

# Reducing risk, *building lasting value*

## *Swiss Life Asset Managers' approach to responsible investment*



### *Our core investment beliefs*

For over 160 years, Swiss Life Asset Managers has managed the assets of the Swiss Life Group and its institutional and retail clients. We have always taken a long-term view to ensure life insurance policies and pension solutions enable people to live with confidence at every stage of their lives. As an owner and manager of assets, we understand our responsibility and fiduciary obligations. We make all investment decisions in line with regulatory requirements, and we are committed to value-oriented and holistic risk management.

### *The value of environmental, social and governance considerations*

The success of Swiss Life Asset Managers is rooted in our long-term approach to investing, balanced against insurance liabilities or third-party client requirements. We believe sustainability is shaping the businesses already now and especially in the future. By assessing Environmental, Social and Governance (ESG) criteria alongside financial metrics and risk factors, we generate more sustainable results and increase the quality of our investment portfolios. We are also able to anticipate future market developments, which helps us mitigate potential threats and seize investment opportunities.

Swiss Life Asset Managers has always adapted to market volatility and the challenges of market cycles. As ESG matters are material across industries, we see the systematic integration of sustainability into our invest-

ment approach as key to reducing risk and building lasting value.

### *Formalising our responsibilities*

To cement our commitment to responsible investing, we have formalised the way we integrate ESG factors into our investment and risk management processes. As a result, we follow a responsible investment framework, which is aligned to the Principles for Responsible Investment (PRI).

Swiss Life, as an asset owner, and Swiss Life Asset Managers are both fully committed to the PRI. All sub-entities, including Mayfair Capital, Swiss Life Asset Managers France and Fontavis, are also required to report to and endorse the PRI.

In this leaflet, we explain how the PRI approach is integrated across our entire organisation at Swiss Life Asset Managers and, hence, applicable to all assets under management (AUM). Only some asset classes – approximately 10% of our AUM – remain out of scope for ESG implementation, such as mortgages, loans and full-replicating equity strategies. These asset classes have characteristics that make it difficult to integrate ESG factors.

Signatory of:





## *Our responsibility as an asset manager*

We provide solutions designed to help clients reach their goals and enact their choices by creating sustainable economic value. Our responsible investment approach is deeply embedded in our core processes, notably in controlling risk, portfolio management, investment choices as well as all core supporting functions.

In 2014, The United Nations Conference on Trade and Development (UNCTAD) estimated that \$5 to \$7 trillion investments per year would be needed to achieve the UN Sustainable Development Goals (SDGs)<sup>1</sup>. As a responsible investor, we see it as our duty to marry the best interests of our clients with our aim to transition towards a more sustainable future. Therefore, we always invest in the most appropriate opportunities for our clients and, wherever possible, opportunities to narrow the financing gap to the SDGs.

## *Three pillars to sustainability success*

### **Fiduciary duty**

As ESG issues can impact risk as well as the return of our assets, we view a responsible investment approach as integral to our fiduciary duty towards our investors, shareholders and clients.

Sustainability is already having a significant impact on economic development and business progress. Therefore, seizing sustainable opportunities and being guided by the PRI in our investment decisions and asset management processes is essential for becoming future-proof.

