

Swiss Life Funds (LUX)

# Bond ESG Emerging Markets Sovereigns

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## Summary

This sub-fund falls within the scope of Article 8 under the Sustainable Finance Disclosure Regulation (SFDR) of the EU. The sub-fund promotes environmental and social characteristics but does not have as its objective a sustainable investment.

The sub-fund applies a significant approach based on the Sustainable Development Goals (SDG). This approach intends to favor countries which are making progress towards achieving the SDGs. Debt securities are either classified into a sovereign or corporate bucket, primarily based on MSCI ESG classification or if necessary by another appropriate approach. The sub-fund ensures that its SDG score of the emerging markets sovereign part is higher than its reference universe represented by its ESG reference index, JP Morgan ESG EMBI Index.

In addition, the sub-fund seeks to mitigate sustainability risks by excluding or restricting:

- countries which do not guarantee their citizens the basic conditions for “living a self-determined life”. Restriction or exclusion apply if several of the following criteria are not fulfilled: freedom of expression and opinion, a peaceful environment, sound institutions and government’s integrity, viable living conditions on the planet for future generations, and guaranteed fundamental labor rights.
- corporate issuers with the lowest ESG absolute performance according to MSCI, including ESG ratings and controversies and principal adverse impacts.

All key performance indicators (KPIs) are fed from SDG (Sustainable Development Goals) score Index, for the investments in sovereign issuers or MSCI ESG into the portfolio management and risk system and are monitored on a daily basis by the investment controlling team and risk management team.

Please refer to the bottom of the document for a French and German translation of this summary.<sup>1)</sup>

1) The English version of this summary is the legally binding version whereas the French and German summaries are translations only.

## No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

## Environmental or social characteristics of the financial product

The sub-fund promotes E/S characteristics by investing in emerging markets which make progress towards achieving the 17 Sustainable Development Goals of United Nations (the “SDGs”).

The SDGs are at the heart of the 2030 Agenda for Sustainable Development which was adopted by all United Nations Member States in 2015, which provides a shared blueprint for peace and prosperity for people and the planet.

### Investment strategy

The sub-fund manages its portfolio of investments according to the Swiss Life Asset Managers' Responsible Investment Policy and Swiss Life Asset Managers' Transparency Code, and follows the following investment strategy:

**ESG significant approach:** The sub-fund applies a significant approach based on the Sustainable Development Goals (SDG). This approach intends to favor countries which are making progress towards achieving the SDGs. Debt securities are either classified into a sovereign or corporate bucket, primarily based on MSCI ESG classification or if necessary by another appropriate approach. The sub-fund ensures that its SDG score of the emerging markets sovereign part is higher than its reference universe represented by its ESG reference index.

**ESG reference index:** JP Morgan ESG EMBI Index (excl. ratings below B-) used for the ESG significant approach.

In addition, the sub-fund seeks to mitigate sustainability risks by excluding or restricting:

- countries which do not guarantee their citizens the basic conditions for "living a self-determined life". Restriction or exclusion apply if several of the following criteria are not fulfilled: freedom of expression and opinion, a peaceful environment, sound institutions and government's integrity, viable living conditions on the planet for future generations, and guaranteed fundamental labor rights.
- corporate issuers with the lowest ESG absolute performance according to MSCI, including ESG ratings and controversies and principal adverse impacts.

**Negative screening:** The portfolio manager of the sub-fund excludes or restricts new investments in issuers or sectors that belong to prohibited lists defined by the management company of Swiss Life Funds (LUX). For sovereign issuers, investment is for example prohibited for countries that fall under the Financial Action Task Force (FATF) blacklist. The prohibited lists are provided on the Swiss Life Asset Managers' Responsible Investment Policy, which is available on the Swiss Life Asset Managers Luxembourg's website.

The sub-fund's binding elements are:

- negative screening;
- sustainability safeguards; and
- best-in-universe: the sub-fund may only invest in debt securities issued by issuers which have their country of risk failing in the top three quartiles.

Policy to assess good governance practices of the investee companies: Not applicable.

### Proportion of investments

The sub-fund is expected to invest at least 51% of its net asset value (NAV) directly in issuers that integrate E/S characteristics. The sub-fund is allowed to invest the remainder of its NAV in cash, cash equivalents, issuers that do not systematically integrate E/S characteristics, investments in other UCITs/UCIs and/or derivatives instruments.

## Monitoring of environmental or social characteristics

The internal control procedures which aim to ensure compliance by the portfolio with the ESG requirements are implemented by several departments: Portfolio Management, risk department, Internal Control. The latter two departments are independent – they report hierarchically to a member of the board of directors of Swiss Life Funds (LUX) who does not have an operational management function. The independent nature of these departments ensures the impartiality of the controls that are carried out.

