SwissLife
Asset Managers

Responsible Investment Report 2021

How we navigate environmental, social and governance investments

Foreword

Dear readers,

At Swiss Life Asset Managers, we are observing the steady transformation of financial markets towards sustainability. Indicators for this development are the increasingly stringent regulation and the fact that environmental, social and governance (ESG) aspects are increasingly being taken into account in investment strategies – to the extent that ESG is even considered "business as usual" in some cases. The growing demand for sustainable investments is reflected in the increasing capital flows into environmentally sustainable investments. Yet, current investments are still below the necessary levels to achieve net-zero emission targets worldwide.

At Swiss Life Asset Managers, we see it as our responsibility to contribute to the transition to a low-carbon economy. To this end, we aim to build ESG expertise and disseminate it throughout the company so that it is embedded in all business units and becomes part of our corporate DNA. In the past year, we have worked hard on this and taken appropriate steps to realise our goal.

In our comprehensive first Responsible Investment Report 2020, we gave you an overarching and in-depth look at our ESG approach across all our asset classes. In our latest 2021 report, we would like to focus specifically on the changes and innovations of the past year that helped us to make a further step towards our target of becoming a sustainable asset manager. For our direct real estate portfolio, for example, we have set ourselves a decarbonisation target of decreasing the carbon intensity (kg CO_2 equivalents per m^2 floor area) by 20% by 2030 compared to 2019. We aim to invest up to CHF 2 billion over this period to achieve this goal. We have further aligned our ESG governance with our investment competencies (real estate, infrastructure and securities) and successfully hired the Head ESG Securities, among others.

We recognise that the global transformation towards sustainability and ESG is a constantly evolving process. Hence, our latest Responsible Investment Report 2021 provides insights into our ESG progress across asset classes and how we are addressing challenges on our sustainability journey. We hope you enjoy reading it.

Stefan Mächler
Group Chief Investment Officer Swiss Life

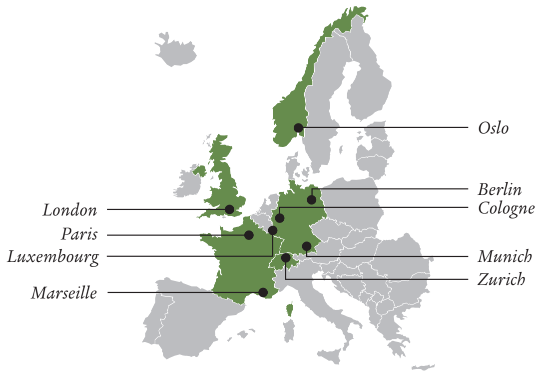
Glossary

ASPIM	Association française des Sociétés de Placement Immobilier
AuM	Assets under management
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CIO	Chief Investment Officer
COP	Conference of Parties
CO_2e	Carbon dioxide equivalent
CRREM	Carbon Risk Real Estate Monitor
EASA	European Union Aviation Safety Agency
ESG	Environmental, social and governance
EU	European Union
FNG	Forum Nachhaltige Geldanlagen
FTE	Full-time equivalent
GDP	Gross domestic product
GRESB	Global Real Estate Sustainability Benchmark
ICGN	International Corporate Governance Network
ICMA	International Capital Market Association
IEA	International Energy Agency
IIGCC	Institutional Investors Group on Climate Change
PAM	Proprietary Insurance Asset Management
PRI	Principles for Responsible Investment
SDG	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SSF	Swiss Sustainable Finance
TCFD	Task Force on Climate-related Financial Disclosures
TPAM	Third-Party Asset Management
UN	United Nations
UNGC	United Nations Global Compact
VDS	Voting Disclosure Service

Contents

Swiss Life Asset Managers at a glance

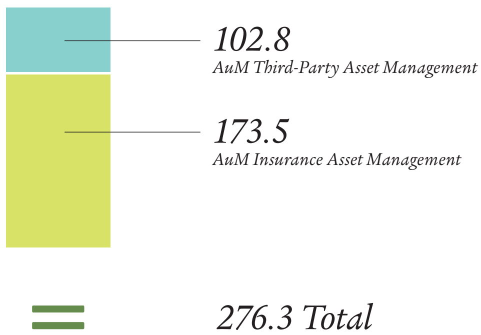
Strong footprint in Europe – our key locations



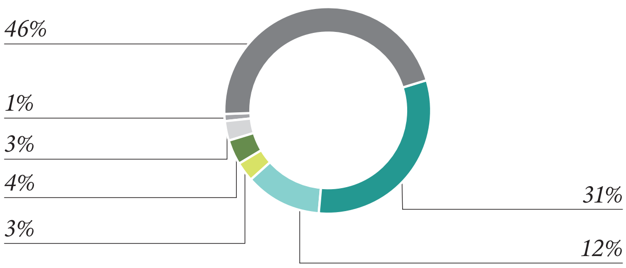
23 locations in Europe

Assets under Management

(in CHF bn)



Assets under Management* – breakdown by asset classes



Bonds, Real estate, Equities, Loans, Mortgages, Alternative investments, Others

*Total AuM Insurance Mandates and third-party clients

Net new assets from third-party clients

(01.01.2021 – 31.12.2021)

9.4

(in CHF bn)

What sets us apart

Among the top 3 Institutional Asset Managers
in Switzerland*

A leading real estate manager
in Europe**

One of the largest Asset Managers
of corporate bonds in Switzerland

Strong ALM investment expert
for pension schemes and insurance companies

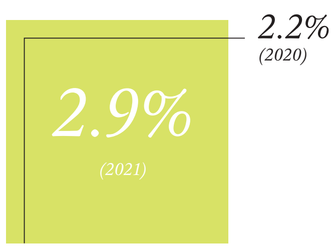
Risk-based investment philosophy for
over 165 years

Combining quantitative and qualitative
Risk and Asset Management

*IPE Survey 2021 Top 500 Asset Managers in Europe (AuM as at 31.12.2020)
**INREV Fund Manager Survey 2021 (AuM as at 31.12.2020)

Net investment result

(Insurance Portfolio)



Employees

All figures as at 31 December 2021 unless stated otherwise.

