Swiss Life Asset Managers Luxembourg

SFDR Art. 3 Sustainability Risks

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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 will reduce sustainability related risks.

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[1]. From this perspective, SLAM LUX understands sustainability risks in accordance with the concept of “double materiality”: The outside-in perspective focusses on SLAM LUX’ investment’s exposure to sustainability risks, for example harmful physical effects of climate change negatively impacting the value of the invested assets. The inside-out perspective considers the adverse impact of our investments to ESG factors, e.g. investments with deficient controls in terms of environment protection standards or poor social practices resulting into an outside-in risk such as reputational risk or non-fulfillment of our public commitments such as NZAMi.

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 in-vestment 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 ‘traditional’ 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. ESG Factors

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

As Swiss Life is a signatory to the UN Global Compact, SLAM Luxembourg is committed, amongst other things, to respect the fundamental principles of human rights, labour rights, environment and anti-corruption.

- **Environmental Factors**

Environmental factors are related to the quality and functioning of the natural environment and of natural ecosystems, and include factors such as climate change, biodiversity, energy consumption, pollution, water and waste management.

While any environmental factor that may generate 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 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

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

climate or gradual loss of ecosystem patterns (e.g. biodiversity loss, temperature rise).

- **Social Factors**

Social Factors are related to evolution in the society in terms of social standards and practices. Their monitoring can be done through analysis including factors such as diversity, equality and inclusion, respect for human rights and labour rights.

- **Governance Factors**

Poor governance practices and corporate behavior 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.

Governance practices can also directly lead to good or poor environmental and/or social aspects, which reinforce the importance in understanding decision drivers within a company.

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.

- First Line of Defense: Operational Business Lines (“risk taker”) are responsible for identification, assessment, controlling and mitigation of sustainability risks on a day-to-day basis.
- Second Line of Defense: Responsible for oversight and guidance on Sustainability Risks (risk measurement & monitoring) and reporting of such risks.
- Third Line of Defense: Independent assurance of effectiveness and efficiency of risk management process on Sustainability Risk (audit functions).

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 Risk

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. 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.

In order to mitigate or avoid unintended exposure to Sustainability Risks, the following measures can be taken depending on the asset class and/or product:

- **Monitoring:** Identifying assets with severe or systematic breach of defined norms, behavior going against sustainability safeguards and involvement in controversies.
- **Exclusions:** Restricting investments into assets associated with controversial activities and/or below Swiss Life Asset Managers minimum expectations regarding sustainability safeguards.

- **Alignment:** Taking active measures to align the investments with sustainability-related targets (e.g. NZAMi commitment) 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:** If appropriate, engagement through direct dialogue with corporates or stakeholders, proxy voting, investor coalitions and collaborative initiatives via platforms, memberships or policy making.
- **Termination:** Exiting 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, infrastructure equity, and infrastructure debt, and the associated risks, there is the necessity of different approaches between asset classes for identifying, assessing and mitigating Sustainability Risks.

- **Financial assets**

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.

Information about ESG factors flows directly into the analysis of investments as do traditional financial and business information. Data includes ESG factors based for example on ESG ratings, controversy flags, principal adverse impacts or sector exposure, which help identifying issuers which might be vulnerable to Sustainability Risks.

Hence, on a pre-trade basis, it is checked that new investments do not trigger an investment breach of the fund/mandate in regard to the relevant investment guidelines and regulations and is aligned with its objective and legal status (label, internal classification etc.). Funds and mandates can have different level of ESG factors considerations.

The portfolio manager needs to consider the impact each investment can have on the compliance with the relevant sustainability risk profile of the product.

On post-trade, funds are monitored regularly to ensure that investments remain compliant with regulatory and guideline requirements. Changes within ESG factors should be detected to prevent any potential passive investment breach. Passive investment breaches have to be closed according to the relevant funds/mandates' guidelines.

- **Real Estate**

For real estate, 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.

ESG factors are embedded in a pre- and post-trade phase, in order to ensure a holistic risk approach.

Before a new investment, ESG factors are part of the regular checks. The due diligence process and the ESG assessment form the basis for identifying risk levels and raising risk awareness.

Due to the illiquid nature of the asset class, pre-trade checks are of utmost importance, and each transaction is cautiously assessed in order to ensure the appropriateness of the exposure regarding the desired sustainability profile.

When considering a broad range of real estate-related ESG factors, special attention must be paid to assessing climate-related risks, i.e. physical and transition risks, including the impact of an investment on decarbonization pathways.

Post-trade monitoring of the ESG factors is performed as part of the regular portfolio risk review, at least annually. Special attention is given to the following aspects:

(1) Analysis of the development of the sustainability risk positions and their consistency with defined sustainability targets.

(2) Assessment of transition risk and progress on the decarbonization pathway (risk of stranded assets) as well as assessment of physical climate risk through the analysis of the risk exposure of the location and the vulnerability of the asset.

(3) Identifying the need for additional mitigation and/or adaptation measures.

- **Infrastructure Equity and Debt**

For infrastructure, SLAM LUX is also 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.

Information about ESG factors is part of the infrastructure investment process. Swiss Life Asset Managers sees climate-related risks and opportunities as the predominant ESG factors for infrastructure investments. An ESG framework has been developed 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. Those ESG- questionnaires, combined with the inputs from the investment team, allow, among other things, to derive an ESG Score. In the mandatory pre-trade risk assessment conducted by the Risk Function, Sustainability risks are an integral part of the final risk recommendation.

At least annually, Portfolio Management is reviewing and updating the ESG scores accordingly. Risk Management reviews these changes and all other ESG factors. Special attention should be given to the following aspects:

(1) Analysis of the development of the sustainability risk and its consistency with defined sustainability targets.

(2) Assessment of transition risk as well as assessment of physical climate risk through the analysis of the vulnerability of the asset (risk of stranded assets).

(3) Identifying the need for additional mitigation and/or adaptation measures.

5. Disclosure

Investors can find more details under the following links:
[Policies – Swiss Life Asset Managers]

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

Swiss Life Asset Managers Luxembourg
4a, rue Albert Borschette
L-1246 Luxembourg
Luxembourg

Finally, as required by Article 12 of the SFDR, a clear explanation of amendments made to the Sustainability Risk 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
4	The Sustainability Risks Policy was reviewed to reflect the updates performed in the Sustainability Risk Policy as part of its annual updates.	December 2024