

# Prospectus for the investment group Mortgages Switzerland ESG

Swiss Life Investment Foundation



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# 1 General information

The Swiss Life Investment Foundation is a foundation set up in 2001 in accordance with Art. 80 et seq. of the Swiss Civil Code and Art. 53g et seq. of the Federal Law on Occupational Retirement, Survivors' and Disability Pensions Plans (BVG) by the former Swiss Life Insurance and Pension Company, now Swiss Life Ltd.

The Swiss Life Investment Foundation, based in Zurich, is subject to supervision by the Occupational Pension Supervisory Commission (OPSC). The Swiss Life Investment Foundation is designed for tax-exempt occupational benefits institutions domiciled in Switzerland. Its purpose is the collective investment and management of the pension assets entrusted to it by investors.

The Swiss Life Investment Foundation is a member of KGAST (Conference of Managers of Investment Foundations), which obligates its members to meet high quality standards and comprehensive transparency requirements. The highest governing body of the investment foundation, the General Meeting of Investors, provides all member pension funds with the opportunity to exercise direct influence through their participation rights. The Swiss Life Investment Foundation comprises several investment groups that invest in different asset classes including equities, bonds, BVG mixed assets, real estate, mortgages, alternative investments and infrastructure.

This is the prospectus for Mortgages Switzerland ESG. This investment group belongs to the category "Swiss mortgage deeds" in accordance with Art. 53, cl. 1 let. b, no. 6 BVV 2.

## 2 Investment concept

### 2.1 Asset class

The asset class comprises sustainable Swiss mortgages as per the description in no. 1 of the investment guidelines (see 2.4 below).

### 2.2 Investment objectives

The investment objective is to achieve an appropriate return, primarily through investments in assets representing the credit risks of the Swiss mortgage market. The investment group pursues the environmental goals of mitigating climate change and environmental pollution, as well as protecting ecosystems. The investment group pursues a thematic approach to sustainability through a combination of the best-in-class approach and the application of exclusions, as well as impact investing.

### 2.3 Investment strategy

The Mortgages Switzerland ESG investment group primarily invests in sustainable Swiss mortgages via a collective investment scheme (target fund).

### 2.4 Investment guidelines

1. The investment group's assets are invested mainly in sustainable Swiss mortgages via the collective investment (target fund) Swiss Life Mortgage Funds with the sub-fund Swiss Life ESG Mortgage Fund approved by FINMA. These are mortgage loans granted to Swiss Life Ltd (originator) customers that have the following characteristics:
  - a) They are structured as fixed-rate mortgages, Libor/SARON mortgages or variable-rate mortgages denominated in Swiss francs;
  - b) The investment is based on residential, commercial and office properties in Switzerland;
  - c) They must be secured by a transferable mortgage note type (mortgage certificate in a specific name, bearer mortgage certificate or register mortgage certificate) and there are no previous liens in this regard (except for building contractor's charges for new builds, capital transactions for a charge on immovable property and retroactively registered legal liens). That means there are no priority security interests in the mortgage notes, any additional collateral or underlying mortgage loans in respect of other claims of the originator;
  - d) They have a minimum rating of R6. This is an internal Swiss Life rating, whereby R stands for "risk category". R6 corresponds to a maximum affordability of 1/3 of the available gross income for debtors of owner-occupied residential properties or means that net rental income must amount to at least 107% of the imputed rate of interest and ancillary property costs;
  - e) New builds (<1 year old buildings), which secure the mortgage loans, either have a Minergie® certificate (Minergie®, Minergie® P/A or Eco) or a CECB® Level A or B or equivalent; older properties (>one-year-old buildings) have either a Minergie® certificate (Minergie®, Minergie® P/A or Eco) or CECB® Level A, B or C or equivalent; buildings without Minergie certificate or CECB® or equivalent and buildings with CECB® or equivalent and buildings with a level D or E CECB® are taken into account if a financing request with CECB® Plus or equivalent including a list of the intended renovation measures is available and the renovations were completed no later than 24

- months after payment of the financing and the property has a CECB® certificate level A, B or C or equivalent;
- f) The buildings which secure the mortgage loans may not be listed as a polluted site in the cantonal cadaster of contaminated locations or by the federal offices responsible for implementing the Contaminated Sites Ordinance (CSO) in their respective areas (Federal Office of Transport FOPO, Federal Department of Defence, Civil Protection and Sport (DDPS) and Federal Office of Civil Aviation FOCA);
  - g) Buildings which secure the mortgage loans may not be located in areas designated by the Federal Office for the Environment FOEN for the protection and promotion of biodiversity in Switzerland;
  - h) Their maximum term is 25 years from the payment to the mortgage customers;
  - i) The maximum permissible net loan-to-value ratio is 80% (as per SBA guidelines). The net loan-to-value is defined as the ratio of (i) the sum of outstanding principal amounts of all mortgage loans backed by the same properties, less additional collateral (2<sup>nd</sup> pillar and pillar 3a), and (ii) the sum of the market values of these properties.
2. In the absence of investment opportunities in mortgage loans pursuant to no. 1, the investment group may invest indirectly via the target fund in the following investments, subject to the provisions of no. 3:
- a) Debt securities and claims (bonds incl. covered bonds, notes):
    - (i) private, public and mixed issuers;
    - (ii) issuers headquartered in Switzerland or which exercise the bulk of their business activities in Switzerland;
    - (iii) are denominated in Swiss francs;
    - (iv) at a fixed or variable rate.
  - b) money market instruments denominated in Swiss francs from issuers worldwide;
  - c) Swiss mortgage bonds denominated in Swiss francs;
  - d) sight and time deposits denominated in Swiss francs;
  - e) parts in collective investments investing in assets in accordance with 2 a)-c).

