of occurrence, and the overall risk appetite.

Broad-based and meaningful data availability (incl. continuously improving data coverage) are increasingly important in this prioritization.

For example, climate change is one of the most severe and likely environmental risk at global level and the activities that Swiss Life Asset Managers finances do contribute to green-house gas emissions to a certain extent. The real estate industry is responsible for 40% of energy consumption and 36% of CO_2 emissions in the European Union[1]. As 28% of the assets under management at Swiss Life Asset Managers are invested into the real estate area[2], Swiss Life Asset Managers acknowledges to play a part in reducing the indirect contribution to climate change and to foster a less carbon intensive real estate industry.

[1] Source: International Energy Agency – Link: Buildings – Topics - IEA

[2] Swiss Life Responsible Investment Report – p7 (myflippingbook.ch)

For securities, Swiss Life Asset Managers has adopted a thermal coal phase-out strategy. To manage the risk of stranded assets, Swiss Life Asset Managers has decided not to undertake new investments in companies that derive more than 10% of revenues from mining, extraction or selling of thermal coal. In addition, the development of the exposure of our investments towards climate risk is monitored on the basis of selected carbon metrics (e.g. carbon intensity and absolute carbon emissions).

Further information on these topics are available here.

2.2 Principal Adverse (Sustainability) Impacts/PAIs

Swiss Life Asset Managers has identified the following sustainability issues as the most relevant Adverse Sustainability Impacts, ("Principal Adverse (Sustainability) Impacts/PAIs") to focus on for the (first) reference period:

1. **Climate and environmental-related indicators** based on the following adverse sustainability indicators:
   - Greenhouse gas emissions
   - Energy Performance

2. **Social and employee, respect for human rights, anti-corruption and anti-bribery matters** based on the following adverse sustainability indicator:
   - Social and employee matters
   - Human Rights

The prioritization of the PAIs (and the key performance indicators (KPIs) derived from the PAIs) as well as the applied metrics related thereto may vary for different asset classes and there will be re-prioritization over time. This is inter alia related to the fact that both, data availability and data quality on the PAIs vary across asset classes and will further evolve over time. Furthermore, dedicated investment funds and other financial products managed by asset management companies of Swiss Life Asset Managers may focus on other or additional PAIs as described in the respective product documentation.

The above stated PAIs are solely monitored for directly held assets. Indirect assets as for example fund of funds or other external financial instruments are currently out of scope. However, Swiss Life Asset Managers generally expects external asset managers or externally active managed investment funds in which Swiss Life Asset Managers invests to have adequate due diligence procedures on negative sustainability impacts as its own.

2.3 Governance

This Due Diligence Statement on Adverse Sustainability Impacts forms part of Swiss Life Asset Managers responsible investment approach which is steered by a functional ESG Board that reports to Swiss Life's Group Chief Investment Officer of Swiss Life. The ESG Board makes recommendations and advises the Executive Committee of Swiss Life Asset Managers generally on ESG matters, including but not limited to adverse sustainability impacts. The Executive Committee is ultimately responsible for Swiss Life Asset Managers' responsible investment approach across all asset classes. The local units of Swiss Life Asset Managers are responsible for regional ESG implementation, in alignment and coordination with the overarching ESG approach. Furthermore, Swiss Life Asset Managers local entities ensure that this is done in accordance with local legal and regulatory requirements and that sustainability is adequately embedded in its local governance.

2.4 Actions taken during the reference period and Actions envisaged for the next reference period

This is the first reference period. Accordingly, descriptions of measures taken during the previous reference periods will follow at a later date.

However, a set of actions has been defined in order to improve the management of the PAIs:

1. **Securities Current situation:** The green investment program was initiated in order to improve the PAIs of the proprietary insurance asset fixed income portfolio. Its objectives encompass carbon intensity monitoring, green bond investments and thermal coal exclusions. Further we enhanced our engagement efforts not only in the proxy voting process, where we analyze environmental or social voting items of our equity holdings, but we’ve also joined ClimateAction100+ in order to collaborate in climate-related company dialogue. For the next reference period, we are planning to further elaborate our engagement approach, especially in the area of fixed income. Further, integration of climate-related metrics in internal and client reporting is in focus.

2. **Real Estate Current situation:** Considering the whole property investment cycle, we believe PAIs can be managed best in a combined approach which covers acquisition, construction and operation. The first has been addressed with an encompassing incorporation of PAIs in the due diligence process of each property acquisition following the most relevant KPIs as defined by Swiss Life Asset Managers real estate business unit. The latter is targeted on multiple levels. Addressing for example the adverse sustainability impact greenhouse gas emissions, we analyze the portfolio carbon emissions and seek to set reduction potential encompassing the whole real estate portfolio. For the next reference period, we are planning to increase ESG performance data transparency and coverage; define measurable targets for our carbon reduction path and monitor performances against those targets. Further, tenant’s engagement (dialogue and satisfaction) is also in focus.

3. **Infrastructure Current situation:** PAIs are managed trough due diligence, exclusions, benchmarking of portfolio companies in independent surveys and execution of an ESG strategy which aims to minimize PAIs through ESG actions in ongoing asset management. A plan that encompasses environmental, social and governance goals and actions is implemented for infrastructure assets before investing, based off due diligence findings. KPI tracking is being rolled out currently, with greenhouse gas emissions among the indicators to be systemically tracked and reduced. For the next reference period, we are planning further elaborate and implement our engagement approach.

2.5 Engagement Practices and Engagement Policy

Swiss Life Asset Managers considers engagement as an integral part of its responsible investment approach. Its engagement activities are based on the active stewardship principle. Swiss Life Asset Managers dedicated engagement policy is available here:

Further information on these topics are available here.

2.6 International Standards

Swiss Life Group, or Swiss Life Asset Managers is a signatory of or member of the following initiatives which are inter alia setting standards and best practice relevant for responsible investing in the asset management industry:

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