Swiss Life Asset Managers Luxembourg

SFDR Art. 3 Sustainability Risks

February 2024

Content

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In the pursuit to act responsibly as part of society and with respect to the environment, Swiss Life Asset Managers Luxembourg ("SL AM LUX") seeks to integrate sustainability across its entire value chain. SLAM LUX is a long-term asset manager and is committed to acting in the best interests of its investors and other stakeholders. SLAM LUX is convinced that the pro-active integration of relevant Environmental, Social and Governance ("ESG") factors into the investment decision-making processes, across asset classes and products SLAM LUX manages will reduce sustainability related risks[1].

1. Definition of Sustainability Risks

Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment[2]. In addition to that, SLAM LUX distinguishes sustainability risks in accordance with the concept of "double materiality": The outside-in perspective focusses on our investment's exposure to sustainability risks, for example harmful physical effects of climate change on our invested assets. The inside-out perspective considers the impact of our investments to public sustainable goals such as for example the Paris Agreement.

While ESG factors can have a positive or negative impact on the value of assets managed, SL AM focuses on the latter in line with the prudential approach to risk management. Consequently, the identification of ESG factors that may have a negative impact on the invested assets as well as the determination of the impact is part of SLAM LUX's fiduciary duties as an asset manager.

Sustainability risks can materialize on an asset/investment level, on the portfolio level as well as up to the investment manager level, and therefore may have a considerable financial and/or reputational impact on the portfolio's investments.

Sustainability risks may occur as a stand-alone risk, they also may have a significant impact on known risk types, such as market, credit/counterparty and liquidity risk and contribute as a factor to the materiality of these risk types. The relationship of sustainability risks to established risk categories shall therefore be understood in the investment decision-making process and lead to an integrated view on sustainability risk management.

2. Sustainability Risk Factors

Sustainability risks shall be categorized and assessed along environmental, social and governance factors.

- **Environmental**

Environmental factors are related to the quality and functioning of the natural environment and of natural systems,

[1] For a few products managed by SLAM LUX, ESG factors and sustainability risks are not integrated into the investment decision making process. Reasons are, for example insufficient date coverage, lack of relevance for certain investment instruments or for certain investment structures.

[2] Art. 2 (22) Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR").

and include factors such as climate change, biodiversity, energy consumption, pollution, water and waste management.

While any environmental factor that may impose a material risk on our investments must be managed to the best of our knowledge and ability, it is of importance to manage the funds or portfolios entrusted to us in a manner that mitigates the financial impact of the transitional and physical risks due to climate change i.e. financial risks stemming from (i) the transition to an environmentally sustainable economy driven by policy, technology, and consumer preferences, (ii) the physical effects of climate change and environmental degradation both from acute events (weather-related affects like floods, storms, etc.) or chronical effects from progressive shifts in climate or gradual loss of ecosystem patterns (e.g. biodiversity loss, temperature rise).

- **Social**

For social risk various drivers can be identified. For example, they can be driven by environmental risks (e.g. water stress), changes in social policy (e.g. labour rights) and changes in market sentiments (e.g. transformation to a more inclusive and equitable society (labour rights)).

- **Governance**

Poor governance practices and/or significant social issues may also have material financial impact if the probability of occurrence is not sufficiently priced into the valuation of the affected assets or liabilities. The risk identification should cover the factors (but is not limited to) corporate governance, corporate behaviours, and business resilience.

As a signatory to the UN Global Compact, Swiss Life is committed, amongst other things to the fundamental principles of respecting Human Rights, Labour Rights, Environment and Corruption.

3. Sustainability Risk Management

Sustainability Risk Management in the investment decision-making process

As part of our holistic risk management approach sustainability risk and appropriate ESG factors are integrated in our overarching risk management framework. The approach is built on the three lines of defence model, supported by formal governance processes, individual responsibilities, and senior management oversight, ensuring independent risk monitoring and control activities.

To address the variety of sustainability risks, our ESG approach accommodates the specific needs of the different business lines and asset classes.

Sustainability Risk Management in investment advice

The activity of investment advice, for which SLAM Luxembourg is authorized, is not carried out. This policy will be amended when this activity is carried out.

4. Methods to identify, assess and mitigate Sustainability Risks

SLAM LUX considers sustainability risks in the various asset classes it manages. Consequently, ESG-related risk indicators are integrated in the risk framework using for example targets, limits and exclusions for material sustainability risks on portfolio and entity level. Portfolio management and risk management must assess such risks according to the specific aspects of each asset class and define appropriate measures to identify, prevent, mitigate and remediate such issues. These measures are integrated along the entire investment cycle, including pre-investment due diligence, continuous monitoring of held assets and post-investment engagement.