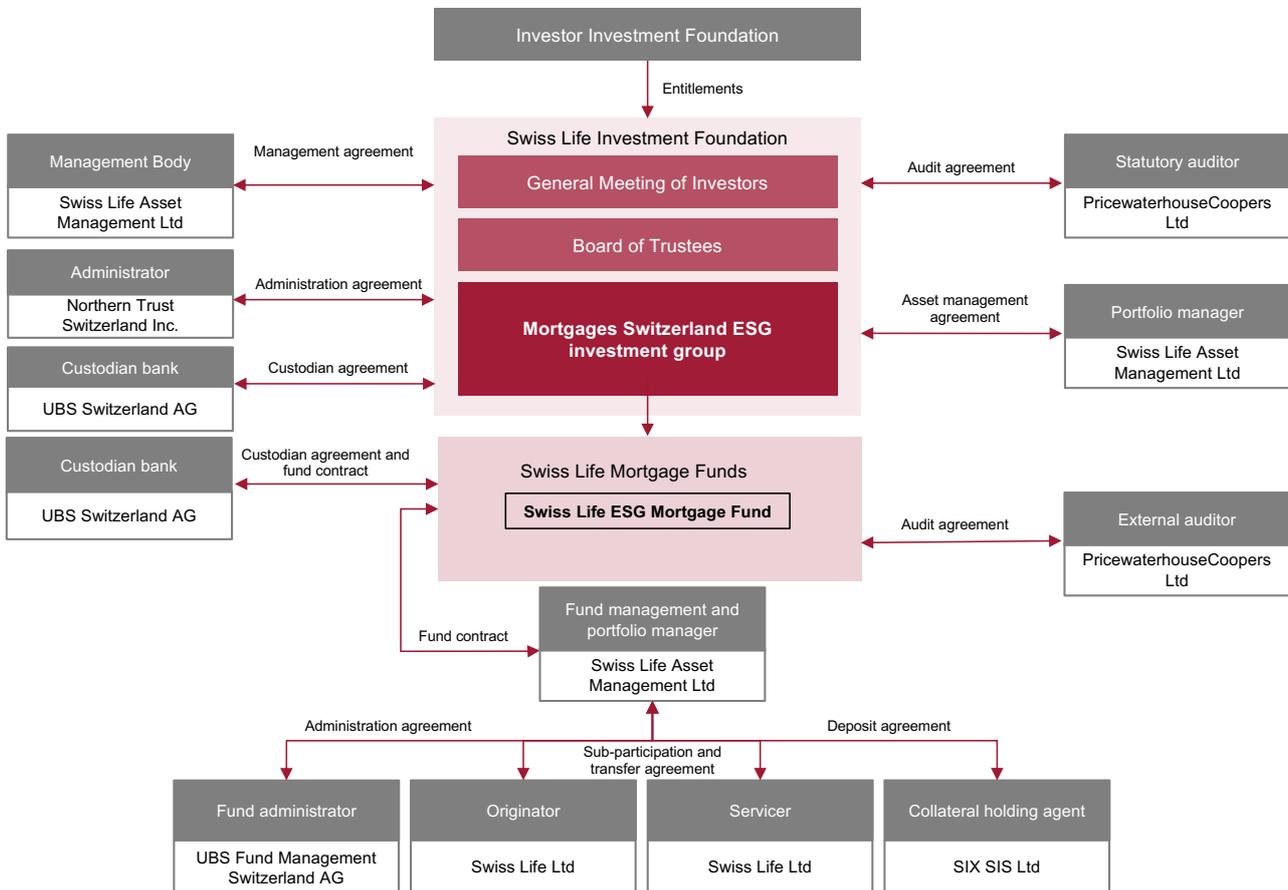
3. The investment group must comply indirectly with the following investment restrictions via the target fund:
  - a) at least 85% in mortgage loans pursuant to no. 1;
  - b) mortgage loans which, due to changes occurring since the signing of the mortgage contract, no longer meet the requirements of no. 1 are permitted up to a maximum volume of 33% of the capital assets;
  - c) up to 15% in assets pursuant to 2 a)-c);
  - d) The weighted average duration of the total assets held by the investment group indirectly via the target fund may exceed or undercut the target duration of eight years by +/- five years for a maximum of three consecutive months.
4. Liquid assets shall not be included in the calculation of the shares pursuant to 3 a) and c).
5. The investment group must comply indirectly via the target fund with the following risk distribution conditions:
  - a) The mortgage debt of an individual debtor may amount to a maximum of 10% of the capital assets;
  - b) Max. 20% in sight and time deposits with the same bank. Liquid assets pursuant to no. 6 must also be included in this limit.
  - c) The assets pursuant to 2 a)-c) may amount to a maximum of 10% with one individual borrower.
6. Holding liquidity with a term of up to twelve months is permitted at the investment group level up to a share of 10% of the total volume of the investment group. Money market investments may also be made in addition to sight and time deposits at first-class banks and the post office. In the event of insufficient mortgage loan investment opportunities, investments may be made at investment group level in CHF-denominated securities held by debtors residing in Switzerland with a maturity or remaining maturity of up to 12 months. A minimum requirement for acquisition is an "A" rating and the average rating quality must be at least "A+". The 10% quota may exceptionally and temporarily be exceeded in order to process repayments.
7. Only technically limited, short-term borrowing is permitted within the investment group. Short-term borrowing is permitted within the target fund held, in particular to bridge the mortgage payouts and to cover redemptions until these are covered by subscriptions and maturities.
8. The target fund may use derivatives for hedging purposes or for managing interest rate risk.
9. Direct investments in mortgage loans at investment group level are not permitted.
10. The investment regulations in accordance with no. 3, 5 and 6 must be complied with twelve months following the launch of the investment group at the latest. The other investment regulations must be complied with from the launch.