There are three levels of internal controls:

**Level 1 controls:** The ESG investment constraints are checked before each trade from the portfolio management in our core system.

**Level 2 controls:** The risk department in charge of monitoring ESG investment constraints carries out daily post-trade controls to ensure that the sub-fund is compliant with all restrictions.

**Level 3 controls:** The internal control department ensures that the above-mentioned tasks are carried out properly. To do so, internal control conducts random checks to ensure that:

- The ESG investment constraints have been configured correctly in the compliance manager tool,
- The ESG investment constraints have been monitored correctly by the local risk management teams,
- The departments involved in carrying out the level 1 controls have developed and complied with the procedure for carrying out these controls.

If internal control identifies anomalies, it issues recommendations with the aim of correcting them and then ensures these recommendations are implemented.

## Methodologies

**Sustainable Development Goals (SDG)** The SDG index score provides a comprehensive assessment of distance from targets based on the most current data available covering all 193 UN Member States. Where possible, the SDG index score uses official SDG indicators endorsed by the UN Statistical Commission. Where there are data gaps or insufficient data for an official indicator, we include other metrics from official and unofficial providers. The data included in this assessment come from a mix of official and non-official sources. Most (around two-thirds) are drawn from the databanks of international organizations (FAO, ILO, OECD, UNICEF, WHO, World Bank, and other sources) which follow extensive and rigorous data-validation processes.

As part of its ESG significant approach, the portfolio manager takes into account the Sustainable Development Goals (SDG) based on the SDG (Sustainable Development Goals) score Index. This approach intends to favor countries which are making progress towards achieving the SDGs. Debt securities are either classified into a sovereign or corporate bucket, primarily based on MSCI ESG classification or if necessary by another appropriate approach. The sub-fund ensures that its SDG score of the emerging markets sovereign part is higher than its reference universe represented by its ESG reference index.

### **MSCI**

As part of its ESG analysis, the portfolio manager relies on the expertise of a recognized rating agency, MSCI ESG Research, and its ESG rating methodology.

The analysis is based on a set of criteria that are generic to all issuers and then sector-specific criteria. Depending on the sector, additional assessments can be carried out on specific criteria (e.g., renewable energy production for utilities, development of clean vehicles and passenger safety for the automotive industry, or green finance and efforts to promote access to financial services in the banking industry).

Among the criteria assessed on each of the 3 pillars, are:

- Environment: the level of greenhouse gas emissions, water consumption, waste recycling rate, etc.
- Social: health and well-being of employees, safety and quality of products, supplier selection process, etc.
- Governance: quality of the board of directors, executive compensation criteria, business ethics, etc.

For each of the criteria that apply, MSCI ESG evaluates two complementary elements:

- Risk exposure: MSCI ESG measures an issuer's exposure to risks which are related to a key criterion, considering its specificities (for example, the nature of its activities and the distribution of its geographical locations).
- Risk management: MSCI ESG evaluates the policies and processes implemented by an issuer, as well as the trend on relevant indicators to assess its performance (for example, obtention of environmental certifications or evolution of the accident rate, etc.).

#### **PAI**

The sub-fund considers principal adverse impacts on sustainability factors, and intends to mitigate its negative impact by limiting overall exposure to issuers with the worst PAIs. For more information, please refer to the "Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors" and Swiss Life Asset Managers Luxembourg's responsible investment policy available on Swiss Life Asset Managers Luxembourg's website, which defines the process implemented to consider PAIs.

### **Data sources and processing**

As part of its ESG analysis of issuers, the portfolio manager relies on internal and external data sources to attain each of the E/S characteristics promoted.

KPI	Data sources used to attain each of the environmental or social characteristics promoted	Measures taken to ensure data quality	Data processing	Proportion of data that are estimated
<b>SDG score of the emerging markets sovereign part is higher than its reference universe represented by its ESG reference index</b>	SDG (Sustainable Development Goals) score Index	Input data is sourced from the SDG (Sustainable Development Goals) score Index. Broad data quality checks are conducted. Potential changes in	Data is taken as it is from the data provider and fed into our portfolio management and risk system	none

		measurements and definitions are carefully assessed each year.		
<b>PAI Score</b>	MSCI ESG and SLAM internal research	The data from MSCI is fed via file transfer protocol (ftp) transfer. Before the data is stored in our portfolio and risk management systems, broad data quality checks are conducted. Several automated checks ensure good data quality in terms of format, mapping and consistency on a daily basis.	Data is taken as it is and fed into the proprietary Principal Adverse Impacts (PAI) scoring model to derive the PAI Score	none
<b>Exclusions</b>	<ul style="list-style-type: none"> <li>• MSCI ESG</li> <li>• Financial Action Task Force (FATF)</li> <li>• PAX for Peace</li> <li>• Schweizer Verein für verantwortungsbewusste Kapitalanlagen (SVVK-ASIR)</li> <li>• SIX</li> </ul>		Data is taken as it is from the data provider and fed into our portfolio management and risk system	none

### Limitations to methodologies and data

To determine the extra-financial quality of the securities in the portfolios, the sub-fund relies on various sources of data and methodologies such as the Sustainable Development Goals and the ESG methodology developed by MSCI and in particular on the ESG rating resulting from this model and data and scores from its proprietary PAI scoring model. The main methodological limitations can be summarized as follows:

#### **Sustainable Development Goals**

- Missing or deficient disclosure by some issuers of information that is used as an input into the SDG score index.