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www.swisslife-am.com

Responsible investment achievements

Our responsible investment achievements for our three main ESG pillars.

FIDUCIARY DUTY (economic responsibility, corporate governance)

~90%
AuM in scope of ESG integration strategy

A+
accredited by PRI Strategy & Governance[1]

25
FTEs fully dedicated to ESG

70
Ambassadors across organisation with 15% contribution to ESG

INTERGENERATIONAL RESPONSIBILITY (serve present needs by preserving resources and environment for future generations)

Real estate

65% AuM of real estate investments submitted to GRESB[2]

63% AuM of real estate investments are Green Star-rated by GRESB

Carbon intensity of Proprietary Insurance Asset Management (PAM) in 2019: 26 kg CO_2e/m^2 *(20% reduction targeted from 2019 to 2030)*

Infrastructure

47.5% AuM of infrastructure investments submitted to GRESB

3,000 GWh of power generated by heat and renewables sources

Securities

CHF 0 invested in companies deriving more than 10% of their revenues from thermal coal

Carbon intensity[3] of Proprietary Insurance Asset Management (PAM):
Government bonds
188 t CO_2e/mUSD nominal GDP[4]
Corporate bonds
148 t CO_2e/mUSD sales
Equities
142 t CO_2e/mUSD sales

CHF 1.2 bn invested in green bonds[5] *(60% of targeted CHF 2 bn by 2023)*

ACTIVE STEWARDSHIP (dialogue with stakeholders and organisations)

71
ESG engagements among infrastructure assets[6]

5
corporate dialogues for securities

283
Total attendance of 283 annual general meetings

8%
In 8% of all votable agenda items, we did not follow the management's proposition

12
Membership of 12 sustainability associations[7]

1 PRI accreditation from 2020.
2 Global Real Estate Sustainability Benchmark.
3 Scope 1and 2 intensity.
4 Gross domestic product.
5 Green, social, sustainability, sustainability-linked bonds.
6 Examples of ESG engagements include triggering a GRESB rating, initiating a new ESG policy or implementing processes for measuring greenhouse gas emissions.
7 PRI, SSF, TCFD, GRESB Real Estate, GRESB Infrastructure, FNG, CDP, ICGN, IIGCC, Climate Action 100+, Swiss Climate Foundation, ASPIM.

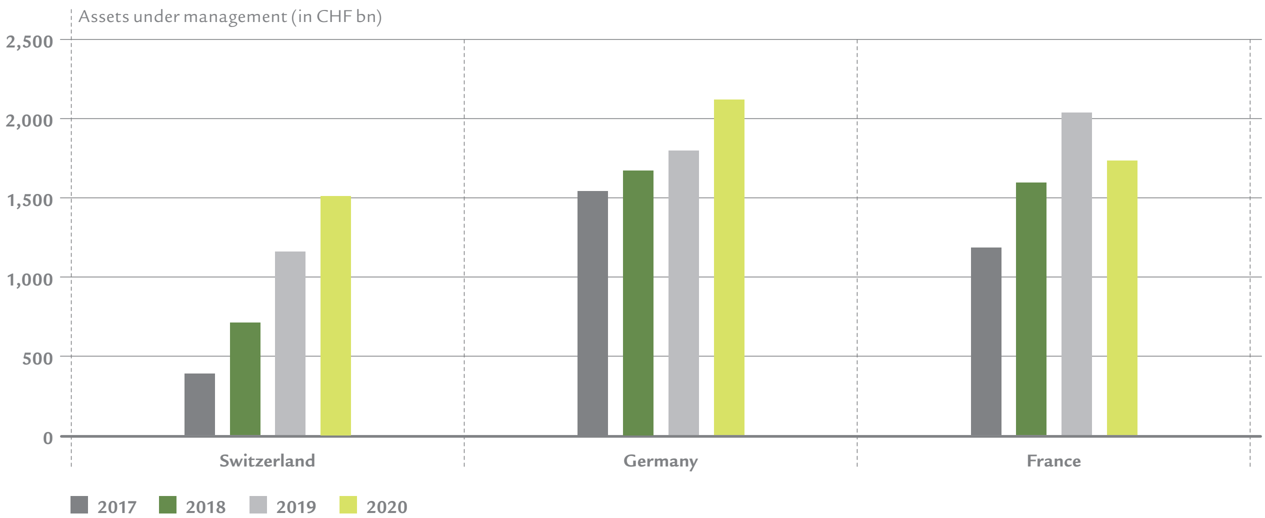
The responsible investment landscape: the ESG market and regulatory developments

We continue to observe a strong growth in responsible investments, with investors' appetite varying by type and location. Sustainability also remains a top priority on the political and regulatory agenda, and there has been a steady increase in regulation complexity for responsible investments.