## 3 Due Diligence

As part of the lending process, the mortgagor's loan application is reviewed by the originator and the credit evaluation is carried out according to criteria that meet recognised market standards.

Following the granting of the loan, the mortgage loans which meet the criteria in section 2.4, no. 1 are regularly offered to the target fund as investments. The portfolio manager of the target fund checks the conformity of the mortgage loans offered with the investment regulations to verify their legality, compliance with the fund treaty and any internal investment guidelines. There is no due diligence audit at the investment group level.

# 4 Organisation



## 4.1 Organisation of the investment group

### 4.1.1 General Meeting of Investors

The highest governing body of the foundation is the General Meeting of Investors, which comprises representatives of all investors. The General Meeting of Investors meets when required by the foundation regulations, but at least once per year.

For the duties and powers of the General Meeting of Investors, please see the Articles of Association and the foundation regulations of the Swiss Life Investment Foundation.

### 4.1.2 Board of Trustees

The Board of Trustees is the highest executive body. It has all the duties which are not expressly within the remit of the General Meeting of Investors, the statutory audi-

tor or the supervisory authority. The Board of Trustees represents the foundation to external parties. The Board of Trustees comprises a minimum of five expert members, who must be natural persons. The members of the Board of Trustees are elected by the General Meeting of Investors. The founding company, its legal successor and persons with economic ties to the founding company, may be represented by no more than a third of the Board of Trustees. The founding company has the right to submit nominations for the election of members of the Board of Trustees. Persons entrusted with the foundation's administration or asset management may not be elected to the Board of Trustees. If the Board of Trustees delegates management to third parties, they may not be represented on the Board of Trustees.

#### **4.1.3 Management body**

The management body of the Swiss Life Investment Foundation is responsible for the day-to-day business of the foundation within the framework of the Articles of Association, the foundation regulations, the investment guidelines and any other special regulations, directives and ordinances issued by the Board of Trustees. It also carries out performance controlling and coordinates cooperation with the statutory auditor and the supervisory authority.

#### **4.1.4 Portfolio manager**

The investment group's portfolio management is delegated to Swiss Life Asset Management Ltd. The investment of fund assets is implemented via the target funds (see 4.2 below).

#### **4.1.5 Administrator**

The administrator is Northern Trust Switzerland Inc. It is responsible for calculating the investment group's net asset value and for its accounting.

#### **4.1.6 Statutory auditor**

PricewaterhouseCoopers AG (PwC) Zurich, has been appointed as statutory auditor for the investment foundation. The duties of the statutory auditor are defined in Art. 10 of the Ordinance on Investment Foundations (Verordnung über die Anlagestiftungen, or ASV). They include reviewing compliance with the provisions of the Articles of Association, the regulations and the investment guidelines.

#### **4.1.7 Custodian bank**

The investment group's custodian bank is UBS Switzerland AG, which is responsible for safekeeping and administration of the parts of the target fund.

## **4.2 Organisation of the target fund**

#### **4.2.1 The target fund**

The target fund "Swiss Life ESG Mortgage Fund" is a sub-fund of Swiss Life Mortgage Funds, a contractual umbrella fund under Swiss law of the type "other funds for traditional investments." The target fund is approved by the Swiss financial market supervisory authority FINMA and subject to its continuous supervision.

#### **4.2.2 Fund management company and portfolio manager**

The fund management company and portfolio manager for the target fund is Swiss Life Asset Management Ltd based in Zurich.

#### **4.2.3 Custodian bank**

The investment group's custodian bank is UBS Switzerland AG, which is responsible for safekeeping and administration of the target fund's assets.

#### **4.2.4 Fund administrator**

The administrator is UBS Fund Management Switzerland AG. It is responsible for calculating the target fund's net asset value and for its accounting.

#### *4.2.5 External auditor*

PricewaterhouseCoopers Ltd (PwC), has been mandated as the external auditor for the fund management company and target fund. The external auditor shall examine whether the fund management company and the custodian bank have complied with the legal and contractual rules as well as the rules of conduct of the Asset Management Association Switzerland (AMAS).

#### *4.2.6 Originator*

Swiss Life Ltd acts as the originator, which identifies the financing needs of potential mortgagors and provides all services associated with the conclusion of mortgage loan agreements. Swiss Life Ltd stands out through its in-depth knowledge of mortgage loan management.

