

Swiss Life Funds (LUX)

# Equity ESG USA

**Legal entity identifier:** 549300Y21UWRFMT1Q623

**ISIN:** LU1055220450, LU1897149479, LU0832468986, LU2038871831, LU1860185088, LU1681197478, LU0832469521

## 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 aims to outperform its reference universe, as represented by the reference index, in three ways:

- build a higher overall environmental, social and governance (ESG) profile than its ESG reference index, reduced by the 20% of securities of the ESG reference index with the lowest ESG ratings (best-in-universe approach);
- reach a lower carbon footprint than its ESG reference index, measured in tCO<sub>2</sub>/MEUR (tons of carbon dioxide emissions per million of euro invested in the sub-fund) including all direct and indirect carbon emissions (scope 1, 2 and 3); and
- hold a higher level of companies that link executive pay to sustainability criteria than its ESG reference index.

In addition, the sub-fund seeks to mitigate sustainable risks by excluding or restricting issuers with a very low ESG performance, including ESG ratings and controversies and principal adverse impacts (all referred to as “sustainability safeguards”).

All key performance indicators (KPIs) are fed from MSCI ESG into our portfolio management and risk system and are monitored on a daily basis by the investment controlling team and risk management team.

The sub-fund may seek to engage with portfolio companies on relevant ESG issues.

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 following environment and/or social characteristics:

- higher overall environmental, social and governance (ESG) profile than its reference universe as represented by the ESG reference index;

- lower carbon footprint than its reference universe as represented by the ESG reference index; and
- executive pay linked to sustainability criteria higher than its reference universe as represented by the ESG reference index.

## 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 aims to outperform its reference universe, as represented by the ESG reference index, in three ways:

- build a higher overall environmental, social and governance (ESG) profile than its ESG reference index, reduced by the 20% of securities of the ESG reference index with the lowest ESG ratings (best-in-universe approach);
- reach a lower carbon footprint than its ESG reference index, measured in tCO<sub>2</sub>/MEUR (tons of carbon dioxide emissions per million of euro invested in the sub-fund) including all direct and indirect carbon emissions (scope 1, 2 and 3); and
- hold a higher level of companies that link executive pay to sustainability criteria than its ESG reference index.

In addition, the sub-fund seeks to mitigate sustainability risks by excluding or restricting issuers of the ESG reference index with a very low ESG performance, including ESG ratings and controversies and principal adverse impacts (all referred to as "sustainability safeguards").

**ESG Reference index MSCI USA TR Net Index**, an index that does not take into account ESG factors used for the ESG significant approach.

**Regulatory, normative and sectoral exclusions** The sub-fund excludes or restricts new investments in issuers involved in severe ESG controversies, including breaches of international norms. The sub-fund also excludes or restricts new investments in companies involved in thermal coal or controversial weapons such as antipersonnel landmines, cluster munitions and chemical weapons.

Specifically, the sub-fund excludes or restricts new investments in issuers that:

- derive more than 10% of their revenues from mining or trading of thermal coal;
- are involved in the production of controversial weapons such as nuclear, biological or chemical weapons, cluster munitions and anti-personnel mines;
- are failing the UN Global Compact exclusion principles; and
- fall under the Financial Action Task Force (FATF) blacklist.

If an issuer was present in the portfolio before falling into the restricted categories mentioned above, the general case would be to divest from this issuer in a reasonable timeframe. However, in some specific cases, Swiss Life Asset Managers may decide to keep an issuer newly in breach of the normative or sectoral exclusions criteria and engage with the issuer if Swiss Life Asset Managers sees an opportunity for the issuer to improve and remediate the ESG issue at stake. During the engagement phase, new investments in the relevant issuer are prohibited until the outcome of the engagement is clear. If the engagement fails, divestment will be carried out and future investment

in the relevant issuer will be prohibited, if it is a success the issuer will be reintroduced in the investible universe.

**Active ownership** The portfolio manager of the sub-fund seeks to engage with portfolio companies on material ESG issues, through voting rights and dialogue with management, and may discontinue investment if progress proves unsatisfactory.

**The sub-fund's binding elements are:**

- exclusion criteria (mentioned above);
- sustainability safeguards (mentioned above);
- higher overall environmental, social and governance (ESG) profile than the reference universe (after reducing 20% of the lowest rated securities of the reference index)
- lower carbon footprint than the reference universe; and
- higher percentage of investments in companies linking executive pay to sustainability factors than the reference universe.

**Policy to assess good governance practices of the investee companies:** The sub-fund assesses company decision-making processes and controls, as well as how management balances the interests of shareholders, employees, suppliers, customers, the community and other stakeholders. Based on ESG ratings and controversies assessments, the analysis of company governance includes:

- audit and financial reporting practices
- alignment between remuneration schemes and corporate strategy
- composition, effectiveness and oversight of the board of directors
- company's ownership and control
- tax transparency
- business ethics issues such as fraud, executive misconduct, corrupt practices, money laundering, or anti-trust violations

In addition, the sub-fund applies Swiss Life Asset Managers' normative exclusions to avoid issuers with poor governance practices.