ESG market developments

Increasing savings due to pandemic-related consumption cutbacks, as well as historically low deposit rates, fostered investment flows into capital markets. Inflows into sustainability funds show that both private and institutional investors are increasingly taking sustainability criteria into account when investing. From 2017 to 2020, there was an overall increase in responsible investments in all three core markets of Swiss Life Asset Managers (Switzerland, Germany and France). While the Swiss responsible investment market grew at an average rate of 57% p.a., the German market experienced a lower relative increase (see figure "Responsible investment volume in Swiss Life Asset Managers' core markets").[8] Private investors are catching up with

Responsible investment volume in Swiss Life Asset Managers' core markets

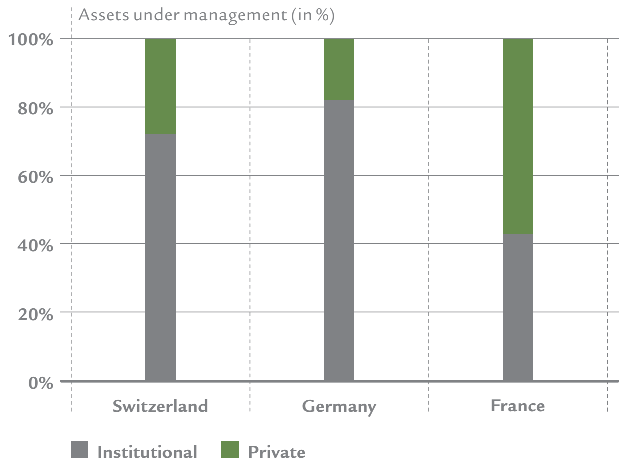


Source: Swiss Sustainable Investment Market Study (SSF, 2021), Marktbericht Nachhaltige Geldanlagen (FNG, 2018, 2019, 2020, 2021), La gestion Investissement Responsable (AFG, 2018, 2019, 2020, 2021).

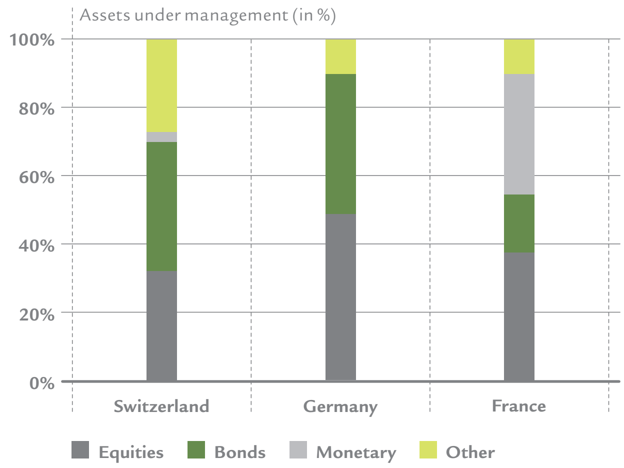
Note: exchange rate used: EUR/CHF 1.10

8 The decrease in France from 2019 to 2020 is mainly due to a change in the definition of sustainable investments.

Responsible investment volume by investor type as at 2020



Responsible investment volume by asset class as at 2020



Source: Swiss Sustainable Investment Market Study (SSF, 2021), Marktbericht Nachhaltige Geldanlagen (FNG, 2018, 2019, 2020, 2021), La gestion Investissement Responsable (AFG, 2018, 2019, 2020, 2021).

institutional investors in Germany by more than doubling their responsible investments between 2019 and 2020. Their share, however, is still lower than that in Switzerland or France. In Germany and France, equities are the asset class in which most capital is allocated responsibly, while in Switzerland, bonds have the highest share.

The green-bonds market has boomed globally, and in Europe it has been on track in 2021 to nearly double the record high of the previous year. After the United States, Germany and France are the countries in which the highest amounts of green bonds were issued in 2020[9]. The market has even expanded beyond green bonds, also offering non-investment grade sustainability-linked notes since March 2021, which have proved popular in Europe. This reflects investors' increased focus on ESG, as well as the attractiveness of the lower borrowing costs offered to companies and governments (also called "greenium")[10].

Regulatory developments

The capital flows into ESG come with extended regulations and guidance on the integration of sustainability in investment processes. Many jurisdictions require asset managers to deliberately assess sustainability risks in the investment process and create transparency on how sustainability factors are implemented in the investment activities.

In the EU, the integration of sustainability is based on pertinent regulation. The EU Sustainable Finance Action Plan of 2018 (EU Action Plan) led to the Sustainable Finance Disclosure Regulation, which, in combination with the Taxonomy Regulation, aims to create transparency for investment services and products and make sustainability progress comparable. It also led to new categories of low-carbon benchmarks and rules requiring the inclusion of investors' sustainability preferences in the distribution of investment products. The basic rules are largely finalised. The situation, however, is different to the implementation norms, where parts are still in limbo and being postponed. The challenge here is how to implement the rules in detail. In July 2021, the EU published the Strategy for Financing the Transition to a Sustainable Economy. Its goals are to channel private financial flows into sustainable economic activities and to better engage financial institutions.

9 Climate Bonds Initiative, Green Bond Market Summary Q3 2020, November 2020.
10 ESG in 2021 So Far: An Update, 1 September 2021. Skadden, Arps, Slate, Meagher & Flom LLP.

Four main areas were identified for which more measures are needed for the transition of the economy to sustainability and which need to be supported by the financial system[11]

Source: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions / Strategy for Financing the Transition to Sustainable Economy, p. 4 (2021)

Examples of the strategy initiatives include new regulations and revisions of existing ones, new focal points in social goals (e.g., human rights) and environmental goals (e.g., biodiversity), the commitment to double materiality (to account for financial and social/environmental impacts), an extension of the scope of covered financial products, and the creation of a framework for sustainability labels. Such initiatives will likely lead to greater complexity in the regulatory environment.

Many EU sustainability-related regulations and initiatives have spillover effects on non-EU countries, e.g., in Switzerland, the UK and the US. As observed in the EU, sustainability topics are increasingly becoming part of the prudential rules in those jurisdictions. Regulators require supervised entities to have processes and controls in place to demonstrate the integration of sustainability in their business processes and to substantiate the sustainability claims of the products they promote. To combat the risk of entities misleading clients and investors about the sustainability characteristics of financial products and services, i.e., greenwashing, many regulators have started to set up monitoring processes and rules of empowerment that they can act upon, if necessary.