#### **MSCI ESG**

- Missing or deficient disclosure by some issuers of information that is used as an input into the MSCI ESG rating model. This limitation is mitigated by MSCI ESG through alternative data sources external to the issuer to feed its model;
- Problem related to the quantity and quality of ESG data to be processed by MSCI ESG (large flow of information received on a continuous basis to be integrated into the ESG rating model): this limitation is mitigated by MSCI ESG by the use of artificial intelligence technologies and many analysts who work to transform raw data into relevant information;
- Problem related to the identification of information and factors relevant to ESG analysis, but which is addressed upstream of the MSCI ESG model for each category of issuers,

according to their specificities: MSCI ESG uses a quantitative approach validated by the expertise of each sector specialist and the opinion of investors, to determine the most relevant ESG factors for a given sector or issuer.

The portfolio manager mitigates the risk of having the attainment of the E/S characteristics affected by the limitations above, by applying different measures in the ESG approach (SDG Goals, PAI score, etc.).

### Due diligence

**Direct investments:** The portfolio manager conducts due diligence reviews of all internal and external data on an ongoing basis, and continuously assesses if new data providers can improve the analysis and models.

**Indirect investments:** The underlying funds managed by management companies outside the Swiss Life Group have their own methodologies for taking ESG criteria into account. An analysis of these methodologies, both quantitative and qualitative, is carried out by Swiss Life Asset Managers in order to ensure that the approaches are consistent.

### Engagement policies

Swiss Life Asset Managers has an overarching engagement and voting activities approach which does not target any fund or product specifically, but rather investee companies.

### Designated reference benchmark

The sub-fund uses a variety of ways to assess its environmental and/or social performance, but does not use a reference benchmark to assess the environmental and/or social characteristics it promotes.

**Additional documentation and information:** The periodic reporting of Swiss Life Funds (LUX) as well as its prospectus (including the SFDR precontractual appendices) are available from the management company of Swiss Life Funds (LUX). This information is sent within one week upon the shareholder's written request to Swiss Life Investor Service, Swiss Life Asset Managers Luxembourg, 4a rue Albert Borschette L-1246 Luxembourg, Grand Duchy of Luxembourg; by email to [info@swisslife-am.com](mailto:info@swisslife-am.com), or by telephone on +352 267 585 0. These contact details can also be used to request further information if necessary.

## Résumé

Le présent compartiment relève du champ d'application de l'article 8 du règlement de l'UE sur la publication d'informations en matière de durabilité dans le secteur des services financiers (SFDR). Il promeut les caractéristiques environnementales et sociales, mais n'a pas pour objectif un investissement durable.

Le compartiment applique une approche significative basée sur les objectifs de développement durable (ODD). Cette approche vise à favoriser les pays qui progressent vers la réalisation des ODD. Les titres de créance sont catégorisés comme souverains ou d'entreprise sur la base de la classification MSCI ESG principalement ou sur la base d'une autre approche appropriée selon les exigences. Le compartiment veille à ce que son score ODD de la part des titres souverains des marchés émergents soit supérieur à celui de son univers de référence représenté par son indice ESG de référence, à savoir le JP Morgan ESG EMBI Index.

En outre, le compartiment vise à atténuer les risques en matière de développement durable en excluant ou en limitant :

- les pays qui ne garantissent pas à leurs citoyens les conditions de base pour « vivre selon leurs propres choix ». La restriction ou l'exclusion s'applique si plusieurs des critères suivants ne sont pas remplis : liberté d'expression et d'opinion, environnement pacifique, institutions saines et intégrité du gouvernement, conditions de vie viables sur la planète pour les générations futures et droits fondamentaux du travail garantis.
- sociétés émettrices affichant la performance absolue ESG la plus faible selon MSCI, y compris les notations ESG, les controverses et les principales incidences négatives.

Tous les indicateurs de performance clés (ICP) proviennent de l'indice de score ODD (objectifs de développement durable), pour les investissements en émetteurs souverains ou MSCI ESG dans le système de gestion de portefeuille et de risque. Ils sont suivis quotidiennement par l'équipe chargée du contrôle des investissements et l'équipe de direction des risques.