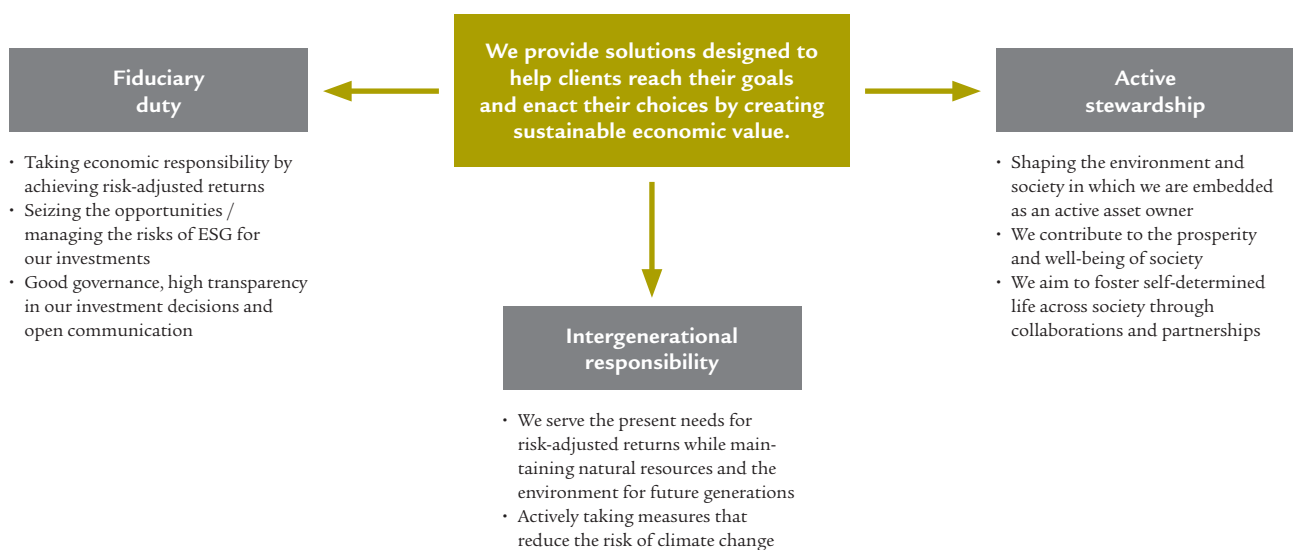
### **Intergenerational responsibility**

Part of our aim is to give future generations the chance to live a self-determined life – an objective we call our intergenerational responsibility. In order to achieve this, we seek to make investment decisions that support the environment, economy, and health and well-being of society to protect it for the future.

### **Active stewardship**

Part of our ESG concept is to shape industries towards greater sustainability. For example, we can create value in the energy, mobility, food and later living sectors, all of which foster a self-determined life for now and future generations.

As an asset owner, we work to help the companies and projects we invest in and the stakeholder we work with to become more sustainable and compliant with global initiatives as the UN Global Compact. To this end, we also ask our external asset managers of funds to comply with the PRI.



<sup>1</sup> World Investment Report 2014. (2014). United Nations Conference on Trade and Development.



### *Tackling climate change*

A key part of our approach is working towards a more environmentally sustainable future. Climate change is one of the greatest challenges faced globally. As such, it presents significant risks to assets, as well as opportunities. We believe these risks and opportunities will shape investment portfolios and the way assets are managed in the long term, which is why we fully support the targets of the Paris Climate Agreement.

We are taking steps to minimise the impacts of climate change and contribute to the global transition to a low-carbon economy. For example, we are seeking ways to build the resilience of our clients' investments to climate change risks, in particular for real estate assets and bond investments. We are also identifying lower-carbon and energy efficiency-related investment opportunities.

### *Minimising carbon emissions*

Tightening regulation around carbon emissions might lead to specific asset classes and sectors becoming stranded. Thermal coal is a notable example of an industry at risk.

Burning thermal coal for power generation not only results in 27% of the global primary energy<sup>1</sup> but also in about 40% of the global energy-related carbon dioxide emissions<sup>2</sup>. It is one of the major contributors to

climate change. As such, Swiss Life Asset Managers has adopted a thermal coal phase-out strategy. To manage the risk of stranded assets, we have decided not to undertake new bond investments in companies that derive more than 10% of revenues from mining, extraction or selling of thermal coal.

### *Ethical investment choices*

Swiss Life works to give people confidence to lead a self-determined life, and we take an ethical standpoint on our investments. As such, we will not invest in companies that are significantly involved in producing controversial weapons, including anti-personnel landmines, cluster munitions, chemical, biological and nuclear weapons. Our blacklist of excluded companies is based on external data providers and common organisations – as for example SVVK-ASIR – and is going beyond regulatory duties.



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<sup>1</sup> Data and Statistics. 2020. International Energy Agency (IEA). <https://www.iea.org/data-and-statistics/charts/global-primary-energy-electricity-generation-final-consumption-and-co2-emissions-by-fuel-2018>

<sup>2</sup> Coal 2019. (2019). IEA. <https://www.iea.org/reports/coal-2019>



Each asset class has its own challenges, which is why we evaluate each of them individually when considering ESG factors. On the following pages, we explain how we approach each asset class in light of ESG principles.

## Securities

### Leading with insights

When it comes to risk management, we go beyond clear-cut exclusions to protect our assets. Swiss Life Asset Managers uses a broad range of information to make investment decisions, considering both financial and ESG factors.