The increasing importance of responsible investments and the growing regulatory complexity call for sophisticated responsible investment governance and a plan to successfully navigate assets in the ESG landscape. Swiss Life Asset Managers has continuously aligned its responsible investment governance with the ESG market environment and developed a grounded ESG route for 2021–2024, as outlined in the next two chapters.

11 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Strategy for Financing the Transition to a Sustainable Economy, p. 4, 6 July 2021.

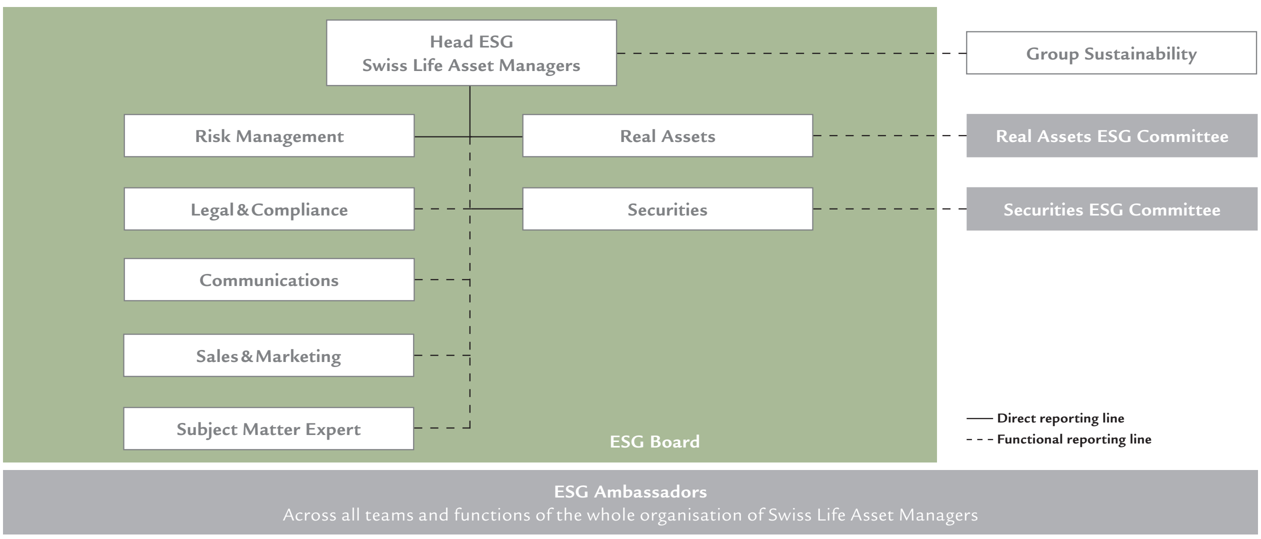
Responsible investment governance

Swiss Life Asset Managers implements and maintains a responsible investment approach through a holistic responsible investment governance structure. We strengthened ESG-specific executive and governing bodies at various layers of our hierarchy to further enhance sustainability across our locations and business units.

Swiss Life Asset Managers' responsible investment governance is based on the goal of integrating ESG into all core processes covering all business units and functions. In the reporting year, the ESG Board comprised nine members (five full-time equivalents (FTEs)) who are responsible for further developing the ESG strategy of Swiss Life Asset Managers and streamlining the implementation of sustainability across the different units and processes. Chaired by the Head ESG, the ESG Board decides on the responsible investment policies, guides the implementation of crucial ESG matters and advises Swiss Life Asset Managers' Executive Committees or other legally binding committees on new ESG-related strategic initiatives. Furthermore, the Board comprises also ESG specialists of business units, who head the corresponding business unit-specific ESG committees. The business unit-specific ESG committees in turn specify the integration of ESG into the investment and risk management processes and set up corresponding monitoring frameworks.

Crucial for both the governing and executive function of the ESG Board and the business unit-specific ESG committees is the divisional ESG team, which consists of 9 employees (9 FTEs)

Responsible investment governance at Swiss Life Asset Managers



Source: Swiss Life Asset Managers

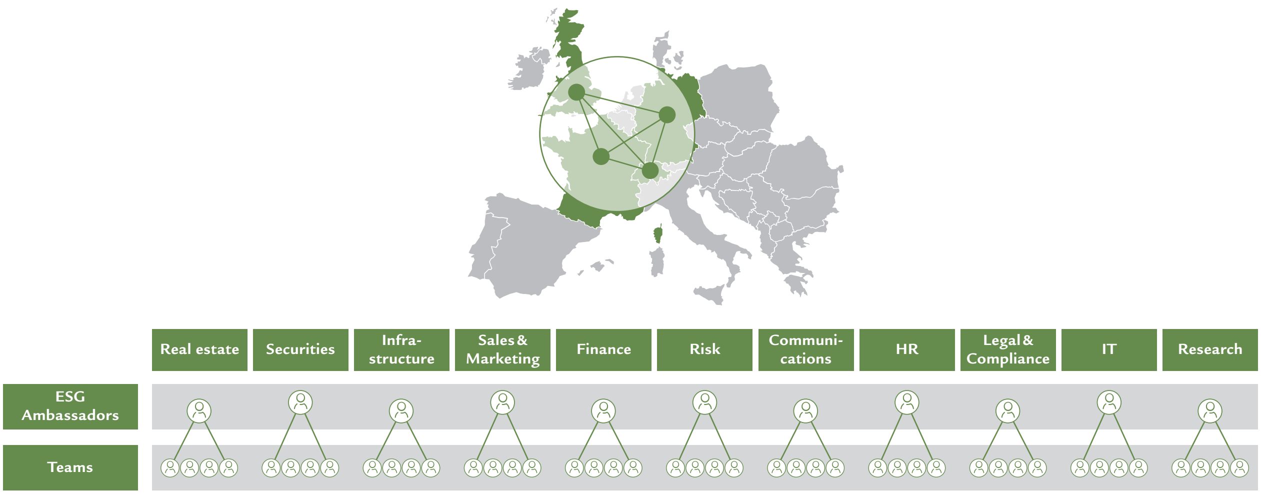
operating across Swiss Life Asset Managers' country locations[12]. Reporting to the Group CIO, the ESG team designs and coordinates the responsible investment policies and ESG investment strategies in close cooperation with the different business units and additional country-specific ESG managers (seven FTEs). It also supports the implementation of the policies and strategies within processes and disseminates ESG know-how through training programmes. Mirroring Swiss Life Asset Managers' business areas real estate, infrastructure and securities, the ESG team divided its competencies into dedicated ESG real asset (covering infrastructure and real estate) and ESG securities teams. In line with the new structure and to further strengthen asset class-specific ESG expertise, the team enlarged the ESG workforce in real estate and filled a new Head ESG Securities position in 2021. To foster innovation and science-based solutions in tackling ESG challenges, the team further extended its capacities into a dedicated ESG research position.