### 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

### 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 PAI score.

The PAI score is derived from a proprietary model that translate each individual mandatory PAI indicators value into a score based on its severity (PAI indicators value are provided by external data vendors). All individual PAI indicators scores are then summed up to constitute the issuer PAI score. As per our methodology, the lower the resulting score, the better.

For more information, please refer to the “Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors” and the Management Company’s responsible investment policy available on the Management Company’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
Build a higher overall environmental, social and governance (ESG) profile than its ESG reference index, reduced by the 20% of securities of the ESG reference index with the lowest ESG ratings (best-in-universe approach)	MSCI ESG	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 from the data provider and fed into our portfolio management and risk system	none
Reach a lower carbon footprint than its ESG reference index, measured in tCO <sub>2</sub> /MEUR (tons of carbon dioxide emissions per million of euro invested in the sub-fund) including all direct and indirect carbon emissions (scope 1, 2 and 3).	MSCI ESG		Data is taken as it is from the data provider and fed into our portfolio management and risk system	Data for Scope 3 are estimates
Hold a higher level of companies that link executive pay to sustainability criteria than its ESG reference index	MSCI ESG		Data is taken as it is from the data provider and fed into our portfolio management and risk system	none
PAI Score	MSCI ESG		Data is taken as it is and fed into the proprietary Principal Adverse Impacts (PAI) scoring model to derive the PAI Score	none

<p><b>Exclusions</b></p>	<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>		<p>Data is taken as it is from the data provider and fed into our portfolio management and risk system</p>	<p>none</p>
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### 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 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:

#### 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.

#### PAI

- The PAI score is not adjusted by sector, and may therefore generate significant biases in favour of, or against, certain sectors.
- Some of the underlying data is not available, which means that all issuers are not assessed with the same level of initial raw information.

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 (ESG score, carbon footprint, pay-linked to sustainability, 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 Swiss Life Asset Managers Luxembourg. This information is sent within one week on 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.

L'objectif du compartiment est de surperformer son univers de référence représenté par l'indice de référence, et ce de trois manières :

- en élaborant un profil environnemental, social et de gouvernance (ESG) global supérieur à celui de son indice ESG de référence, auquel sont retranchés 20% de titres ayant la moins bonne notation ESG (approche « best-in-universe ») ;
- en ayant une empreinte carbone plus faible que son indice ESG de référence, mesurée en tCO<sub>2</sub>/mio. EUR de ventes (tonnes d'émissions de CO<sub>2</sub> par million d'euros investis dans le compartiment), y compris toutes les émissions directes et indirectes (Scope 1, Scope 2 et Scope 3) ;
- en détenant un niveau plus élevé d'entreprises liant la rémunération des dirigeants à des critères de développement durable que son indice ESG de référence.

En outre, le compartiment vise à atténuer les risques de durabilité en excluant ou en limitant les émetteurs affichant des performances ESG très faibles, y compris les notations et les controverses ESG, de même que les principales incidences négatives (ces mesures sont désignées par le vocable « garanties de développement durable »).

Tous les indicateurs clés de performance (ICP) dans notre système de gestion de portefeuille et de risque proviennent de MSCI ESG. Ils sont suivis quotidiennement par l'équipe chargée du contrôle des investissements et l'équipe de direction des risques.

Le compartiment peut chercher à s'engager avec des sociétés en portefeuille sur des thématiques ESG pertinentes.

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

1) 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 strebt eine Outperformance seines Referenzuniversums an, das durch den Referenzindex abgebildet wird, und dies in dreierlei Hinsicht:

- Aufbau eines besseren allgemeinen Profils in den Bereichen Umwelt, Soziales und Unternehmensführung (ESG) als dasjenige des ESG-Referenzuniversums, verringert um 20% der Titel des ESG-Referenzindex mit den tiefsten ESG-Ratings (Best-in-Universe-Ansatz);
- Erreichen eines geringeren CO<sub>2</sub>-Fussabdrucks als der ESG-Referenzindex, gemessen in t CO<sub>2</sub> / Mio. EUR (Tonnen Kohlendioxidemissionen pro in den Teilfonds investierte Million EUR), einschliesslich aller direkten und indirekten CO<sub>2</sub>-Emissionen (Scope 1, 2 und 3); und



- Berücksichtigung von mehr Unternehmen, welche die Vergütung des Managements an Nachhaltigkeitskriterien knüpfen, als im Referenzindex.

Darüber hinaus will der Teilfonds Nachhaltigkeitsrisiken mindern, indem er Emittenten mit einer sehr geringen ESG-Performance, einschliesslich ESG-Ratings und -Kontroversen und wichtigster nachteiliger Auswirkungen (alle als «Sustainability Safeguards» bezeichnet), ausschliesst oder einschränkt.

Sämtliche Key Performance Indicators (KPI) werden aus MSCI ESG in unser Portfoliomanagement- und Risikosystem eingespeist und täglich durch das Investment Controlling und das Risikomanagement überwacht.

Der Teilfonds kann in relevanten ESG-Themen mit den Portfoliogesellschaften zusammenarbeiten.

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

1) 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) – Equity ESG USA.
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) – Equity ESG USA.

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).