We use externally sourced ESG research and ratings to underpin our company analysis and evaluation. The insights enable us to keep track of 14,000 corporate and sovereign issuers across the globe, monitor controversial issues and uncover company risks. Our portfolio managers and analysts can access the research directly in their systems, while quarterly trainings from our dedicated ESG specialists ensure investment professionals to have the latest expertise on incidents at hand. They also use the training sessions as an opportunity to debate any uncertainties around implementation and ESG research outcomes.

ESG factors are also embedded in our risk committees and risk control processes within our business. We

monitor the performance of all directly held assets to identify any risks relating to ESG, such as climate-related risk or corruption. Using this data, our investment managers can decide, challenged by the risk committee, whether to hold, sell or buy the issuer.

### ESG factors for fixed income investments

Swiss Life Asset Managers has a strong track record in fixed income investments. We see climate-related risks as a key driver for an issuer's credit default. Hence, we promote green investments and issuers with good ESG performance in order to manage risks related to climate change. We are also currently investigating the opportunity to enhance our offering in ESG-dedicated products for our third-party institutional clients.

### A tailored ESG approach for third-party clients

ESG factors are a core part of our service for managing securities on behalf of third-party clients. Taking a tailored approach, we can manage investments to meet clients' specific ESG requirements. Along with our own ESG positions and beliefs, we can implement client requests for specific exclusions and engagement opportunities.

## Overview of the ESG integration in the security investment process

### Pre-Trade

1. Controversial weapons-based exclusions
2. Coal-based exclusions
3. Exclusion of companies with very bad ESG rating or highly controversial companies in some of our equity portfolios

### Trade Decision

1. ESG data alongside financial data in our internal portfolio management systems (e.g. for our credit analysis)
2. ESG data as part of our portfolio construction (e.g. rebalancing of equity portfolios)

### Post-Trade

1. Risk monitoring of the ESG performance of all directly held assets under management
2. Reporting about ESG performance of selected funds
3. Proxy voting on equity holdings especially about environmental or social voting items



## Real estate

### Sustainability risks and opportunities

Real estate is particularly vulnerable to climate-related risk. The sector is responsible for around 30%<sup>1</sup> of global energy consumption and 40%<sup>1</sup> of global CO<sub>2</sub> emissions, so it is increasingly impacted by the transition to a low-carbon economy and regulatory requirements. At the same time, property values are directly affected by extreme weather events, such as flooding and droughts, which affect entire areas. Environmental sustainability aspects are becoming a strategic issue for professional property managers.

In addition, climate change risks are driving new investment opportunities. Sustainable, energy-efficient buildings are becoming the new market standard, while conventional properties will experience devaluations leading to so-called brown discounts in the future. Likewise, locations that are currently seen as undesirable may become more attractive.

### Sustainable property portfolio management

Swiss Life Asset Managers has been investing in real estate for over 125 years and is the owner of the largest

privately held real estate portfolio in Switzerland.

We proactively look for effective sustainability measures and implement them across the entire real estate life 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. We also aim to increase tenants' awareness of the need to use resources efficiently.

By integrating ESG factors (see graph below) into all levels of our property asset management, our investors also benefit from properties that are sustainable and stable in value.

### Monitoring ESG factors for real estate assets

To continuously improve our ESG performance, we have developed indicators and metrics for our entire real estate portfolio. These include one for greenhouse gas and a target for the amount of ESG measures undertaken in a portfolio. We also use the Global Real Estate Sustainability Benchmark (GRESB) to assess selected portfolios – more than 50% of our real estate AUM – against peers and to identify gaps for improvement.

## Overarching division-wide responsible property investment Principles

### INVESTMENT LEVEL

#### Acquisitions and Divestments

Pre-acquisition consideration of ESG criteria as part of the regular due diligence process in order to identify the level of risk and amplify risk awareness.

#### Environmental criteria (e.g.)

- Consumption of natural resources or quality indicators of buildings and surroundings
- Building level certification and energy performance

#### Social criteria (e.g.)

- Assessment of tenants' aspects such as health and safety or comfort
- Location and transportation aspects of the building

### DEVELOPMENT LEVEL

#### (Re-)Developments and Refurbishments

Principles are set throughout the entire development process in order to fully understand the ESG risks and opportunities of each project.