#### *4.2.7 Servicer*

The entire credit administration for the mortgage loans held by the target fund is delegated to Swiss Life Ltd, Zurich as servicer.

#### *4.2.8 SIX SIS Ltd*

The mortgage notes and any insurance policies are held by SIX SIS Ltd, Olten, as collateral holding agent, i.e. the bearer mortgage certificates, mortgage certificates in a specific name and insurance policies are held in a custody account at SIX SIS Ltd on behalf of the fund management company in favour of the target fund.

# 5 Issue and redemption of entitlements

## 5.1 Issue of entitlements

Investors are, as a general rule, eligible to acquire as many entitlements as they wish within the framework set by the foundation regulations and in accordance with their own investment guidelines.

The following minimum investment requirements apply to the acquirer of claims in the Mortgages Switzerland ESG investment group:

Standard tranche: 1 entitlement

PM tranche<sup>1</sup>: CHF 10 000 000.00

Entitlements are acquired through the issue of new entitlements by the foundation. Free trading in entitlements is not permitted.

Entitlements may be issued once a month as a general rule. They are issued on the last bank working day of the month (issue date), subject to a one-month subscription period. The subscription notice must reach the foundation's management body in writing by 2:30 p.m. at the latest on the penultimate bank working day of the month. Subscription notices not received on time by the management body are automatically carried forward to the next trading day.

In the event that subscriptions at the target fund level are reduced due to insufficient eligible mortgage loan volume, the management body of the foundation may, for its part, reduce or entirely reject the excess part of the entitlements subscribed at the investment foundation level, proportionally and subject to equal treatment of the investors.

## 5.2 Issue price

Entitlements are issued at the net asset value applicable at the time of issue plus any issuing commission. The equivalent value of the issue price must generally be paid in cash. Contributions in kind in the form of parts of the target fund are acceptable subject to the prior agreement of the management body. In accordance with Art. 20 cl. 2<sup>quater</sup> ASV, the net asset value of the target fund must be set aside. Further contributions in kind are not permitted.

## 5.3 Redemption of entitlements

Investors may at any time, taking account of the relevant notice periods, request the redemption of some of all of their entitlements by the foundation. Entitlements are sold through the redemption of existing entitlements by the foundation. Free trading in entitlements is not permitted.

Redemptions are generally possible once a month. Entitlements are redeemed on the last bank working day of the month (redemption date), subject to a six-month notice period. The redemption notice must be received in writing by the foundation's management body no later than 2.30 p.m. on the penultimate bank working day of the month. Redemption notices not received on time by the management body, are automatically carried forward to the next redemption date.

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<sup>1</sup> Only open to investors who conclude a special agreement with Swiss Life Asset Management Ltd or to current asset management customers of Swiss Life Asset Management Ltd.

The redemption of entitlements is also subject to the following restrictions:

- Entitlements may be redeemed for the first time on 30 January 2024, subject to the abovementioned six-month notice period.
- The following gating procedure may be applied at target fund level:

“If the sum of the redemption requests for a particular redemption day exceeds 10% of the target fund assets (threshold), the target fund management company may carry forward the part in excess of this threshold proportionately and subject to equal treatment of the withdrawing investors, to the next possible redemption day if the monthly redemption requests exceed 10% of the parts and the liquidity of the target fund is insufficient. Redemptions of 10% are calculated net, i.e. the difference between subscriptions and redemptions which occur on one and the same bank working day as the issue and redemption day. Deferred redemption requests are processed as per the applicable conditions on the next possible redemption day, i.e. deferred redemption requests do not take precedence over redemption requests on the next possible redemption day.”

In such a case, the management body of the foundation can also forward the investment group investors' redemption requests proportionately and subject to equal treatment of the withdrawing investors to the next possible redemption date.

- The redemption of entitlements can be restricted further (e.g. deferral of redemptions for up to two years) in unusual market situations. Investors will immediately be informed of this decision in a suitable format.

In justified cases, entitlements can be assigned among investors, subject to the prior approval of the management body (see also 5.5 below).

#### **5.4 Redemption price**

The redemption price per entitlement corresponds to the net asset value at time of redemption minus any redemption commission.

A resale on the value date is exempt of redemption commission.

#### **5.5 Cession**

Free trading in entitlements is not permitted. The assignment of entitlements among investors is permitted in individual justified cases subject to prior approval by the management body.

#### **5.6 Issue and redemption dates**

Entitlements are issued and redeemed monthly, generally on the last bank working day of the month (trading day).

#### **5.7 Settlement**

Subscriptions are settled within 20 bank working days of the relevant trading day. Redemptions are settled within 20 bank working days of the relevant trading day.

## 6 Net asset value and valuation of mortgage loans

The net assets of an investment group are calculated based on the value of individual assets, plus any accrued interest, less any liabilities.

The net asset value of an entitlement is determined by dividing the net assets of the relevant investment group by the number of existing entitlements on the date of the calculation. The net asset value calculation occurs monthly.