> *"A sound responsible investment governance is key to make ESG a part of our DNA."*
>
> *Swiss Life Asset Managers*

One major ambition of Swiss Life Asset Managers is to make ESG a part of our corporate DNA. This requires an organisational change process with high management attention. One cornerstone of this ambition is the Ambassadors programme. To build and spread ESG expertise across the entity, Swiss Life Asset Managers appointed about 20 new ESG Ambassadors in 2021 – employees across various business areas who receive special ESG education (see info box "The ESG Ambassadors programme"). Around 70 Ambassadors (approx. 10 FTEs) translate ESG ambitions into local and team-specific day-to-day processes, lead ESG-related projects and provide ESG training in their respective teams. As such, the divisional ESG team, together with the country-specific ESG managers and the ESG Ambassadors, not only facilitates the operationalisation of ESG strategies but also forms an exceptional network for linking business units throughout the organisation, creating internal ESG-related synergies.

Hence, in total, about 25 FTEs (roughly 90 employees) are devoted to ESG implementation at Swiss Life Asset Managers. Moreover, from 2021, every employee must specify how to contrib-

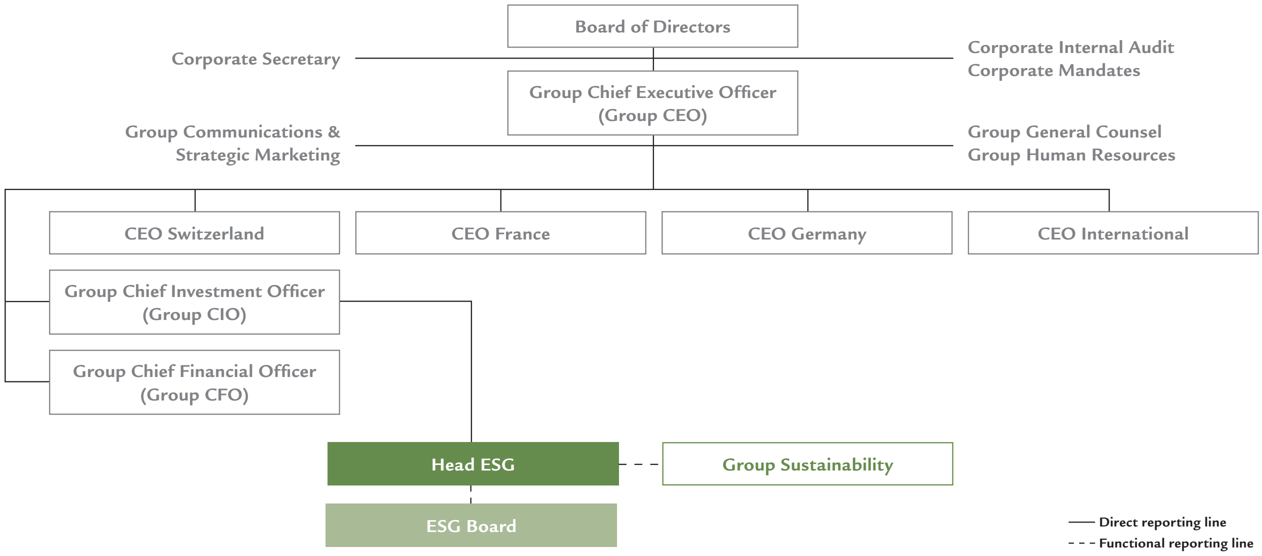
ESG networks at Swiss Life Asset Managers



Source: Swiss Life Asset Managers

12 Switzerland, Germany, France, the UK, Luxembourg and Norway.

Responsible investment governance at Swiss Life Asset Managers, Group perspective



Source: Swiss Life Asset Managers

ute to the development and implementation of ESG in their relevant business area. This makes up 10% of their personal annual goals. The Ambassadors dedicate at least 15% of their time to ESG topics.

From the Group point of view, the Group Chief Investment Officer (CIO) oversees the responsible investment management at Swiss Life Asset Managers, while the Group Executive Board, chaired by the Group Chief Executive Officer (CEO), governs strategic decisions concerning general sustainability topics. A dedicated sustainability team at Group level (Group Sustainability) ensures harmonised cross-border and cross-divisional sustainability implementation.

The ESG Ambassadors programme

Each ESG Ambassador undergoes a dedicated onboarding programme on general ESG topics as well as Swiss Life Asset Managers' responsible investment policies and governance. Our ESG Ambassadors programme maintains and develops education and training content for the Ambassadors, sets up events throughout the year to foster knowledge exchange and networks, and provides guidance on how to operationalise ESG matters into business activities.