#### Environmental criteria (e.g.)

- We seek to achieve best practice on energy efficiency standards
- Assessment of the environmental risk profile

#### Social criteria (e.g.)

- Analysis of socio-economic impacts of our project developments
- Conduct information meetings where necessary

### OPERATIONAL LEVEL

#### Operations and Maintenance

Optimising capital expenditures, required as part of the maintenance and repair cycle from a regulatory, financial, sustainability and well-being perspective.

#### Environmental criteria (e.g.)

- Business and functional areas develop sustainability strategies in alignment with this framework
- Optimise resource consumption and energy efficiency

#### Social criteria (e.g.)

- Engagement with tenants, key suppliers or the community in which we operate
- Alignment of engagement and sustainability strategy

### Governance criteria (e.g.)

- Promote the awareness of the responsible investment approach and its implementation towards all business partners – from investors, tenants, to suppliers or the community
- We want to ensure compliance with applicable regulation and legislation, valuing our business partners and engaging in dialogues

<sup>1</sup> 2014: Buildings. (2014). Intergovernmental Panel on Climate Change.



### *Infrastructure*

To effectively manage risk in infrastructure investments, we work to anticipate regulatory changes, reduce running costs of facilities and ensure projects meet social demands. We also bring ESG considerations into our investment review process, which includes assessing environmental issues, labour conditions, safety, local job creation and stakeholder needs.

ESG is firmly embedded into our decision-making for infrastructure. We use a questionnaire we developed internally to inform our due diligence and annual monitoring of ESG risks of assets. The questionnaire works alongside the external GRESB rating, which we use to analyse a selection of funds.

### *Sustainable infrastructure opportunities*

As climate change and the fight against it is bearing fundamental changes to business models and society across sectors, the transition towards a low-carbon economy creates also major opportunities for infrastructure assets. Fields such as renewable energy, clean tech and logistics are key focus areas of opportunity for infrastructure. We want to seize these opportunities, and we are actively pursuing investments that enhance low-carbon transition and are committed to not harming biodiversity. It goes without saying that we will search for investments that also generate optimal risk-adjusted returns.



### *Engage to foster sustainability*

Engagement with various stakeholders of our investment portfolio is critical to approach responsible investment as part of our fiduciary duty. At Swiss Life Asset Managers, we believe encouraging an active and transparent dialogue with our invested companies, tenants and co-investors is a powerful tool for reducing risk while fostering the readiness to a more sustainable future. Active stewardship – one of the three core pillars in our ESG concept – leads this objective by promoting engagement in line with economic development.

We nurture engagement on various levels, including:

- **Assessing votes:** As a key process of our proxy voting activity, we review all environmental and social-related votes. Our Responsible Investment Management Team assesses the votes and makes a recommendation to the voting entity.
- **Active governance:** We actively promote ESG-related matters where Swiss Life Asset Managers holds a seat on the board of an asset or is a significant shareholder (e.g. infrastructure assets).
- **Community and third-party dialogue:** Building lasting value is core in real estate asset management, not only for asset owners but also for the social environment. Therefore, we engage with the communities and neighbours of specific projects to identify opportunities to enhance the socio-economic benefits of our assets.
- **Collaborative enhancement:** The responsible investment industry needs to collaborate and share actions in order to improve. We are looking for ways to share our insights and experience with domestic and international associations.

Signatory of:





## Building our ESG expertise

### Our ESG specialists and the ESG Board

A future-proof business model necessitates the implementation of sustainability criteria – ESG – in all core business processes. Therefore, ESG specialists at Swiss Life Asset Managers develop and implement our approach to responsible investment. These specialists are on one hand dedicated ESG managers and on the other hand representatives from each asset class and relevant functions. Together they form the ESG Board, chaired by the Head of ESG.

Swiss Life Asset Managers' ESG Board creates our responsible investment approach, guides how the approach is implemented and makes decisions on ESG matters. It also encourages teams across the asset classes to exchange insights on ESG topics. It is the advisor to the Executive Committee in terms of ESG and reports directly to the Group CIO.