The valuation of mortgage loans (fixed and variable) is carried out in accordance with the standard market method for the valuation of credit products (such as bonds). All cash flows under a mortgage loan are discounted (i.e. the redemption amount and all expected interest payments), whereby the discounting is based on relevant market interest rates (CHF-LIBOR/SARON and swap rate) and a risk component (credit spread that is subject to change) applied by the originator at the time in question for comparable mortgages when granting mortgage loans. The credit spread depends on the respective rating of the mortgage loan, which is evaluated by the servicer's credit risk management (CRM) on the basis of a variety of parameters, such as the creditworthiness of a mortgagor and the available security(ies). As the credit spread is used to determine the prices in the originator's current mortgage business, it is ensured that the respective prices are in line with the market.

Forward mortgages are generally valued according to the same principle as mortgages that have already been paid out. In addition to the expected interest payments and the redemption amount, however, the future payout amount of the mortgage is also taken into account. This payout amount is included in the valuation as a negative cash flow. Once the time of payout of the mortgage has been exceeded, this payout amount is no longer included in the valuation.

The discounting and calculation of the market values takes place automatically through the systems used by the servicer. The fund management company of the target fund performs regular checks of the system parameters.

# 7 Fee structure

The following costs and expenses result in a reduction of the returns that can be achieved on the entitlements by investors.

Costs and expenses incurred by the Mortgages Switzerland ESG investment group:

## 7.1 Management fee

Management and administration costs are charged to the investment group's net assets for the management and administration of the foundation and investment group.

The fees are charged at the investment group level (in accordance with the fee and cost regulations) and/or at the level of the target fund deployed. The total costs (TER) of the investment group comprise:

Standard tranche: 0.57% (indicative)  
PM tranche<sup>2</sup>: 0.35% (indicative)

The full costs (TER<sub>OAK</sub>), including those of the underlying target fund, are disclosed annually on a retrospective basis in the investment foundation's annual report.

## 7.2 Issuing commission

A maximum issuing commission of 2.00% in favour of the investment group may be charged.

## 7.3 Redemption commission

A maximum redemption commission of 5.00% in favour of the investment group may be charged. No redemption commission is charged on entitlements that are resold by the relevant value date.

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<sup>2</sup> Only open to investors who conclude a special agreement with Swiss Life Asset Management Ltd or to current asset management customers of Swiss Life Asset Management Ltd.

## 8 Risk information

The price at which entitlements are redeemed depends on, among other things, the future performance of the assets held by the target fund. If the performance is unfavourable, investors risk losing some or all of the capital they have invested.

The following risk factors must be taken into account when investing in the Mortgages Switzerland ESG investment group:

### 8.1 General risks involved in investing in mortgage loans

The main investments held indirectly via the target fund are in the Swiss mortgage market. The investments' geographical containment within Switzerland means that an economic downturn and/or fall in real estate prices in Switzerland can have a negative effect on the fulfilment of the interest and repayment obligations of the mortgagors and/or the amount of proceeds of realisation in the event of a forced sale of underlying properties. If the recovery ratios of the properties used as collateral are lower than the outstanding amount of defaulted loans, this leads to a realised loss.

### 8.2 Dependency on Swiss Life Ltd

The concept of the target fund, which is held by the investment group, relies to a significant extent on the activities of Swiss Life Ltd. Not only does Swiss Life Ltd generate mortgage loans through activities undertaken towards mortgagors (originating), but Swiss Life Ltd is also entrusted with the management of the mortgage loans selected as investments by the target fund (servicing). Furthermore, Swiss Life Ltd may in future also be considered as a lender to the target fund. Therefore one and the same legal entity assumes different roles vis-à-vis the fund management company and/or the target fund. The target fund is thus dependent on Swiss Life Ltd to a significant extent:

#### *Swiss Life Ltd as originator*

The mortgage loans are generated exclusively by Swiss Life Ltd, which from the target fund perspective offers a guarantee of a uniform lending process and ensures that the same uniform assessment criteria are consistently applied when selecting mortgage loans.

It should be noted that mortgagors have the right to offset claims vis-à-vis Swiss Life Ltd against their obligations, assigned by Swiss Life to the target fund, to the extent that the corresponding offsetting claims were already in place at the time the mortgagor in question became aware of the assignment of the mortgage claims by Swiss Life Ltd to the target fund. There is therefore a risk that the investment group invested via the target fund will suffer a corresponding loss in the event of the inability to pay or insolvency of Swiss Life Ltd.

#### *Swiss Life Ltd as mortgage loan servicer*

In its capacity as servicer, Swiss Life Ltd will assume the exclusive management of mortgage loans. In the event that Swiss Life Ltd ceases its role as servicer, there is no guarantee of any replacement servicer being found within a reasonable timeframe, given the high contractual and operational requirements.

#### *Swiss Life Ltd in the role of potential lender*

Swiss Life Ltd could also be considered as a potential lender of a liquidity facility available to the target fund to bridge liquidity shortages. Should Swiss Life Ltd act as lender, its defaulting to the target fund could lead to liquidity problems, as the target fund may no longer have sufficient liquidity for short-term redemptions. In order to minimise this risk, the plan is to set up at least two liquidity facilities.