A highlight of the ESG Ambassadors 2021 programme was the first Group-wide ESG week. This included keynote speeches, panel discussions and workshops with internal and external speakers on current ESG topics, such as human-rights due diligence and decarbonisation of the real estate industry. With more than 700 participants, this was a great opportunity to share ESG knowledge and insight throughout the organisation. Another highlight was the introduction of an extensive ESG digital-learning platform covering overarching topics (e.g., biodiversity and corporate social responsibility) as well as real estate-specific content.

Swiss Life Asset Managers' ESG navigation route

Our aim is to integrate ESG fully and credibly into all our core processes, future-proof our business model and actively invest in innovative ESG opportunities. Hence, ESG shall become a part of our corporate DNA. With the latest programme, "Swiss Life 2024", Swiss Life Asset Managers made ESG an integral part of our new corporate strategy cycle.

For over 160 years, Swiss Life Asset Managers has managed the assets of the Swiss Life Group and of institutional and private clients. As a European investor and asset manager, we bear a responsibility to both society and the environment, in addition to our fiduciary obligations to our clients. We believe that by evaluating environmental, social and governance (ESG) criteria along with financial metrics and risk factors, we achieve a more sustainable outcome over the long term and consequently enhance the quality of our investment portfolios.

Swiss Life Asset Managers' core values are fiduciary duty, intergenerational responsibility and active stewardship. For us as an asset manager committed to fiduciary duty, responsible investments are not only a means to steer capital flows towards sustainable development, but also an important tool to leverage investment opportunities and reduce corresponding risks for our investors. We trust that sound, sustainable investment solutions demonstrate their effectiveness in managing risk and generating stable returns precisely because they support and finance companies that are committed to the well-being of society and shareholders alike. We also believe that we have a responsibility to future generations to maintain prosperous en-

Swiss Life Asset Managers' ESG concept

Source: Swiss Life Asset Managers

vironmental and social surroundings as we pursue our goals. We therefore strive to innovate solutions that create economic, environmental and social value. In addition, we consider active stewardship an integral part of our ESG journey and support various initiatives and organisations to promote society's progress towards greater sustainability.

We are convinced that sustainability will trigger a fundamental change in business and society as a whole. This will require market participants to transform their existing business models and actively pursue new, future-proof and innovative business opportunities. In turn, this means that market participants that cannot manage this transformation will sooner or later be out of business. A responsible investor must deal with multiple challenges in terms of regulation, data availability, portfolio construction, risk management and client preferences. The transformation process requires organisational change and adaptation of all core processes, and the management and support of these processes requires in turn high management attention and effort. Therefore, we need to consider ESG factors in every aspect of our asset management activities and build a 360°sustainability assessment of our investments which will serve as a key input in the construction of our sustainable product offering, in order to meet the specific needs of our clients.

> *"With our ESG strategic cornerstones, we are well equipped to manage assets responsibly."*
>
> *Swiss Life Asset Managers*

Swiss Life Asset Managers pursues the ambition to become a leading address for sustainability solutions. And to act upon this ambition, we made sustainability an integral part of the new corporate programme "Swiss Life 2024". In 2021, we built a responsible investment approach around the strategic cornerstones as illustrated in the figure "Swiss Life Asset Managers' ESG strategic cornerstones" and expanded and systematised our approach to integrating ESG criteria into investment and risk management processes. For each block, concrete action plans have been defined to meet our ambition and deliver state-of-the-art sustainable solutions to our clients. In this context, we have expanded our objectives and formulated clear milestones to achieve progress and to make this progress measurable and transparent to stakeholders. Examples include our target for our directly held real estate portfolio to reduce carbon intensity by 20% by 2030 compared to 2019 (see chapter "Sustainable real estate management") or our green bond programme aiming to increase our share of investments in green bonds to CHF 2 billion, in line with the International Capital Market Association (ICMA) Green Bond Principles. The responsible investment strategy covers about 90% of assets under management. As a signatory of the Principles for Responsible Investment (PRI), we are constantly working to ensure our responsible approach is also aligned with advanced standards like the UN Sustainable Development Goals (SDGs) or the Paris Climate Agreement, as well as compliant with the various regulations in the markets we operate.

ESG is also a growth market with increased client demand for sustainable products. Beyond the integration of ESG considerations for all asset classes as a part of our fiduciary duty *(see Responsible Investment Report 2020)*, we have developed advanced sustainable products on specific ESG themes, which are aligned with our sustainable ambitions. This allows us to address the needs of our most progressive clients by providing innovative investment solutions that address key sustainability challenges. Those sustainable products have a predefined focus, target specific key performance indicators (KPIs) and/or Sustainable Development Goals (SDGs) and/or follow our exclusions and ESG integration principles. We intend to develop our sustainable investment offering across securities, real estate and infrastructure.

Furthermore, Swiss Life Asset Managers aims not only to future-proof its existing business model, but also to actively pursue new ESG business opportunities to gain competitive advantage. Investments in sector-coupled energy efficiency solutions, for instance, are a critical pillar

Swiss Life Asset Managers' ESG strategic cornerstones

Become a future-proof asset manager
With the increasing threats of climate change and resource scarcity, the general concept of sustainability and ESG is THE global trend of this century. The financial sector will play a crucial role in supporting the transformation to a low-carbon economy. Swiss Life AM aims to embed ESG into its corporate DNA and take all necessary steps to become THE address for sustainable investment solutions by 2024.

Consistent implementation
Our ESG approach is fully implemented in all our core processes, covering all asset classes in the business units PAM, TPAM and RE as well as all relevant functions. ESG as a corporate function fully embedded into our corporate governance.

Start a movement
We understand that another crucial part of our fiduciary duty is to ensure high transparency in our investment decisions and communications as well as compliance with regulatory and legal requirements.

Credible products
As the address for sustainable investment solutions, our product portfolio is aligned with the corporate purpose and convictions of ESG. Hence, a future-proof product portfolio fulfils all regulatory requirements in terms of ESG, is innovative and distinctive in the market with proprietary ESG approach, providing investors the requested risk and return profiles.