### Embedding ESG in decision-making committees

The members of the ESG Board also chair the corresponding asset class or business unit-specific ESG committees, which meet monthly to deal with specific matters. During the committee meetings, our experts

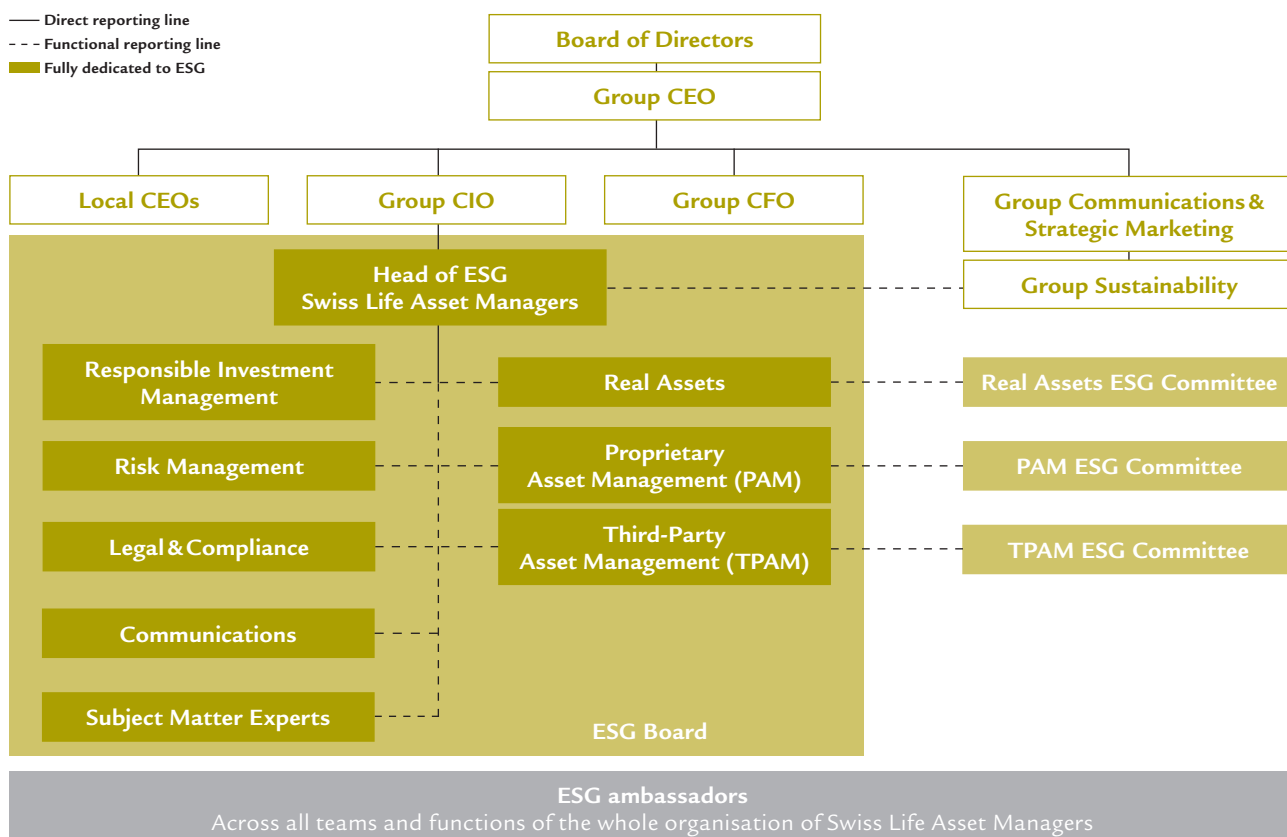
make decisions on questions around ESG integration into the investment or risk management process. They also decide how to progress with investments that other committees and processes have raised as controversial.

Our Executive Committee, headed by the Swiss Life Group CIO, discusses overarching ESG issues, such as green investment strategies and controversy analysis of the securities portfolio.

### Promoting our responsible investment approach in the fundament

We want to see ESG factors incorporated into the day-to-day processes of all our teams, from portfolio to fund, and risk to sales management. By putting ESG experts in charge in all areas of our business, we plan to bridge the gap between business and ESG expertise. Our ESG ambassadors pursue this role.

As part of their annual personal targets, ESG ambassadors take responsibility for applying and developing our approach to responsible investment in their area of business. An attractive events programme through the year helps to build an ESG community that shares insights and encourages progression.



For more information about responsible investing at Swiss Life Asset Managers, please visit [www.swisslife-am.com/responsible-investment](http://www.swisslife-am.com/responsible-investment)

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