### **8.3 The fund management company and Swiss Life Ltd as Swiss Life Group companies**

Swiss Life Asset Management Ltd, as the fund management company of the target fund, is an indirect wholly owned subsidiary of Swiss Life Holding Ltd. In its role as fund management company, it is responsible for numerous supervision and monitoring duties vis-à-vis Swiss Life Ltd, a wholly owned subsidiary of Swiss Life Holding Ltd, as originator and servicer of the mortgage loans in which the target fund will invest. The fund management company and its agents are bound by disclosure, due diligence and loyalty obligations. They act independently and exclusively in the interests of the investors. In addition, the fund management company has policies and processes to adequately take into account potential conflicts of interest and/or insufficient independence arising from the Group-wide association between the fund management company and Swiss Life Ltd.

### **8.4 Dependence on SIX SIS Ltd as collateral holding agent**

The mortgage notes and any insurance policies are held by SIX SIS Ltd as collateral holding agent, i.e. the bearer mortgage notes, mortgage notes in a specific name and policies are held in a custody account at SIX SIS Ltd on behalf of the fund management company in favour of the target fund. In this respect, the target fund is dependent on SIX SIS Ltd.

### **8.5 Potential conflicts of interest for Swiss Life Ltd**

In the context of its ordinary business activities, Swiss Life Ltd generally aims to grant new mortgage loans. The following measures have been taken in order to address potential conflicts of interest when selling mortgages, for which Swiss Life Ltd is acting in its own interest as seller, which may differ the investors' interest in the target fund in terms of selecting mortgage loans and the price at which the mortgage loans are transferred: First, the loan approval is carried out within the framework of normal operations of Swiss Life Ltd and its lending guidelines as well as its applied credit approval process, without knowing whether the mortgage loans will be acquired by the target fund or

not. The granting of loans is thus performed independently and within the context of normal operations at Swiss Life Ltd. Secondly, Swiss Life Ltd offers for sale all mortgage loans that meet the catalogue of criteria agreed between the fund management company and Swiss Life Ltd. As a result, Swiss Life Ltd is unable to carry out a preselection of mortgage loans in its favour. Thirdly, the purchase price is determined on the basis, among other things, of the credit spreads used to determine the prices in the current mortgage lending of Swiss Life Ltd. This ensures that the purchase price is in line with the market.

In its function as servicer, Swiss Life Ltd remains responsible for servicing, i.e. the management of mortgage loans and the assertion and enforcement of mortgage loans in default, even after the transfer of the mortgage loans. It receives a fee for these tasks as well as reimbursement of costs from the target fund's assets. Potential conflicts of interest between Swiss Life Ltd in its role as servicer and its other operations, in particular due to customers' business relationships with Swiss Life Ltd in addition to the mortgage loan, are taken into account by the fact that, in the course of its activity as servicer, it complies with its generally binding standard processes for the administration and enforcement of mortgage loans – irrespective of whether they are mortgage loans that have been transferred or their own mortgage loans. Furthermore, the fund management company has extensive control and inspection rights vis-à-vis Swiss Life Ltd in order to monitor the activities of Swiss Life Ltd as a servicer, whereby the fund management company grants Swiss Life Ltd discretion to carry out its activities. In the event of the forced sale of the mortgage loan, the fund management company decides which enforcement strategy to follow.

### **8.6 The fund management company as asset manager of the Swiss Life Ltd mortgages/potential conflicts of interest for the fund management company**

In addition to the target fund, Swiss Life Asset Management Ltd also manages the mortgage loans from Swiss Life Ltd. Internal controls have been implemented to avoid possible conflicts of interest when the Portfolio Management decides whether to acquire mortgages through the fund or whether the mortgages stay with Swiss Life Ltd.

### **8.7 No obligation on Swiss Life Ltd to redeem mortgage loans or to guarantee a secondary market**

Swiss Life Ltd is not obliged vis-à-vis the target fund to repurchase mortgage loans transferred to the target fund, nor does it in any way offer the target fund a secondary market for the possible sale of mortgage loans by the target fund. If mortgage loans are sold on the secondary market, it is possible that such a sale can only be effected at a very high discount to the actual value. The risk of losses in value of the transferred mortgage loans, as well as the risk of default on mortgage loans, is thus borne solely by the target fund, and likewise by the investors in the investment group.

### **8.8 Inadequate or missing supply of mortgage loans from Swiss Life Ltd**

If Swiss Life Ltd is at any time not (or no longer) in a position to offer a sufficient selection of suitable mortgage loans as an investment, the investment group will have to switch to other investments indirectly via the target fund. In that case, a small part of the capital assets may not be invested in mortgage loans but in other assets, such as mortgage bonds, covered bonds, Swiss Confederation bonds or money market instruments. In the event that Swiss Life Ltd were no longer able to offer suitable mortgage loans over the long term, the management body would consider commensurate measures, e.g. closing the investment group to new subscriptions or liquidation. It can be assumed that it would take a longer time to liquidate the target fund due to the mortgage investments made by the target fund, and that any secondary market sales of the mortgage loans would only be possible at a very high discount. As a result, investors may have to wait longer for a payout and might only recoup a much lower amount.

### **8.9 Default of Swiss Life Ltd**

The assignment of mortgage claims to the target fund as collateral is performed silently, i.e. the mortgagors are not initially informed of the transfer of entitlement. If Swiss Life Ltd defaults in its capacity as servicer or if otherwise required in the target fund's interests, the target fund management company has the right to inform the mortgagors of the transfer of entitlement and to request that all interest and amortisation payments be paid to an account held by the target fund outside Swiss Life Ltd.