Veuillez-vous reporter à la fin du document pour une version française et allemande du présent résumé.<sup>1)</sup>

<sup>1</sup> La version anglaise du présent résumé est la version juridiquement contraignante, alors que les résumés français et allemand ne sont que des traductions.

## Zusammenfassung

Dieser Teilfonds fällt in den Anwendungsbereich von Artikel 8 der Sustainable Finance Disclosure Regulation (SFDR) der EU. Der Teilfonds fördert ökologische und soziale Eigenschaften, verfolgt jedoch nicht das Ziel einer nachhaltigen Anlage.

Der Teilfonds wendet einen signifikanten Ansatz basierend auf den Sustainable Development Goals (SDG) an. Mit diesem Ansatz sollen Länder begünstigt werden, die Fortschritte bei der Erreichung der SDG machen. Schuldpapiere werden primär basierend auf der MSCI-ESG-Klassifizierung oder, falls erforderlich, nach einem anderen geeigneten Ansatz einem Staats- oder einem Unternehmensanleiensegment zugeordnet. Der Teilfonds stellt sicher, dass der SDG-Wert seiner Position in Staatsanleihen von Schwellenländern über demjenigen seines Referenzuniversums liegt, das durch seinen ESG-Referenzindex, den JP Morgan ESG EMBI Index, abgebildet wird.

Darüber hinaus strebt der Teilfonds eine Minderung der Nachhaltigkeitsrisiken an, indem er Folgendes ausschliesst oder einschränkt:

- Länder, die ihren Bürgerinnen und Bürgern keine Grundvoraussetzungen für ein «selbstbestimmtes Leben» bieten. Einschränkungen oder Ausschlüsse kommen zur Anwendung, wenn mehrere der folgenden Kriterien nicht erfüllt sind: Meinungsfreiheit, ein friedliches Umfeld, gesunde Institutionen und Integrität der Regierung, annehmbare Lebensbedingungen für künftige Generationen auf dem Planeten und garantierte grundlegende Arbeitnehmerrechte.
- Unternehmensemittenten mit der tiefsten absoluten ESG-Performance gemäss MSCI, einschliesslich ESG-Ratings und -Kontroversen sowie wichtigster nachteiliger Auswirkungen.

Sämtliche Key Performance Indicators (KPI) werden aus dem SDG-Score-Index (bei Anlagen in staatliche Emittenten) oder aus MSCI ESG in das Portfoliomanagement- und Risikosystem eingespeist und täglich durch das Investment Controlling und das Risikomanagement überwacht.

Eine französische und eine deutsche Übersetzung dieser Zusammenfassung finden Sie am Ende des Dokuments.<sup>1</sup>

<sup>1</sup> Die englische Version dieser Zusammenfassung ist rechtlich verbindlich, bei der französischen und der deutschen Version handelt es sich lediglich um Übersetzungen.



## Review of disclosures

As required by Article 12 of the SFDR, please find below the explanation of the amendments brought to the website disclosures, published in accordance with Article 10 of the SFDR:

Date	Explanations of amendments
10.03.2021	Initial document created.
01.01.2023	Update following the entry into force of the Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in precontractual documents, on websites and in periodic reports.
5 May 2023	Update to bring the website disclosures in line with the prospectus of Swiss Life Funds (LUX) and pre-contractual disclosures of Commission Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, as amended, of Swiss Life Funds (LUX) – Bond ESG Emerging Markets Sovereigns.
8 January 2024	Update to bring the website disclosures in line with the latest prospectus of Swiss Life Funds (LUX) and pre-contractual disclosures of Commission Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, as amended, of Swiss Life Funds (LUX) - Bond ESG Emerging Markets Sovereigns.

This is a regulatory document to meet the requirements of the Article 10 of the Sustainable Finance Disclosure Regulation (REGULATION (EU) 2019/2088 - SFDR) of the EU and not a marketing document. This document was produced with the greatest of care and to the best knowledge and belief. The information provided in this document reflects the actual information on the sub-fund of Swiss Life Funds (LUX). The information contained herein is exclusively intended for SFDR disclosure purposes, and should not be considered as an investment advice, investment recommendation, or a solicitation to buy or sell shares of Swiss Life Funds (LUX). Prior to any subscription, investors should obtain and carefully read the detailed information on the investment fund contained in all the regulatory documentation for each fund (in particular prospectus, articles of association, periodic reports, PRIIPS KIDs), which serve as the sole applicable legal basis for the purchase of fund shares. More information is available at [www.swisslife-am.com](http://www.swisslife-am.com). Source: Swiss Life Asset Managers / ©2022. All rights reserved. Customer Service: [info@swisslife-am.com](mailto:info@swisslife-am.com)