Energy efficiency
We evaluate new business opportunities in the area of energy efficiency in real estate and infrastructure providing innovative solutions for the increasing energy demand while supporting the careful use of resources. With these business opportunities, we diversify our fee business, offer innovative investment opportunities for our investors and reduce sustainability risks of our own real estate balance sheet portfolio.

Active steward
As an active steward we take responsibility for the overall ESG developments in the market. With our top results in various ratings and our contributions to initiatives, memberships and sponsoring, we actively shape the market perception of ESG.

Source: Swiss Life Asset Managers

of our future strategy. We intend to build in-house expertise in energy efficiency, encompassing new and renewable technologies, to accelerate the decarbonisation of real estate portfolios. In this context, we focus on investments in solar energy, low-carbon heating, cooling, ventilation and e-mobility, as well as the management of the corresponding resource consumption data. It is our ambition to achieve financial benefits for property owners, tenants and Swiss Life.

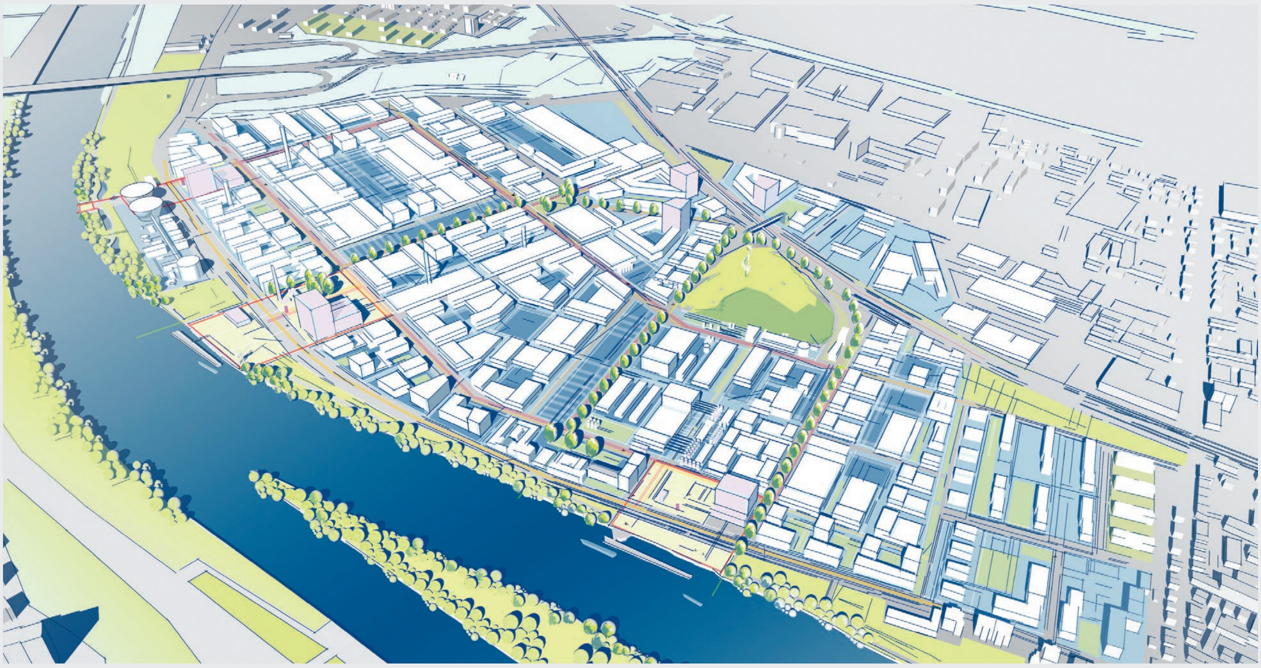
With a sound ESG governance body and plan in place, we are well equipped to navigate our assets through the ESG landscape. The following chapters outline the planned route over the coming years, targets and concrete insights into our ESG activities for each asset class: real estate, infrastructure and securities.

Case study

Griesheim development: New energy-efficient commercial district to be built

The Griesheim Industrial Park with its roughly 770,000 m² is located in the western part of Frankfurt. The site has its origins in the early 1850s and has been used for chemical production ever since. From 2017 on, the discontinuation of many chemical companies' business initiated a structural change of the site.

At the beginning of 2020, BEOS, Swiss Life Asset Managers' real estate specialist in Germany, initiated a large-scale revitalisation process to transform the site into a modern, innovative



Visualisation of the future Griesheim Industrial Park. *Source: AS+P*

and mixed-use commercial district. In the current pre-development phase, the foundations in terms of building law and infrastructure development are being laid. At a later stage, extensive building developments in the fields of urban production, light industrial, last-mile logistics, office, R&D and data centres will follow. Based on a sophisticated open space concept, the industrial park, which was previously closed to the public, will not only be made accessible but will also invite people to explore and linger on the site.

The general aim is to achieve long-term climate-neutral operations and a responsible use of resources across all areas of consideration. Specific attention will be given to a state-of-the-art sustainable energy network that uses heat exchangers and pumps to circulate both heating and cooling within the park. The heating source is planned to be provided solely by the data centres' excess heat and cooling will mainly be achieved through using water from the nearby river Main. The heat exchangers and pumps themselves are planned to be powered by on-site photovoltaic systems. With the help of a new powerful digital infrastructure, not only will all consumption within the park be monitored and controlled, but synergies and potentials of integrating sectors (e.g. electrical power and mobility) can be exploited.

In terms of transportation, the area will be partially redeveloped, with the focus on user-friendly and future-oriented mobility solutions that meet users' needs. In addition to the development of an own cycle path network within the district, the interfaces to the public transport system will be strengthened and comprehensive offers around electric mobility will be created.