Before the mortgagors have been notified of the assignment as collateral of the mortgage claims, they can legitimately meet their interest and amortisation liabilities by paying the servicer. Therefore, in the event of the servicer's inability to pay or insolvency, there is a corresponding risk of loss for the target fund in respect of payments received by the servicer that have not yet been forwarded to the fund (transfer takes place continuously on a daily basis as soon as the incoming payments have been booked by the servicer). In addition, the various roles played by Swiss Life Ltd in the context of its activities for the subfund, and consequently for the investment group, give rise to corresponding counterparty risks.

Similarly, insolvency measures imposed by FINMA (protective measures, liquidation etc.) may impede the enforceability of contractual entitlements against Swiss Life Ltd.

#### **8.10 Reaction of a mortgage loan portfolio in a changing market environment**

The performance of the investment group, with its main investment in Swiss mortgage loans, depends on the general interest and credit environment. The net asset value of the investment group can increase in a sinking interest rate environment and decrease accordingly if interest rates rise. The higher the average duration of the mortgage loans in the portfolio, the greater the impact an interest rate change will have on the investment group valuation. Secondly, the credit spreads on Swiss mortgage loans may change in response to market developments. An increase in the credit spreads reduces the present value of the mortgage loans and thus the net asset value of the investment group.

#### **8.11 Liquidity of the Swiss mortgage market**

At the time of writing this prospectus, there is no active or liquid secondary market for Swiss mortgage loans in Switzerland. It is therefore possible that there may only be few mortgage loan buyers depending on the circumstances, also due to regulatory, contractual or other constraints.

#### **8.12 Risks in connection with the application of ESG factors**

The best-in-class approach and exclusion criteria must be applied consistently. MINERGIE® and CECB® certificates play a key role in the definition of a sustainable mortgage, which leads to dependencies on these two external certification sources. These are very well-established, independent and broad-based institutions. The methodology and classification used by the two institutions are reliable as well as publicly and transparently accessible.

There is also the risk that the investment group may not be sufficiently diversified due to the best-in-class approach and exclusion criteria. Mortgages from the whole of Switzerland can be considered and are generated by a renowned provider in the national mortgage market. And it can be assumed that increased energy efficiency in buildings will be fostered in future. However, it cannot be guaranteed that the investment group will be permanently diversified.

#### **8.13 Tax consequences of the sale of mortgage loans and/or the underlying properties**

If the property underlying a mortgage loan is sold (in an enforcement case), there is a risk that real estate transfer and capital gains tax will be due as well as statutory liens due to unpaid taxes.

#### **8.14 Restricted redemption of entitlements**

Entitlements may only be redeemed with a six-month notice period. Entitlements cannot be redeemed in the first two years following the launch. In addition, further redemption restrictions may apply (see 5.3 above).

#### **8.15 Settlement risks**

All transactions are made via the servicer and are reported by the servicer during the same month. If the servicer provides false or at least inaccurate information in this connection, the target fund – and thus indirectly also the investment group – bear the resulting settlement risks.

### 8.16 Valuation risks

The ordinary valuation of the mortgage investments, and thus of a large portion of the investment group's capital assets, is not based on market prices quoted on the stock exchange or similar portals, but on the basis of information provided by the originator (including the originator's internal credit ratings). Parts of this information reflect subjective assessments made by the originator, and other market participants may have significantly different estimates to those of the originator. In addition, the information may be out of date. An objective and complete review or update of this information is normally not possible, and the valuation of mortgage loans and thus the calculation of the net asset value are based on this information. The investment group bears the risk of the valuation and calculation of the net asset value thus executed, resulting in different values than those provided by another market participant or servicer.

The credit spreads used in the valuation of the mortgage loans are not quoted on an exchange or by any other market data provider. It is possible that credit spreads and thus mortgage loan valuations may be assessed differently by other market participants. However, these are the same credit spreads that the originator applies during the same period to determine the prices for all new sustainable mortgages for marketable owner-occupied residential properties.

Furthermore, the valuation of the mortgage investments depends on various factors involving a certain discretion on the part of the originator and/or servicer or third parties (e.g. the creditworthiness and/or the internal credit rating of a mortgagor or the value of a pledged property). This discretion is generally exercised by the originator and/or servicer without any influence from the fund management company.

It should also be noted that changes in laws and regulatory provisions may have an impact on real estate and mortgage prices as well as the relevant costs and returns and thus on the valuation of the investment group's capital assets.

### 8.17 Credit risk

Fixed-income investments are subject to the risk of the issuer or a guarantor being unable to make capital and/or interest payments on its obligations. Issuers or guarantors presenting a higher credit risk normally offer higher returns for this additional risk. Changes in the financial situation of an issuer or guarantor, changes in the general economic and political situation, or changes in economic and political circumstances affecting a particular issuer or guarantor are factors that can have a negative impact on the credit quality of an issuer or guarantor.

### 8.18 Counterparty risk

Counterparty risk refers to the probability of the debtor, a counterparty in a pending transaction or the issuer or the issuer or guarantor of a security or a derivative being unable to pay. The inability of such a party to pay results in the value of the asset covering the risk presented by the party becoming partly or fully void. A measure of the creditworthiness of a counterparty is, among other things, its rating by rating agencies. Furthermore, the target fund is exposed to the risk that an expected payment or delivery of assets will not take place within the stipulated time, or even not at all. Market practices relating to the settlement of transactions and custody of assets may lead to increased risks.