For financial assets, SLAM LUX has delegated the Portfolio Management function. SLAM LUX ensures that the sustainability risks and ESG factors are reflected in risk control and portfolio management processes by the delegated Portfolio Managers. The activities of these delegated Portfolio Managers are covered within the SLAM LUX oversight framework.

For real estate and infrastructure, SLAM LUX is actively involved in the investment process and sustainability risks and ESG factors are taken into consideration in the investment cycle and in-house performed processes.

In order to mitigate or avoid unintended exposure in sustainability risks, the following measures can be taken depending on the asset class and/or product for which SLAM LUX acts as Alternative Investment Manager / Management Company:

- **Continuous ESG monitoring**: Identifying assets with severe or systematic breach of defined norms, involvement in severe controversies or with a low overall ESG performance.
- **Exclusions**: Restricting investments into assets associated with controversial activities and/or below SLAM LUX's minimum expectations regarding ESG performance.
- **Alignment:** Taking active measures to align the investments with sustainability-related goals either by reallocating portfolio investments or by actively managing the respective assets towards such targets (e.g. replacement of carbon-intensive heating systems in properties).
- **Active Stewardship**: Engagement through direct dialogue with issuers or stakeholders, proxy voting, investor coalitions and collaborative enhancements via platforms, memberships or policy making.
- **Exit**: Selling assets or terminating business relationships if appropriate risk reduction or remediation fail to deliver appropriate improvements.

Due to the heterogeneity of the asset classes, i.e. financial assets, real estate and infrastructure, and the associated risks, there is the necessity of different approaches between asset classes for identifying sustainability risks.

- **Financial assets**

ESG considerations are part of every investment decision. ESG data and information flow directly into the analysis of investments as do traditional financial and business information. Data includes indicators like ESG ratings and controversy flags, which help identifying companies which might be vulnerable to sustainability risks, but also underlying data on polluting activities, revenue shares of critical products and services that allow for a more detailed analysis. On top of this initial research, all portfolios managed by SLAM LUX are subject to sustainability driven exclusion lists. Those lists exclude companies exposed to significant ESG risks in an effort to minimize exposure to controversial companies and mitigate the risk.

- **Real Estate**

Real estate is particularly vulnerable to climate-related risks. Whereas extreme weather events as flooding affects the value directly, low-carbon transition measures may induce indirect costs. SLAM LUX proactively looks for effective sustainability measures and implement them across the entire real estate life cycle. Especially climate-related risks are typically analyzed throughout all stages of the property investment cycle. Examples include considering climate risks during the purchasing process, energy-efficient renovation and repair and choosing developments suitable for the handicapped and the elderly. SLAM LUX also aims to increase tenants' awareness of the need to use resources efficiently.

- **Infrastructure**

ESG is a firm part of our infrastructure investment process. Alongside health and safety issues, SL AM sees climate-related risks and opportunities as the predominant sustainability aspects for infrastructure investments. SLAM LUX has developed a robust ESG framework for assessing both direct and indirect investments in infrastructure assets. Dedicated ESG-questionnaires are used in the transaction due diligence and the ongoing monitoring of the investments. During the due diligence potential ESG risks are identified not only for the investments in renewables as wind farms or solar power plants but also for all our investments such as in the telecommunications and transport sector. For indirect investments via investment funds, SLAM LUX strives to partner with managers who clearly demonstrate awareness of ESG factors as well as capability and willingness to actively address sustainability risks in their portfolio investments.

5. Disclosure

Investors can find more details under the following links:

https://www.swisslife-am.com/en/home/footer/policies-legal-entities.html

In addition, they may request free of charge additional information by writing to:

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Finally, as required by Article 12 of the SFDR, a clear explanation of amendments made to the Remuneration Policy in relation to the integration of sustainability risks is provided in **Appendix I.**

Appendix I: Amendments

Version	Amendments	Date of version
1	First version of the disclosure required by Article 3 of SFDR, regarding the transparency of sustainability risk policies.	March 2021
2	Second version issued to reflect amendments made within the internal Sustainability Risks Policy and provide further information on the definition and methods to identify, assess and mitigate Sustainability Risks.	July 2022
3	The Sustainability Risks Policy was reviewed to incorporate the following amendments: ▪ Updates performed in the Sustainability Risk Policy as part of its annual updates; and ▪ Statement providing information on the integration of sustainability risks for activities as Financial advisers.	February 2024

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