## 9 Taxes

Because its income and assets are intended solely for occupational pensions, the investment foundation is exempted from direct federal, cantonal and municipal taxes (Art. 80, cl. 2 of the Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans of 25 June 1982 (BVG) in conjunction with Art. 23, cl. 1 let. d of the Federal Law on the Harmonisation of Direct Taxation at Cantonal and Communal Levels of 14 December 1990 (DTHA) and Art. 56 let. e of the Federal Law on Direct Federal Tax of 14 December 1990 (DBG)). Due to the transparency of the target fund from a taxation perspective, there are no direct taxes at federal, cantonal or municipal level.

Distributions of income by the investment foundation are made without deduction of Swiss federal withholding tax. The investment foundation is entitled to claim reimbursement of withholding tax incurred by an investment group.

## 10 Further information

### **Investment category**

Swiss mortgage deeds (Art. 53 cl. 1 let. b BVV 2). The entitlements are considered to be a collective investment (Art. 56 BVV 2).

### **Swiss security number**

Investment group Mortgages Switzerland ESG  
Standard tranche: 112 778 762  
PM tranche<sup>3</sup>: 112 778 775

### **Accounting year**

1 October to 30 September

### **Accounting unit**

Swiss francs (CHF)

### **Distribution policy**

The investment group's net income is generally reinvested annually. The Board of Trustees can decide to distribute net income to investors in proportion to the number of entitlements they hold.

### **Investor information/publications**

The Articles of Association, foundation regulations, investment guidelines, factsheets, annual and quarterly reports and other key investor information can be found at [www.swisslife.ch/investmentfoundation](http://www.swisslife.ch/investmentfoundation).

The documents relating to the "Swiss Life Mortgage Funds" umbrella with the "Swiss Life ESG Mortgage Fund" sub-fund can be obtained from the Fund Management Company, Swiss Life Asset Management Ltd, General-Guisan-Quai 40, P.O. Box 2831, 8022 Zurich.

### **Amendments and entry into force**

Amendments to the prospectus are requested by the management body and approved by the Board of Trustees. The amended prospectus is immediately sent to all investors in the investment group in a suitable format.

This prospectus enters into force by resolution of the Board of Trustees as of 1 August 2021.

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<sup>3</sup> Only open to investors who conclude a special agreement with Swiss Life Asset Management Ltd or to current asset management customers of Swiss Life Asset Management Ltd.

# 11 Glossary

<i>Exclusions</i>	Mortgage financing of buildings that do not have a Minergie certificate or a CECB certificate with a certain minimum level and which do not meet the requirements of FINMA Circular 2016/5 “Investment guidelines – Insurers”
<i>Best-in-class approach</i>	investment strategy that invests in mortgages – based on ESG criteria – that serve to finance sustainable, energy-efficient buildings and energy-efficiency-enhancing renovations
<i>ESG</i>	Environmental Social Governance
<i>CECB®</i>	The Cantonal Energy Certificate for Building – CECB® for short – is an assessment and consulting instrument for buildings throughout Switzerland. The CECB® certificate is recognised by all cantons and may only be issued by certified experts. It shows the energy efficiency of the building shell and how much energy a building requires for normal use (calculation of requirement). The energy demand is displayed on the energy label in categories ranging from A (highly energy efficient) to G (low energy efficiency). Property owners thus receive an objective assessment of the energy condition and efficiency of their building.
<i>Impact investing</i>	Investments in companies, organisations and funds with the specific aim of achieving measurable positive environmental or social impacts in addition to a positive financial return
<i>Swiss Life internal rating</i>	This comprises 13 rating classes that differ in terms of affordability and default probability, with the best rating class being R1.
<i>Imputed interest rate</i>	Interest rate used to calculate affordability when granting a mortgage. The calculation of the imputed interest rate is based on generally recognised market standards.
<i>Minergie® certificate (Minergie®, Minergie® P/A or Eco)</i>	<p>MINERGIE® is a Swiss construction standard for new and modernised buildings. It is supported jointly by the economy, the cantons and the federal government. MINERGIE® buildings are also characterised by their very low energy consumption and the highest possible proportion of renewable energies. The MINERGIE® construction standard enjoys broad acceptance. MINERGIE® offers certification for the planning, construction and operation phases. The three well-known building standards “MINERGIE®,” “MINERGIE®-P” and “MINERGIE®-A” ensure that energy standards are taken into consideration as early as the planning phase.</p> <p>The three standards differ in the requirements for</p> <ul style="list-style-type: none"> <li>– the heat-insulating shell;</li> <li>– the permissible MINERGIE® key figure (similar to the primary energy requirement; kWh/m<sup>2</sup>EBF/year) (difference between new construction and renovation);</li> <li>– locally produced renewable energy.</li> </ul> <p>The supplement “ECO” incorporates the two topics of health and building ecology. The supplement “MQS Bau” is for monitoring and documenting MINERGIE®-relevant building components during the construction phase and is thus aimed at builders and planners who would like to have the exacting construction specifications guaranteed. The supplement “MQS Betrieb” provides a simple and effective operational check.</p>





*We enable people to lead  
a self-determined life.*

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