Last year, the district development of the Griesheim Industrial Park was already awarded with the DGNB (German Sustainable Building Council) platinum pre-certificate.

Sustainable real estate management

The UN Climate Change Conference in Glasgow (COP26) highlighted that in tackling global sustainability challenges, among others, attention needs to be focused on real estate. As a leading real estate investor, we are committed to fulfilling our responsibilities and have a newly designed decarbonisation pathway for our direct real estate assets.

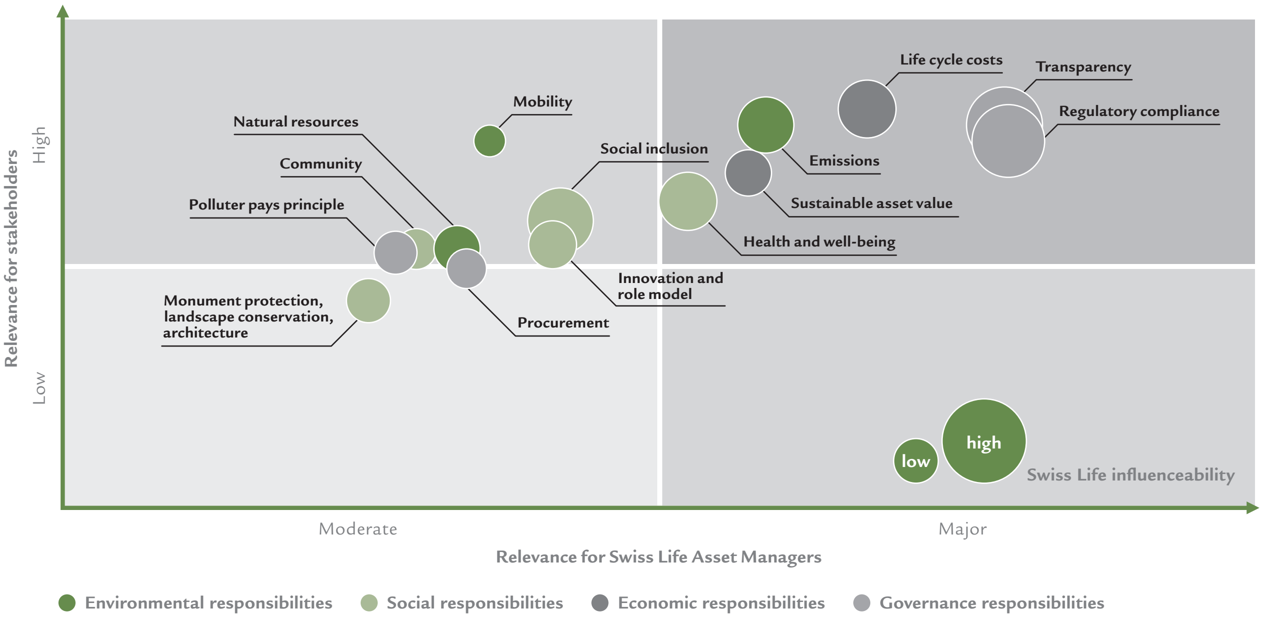
Which ESG topics does Swiss Life Asset Managers tackle in real estate?

Climate change and social factors: Swiss Life Asset Managers' main ESG focus areas for real estate

At present, the real estate sector is simultaneously at risk of being negatively impacted by physical climate risks while at the same time playing a substantial role in exacerbating climate change by being a major contributor of global CO_2 emissions. Swiss Life Asset Managers aims to concurrently take advantage of new investment opportunities, such as energy-efficient buildings, and implementing carbon-reducing measures for properties in our existing portfolios to reduce risks of devaluation.

Materiality matrix of Swiss Life Asset Managers Real Estate to navigate among our ESG concept

The size of the bubbles depicts the influenceability of Swiss Life Asset Managers – i.e., how well we can control/direct the aspects.



Source: Swiss Life Asset Managers

Real estate also has the potential to influence the social realm, including health and well-being, affordability issues related to housing costs, accessibility for people with disabilities, and the availability of nearby health care facilities across different locations (urban, peri-urban, rural). By including social metrics in real estate projects, a large positive impact can be generated for the residents of the corresponding district as well as the broader society.

The environmental and social aspects are two main areas where Swiss Life Asset Managers intends to generate a lasting positive impact. Our materiality matrix shows that emission-related topics (emissions) and social factors (health and well-being, social inclusion) are of high importance to stakeholders and, at the same time, can be influenced relatively well by Swiss Life Asset Managers.

Data coverage, stakeholder engagement and ESG regulatory challenges

Swiss Life Asset Managers encounters multiple challenges in attempting to generate this impact. Like other market players, Swiss Life Asset Managers faces a major data coverage challenge: this constrains the efficient integration of ESG into real estate management. Consumption data is often protected by data privacy laws, and consumption data from energy providers is often connected to heterogeneous billing periods and time offsets. A further complication is the fact that costly renovations would be required for most long-standing buildings in order for accurate data to be collected on them.

Yet, our data coverage is constantly increasing, as we include necessary measures in property renovation cycles and incorporate data coverage into property management processes. A further important way to increase data coverage is through active stakeholder engagement, especially tenant engagement. A very successful tool that we apply in this regard is green leases, which contain green-related clauses, such as the allowance of data collection, minimal water consumption, and energy or waste production.

> *"By managing sustainability risks as part of our fiduciary duty, we intend to better protect value for our investors and make future-proof investments."*
>
> *Swiss Life Asset Managers*

As other sectors, real estate faces the challenge of growing ESG regulatory and reporting requirements (see also the chapter "The responsible investment landscape: ESG market and regulatory developments"). We continue to closely track regulatory developments, and we have submitted an increased number of reports to various associations and benchmarks (e.g., PRI and GRESB) explaining how we include ESG characteristics in our strategy, and what the outcomes are for the real world.

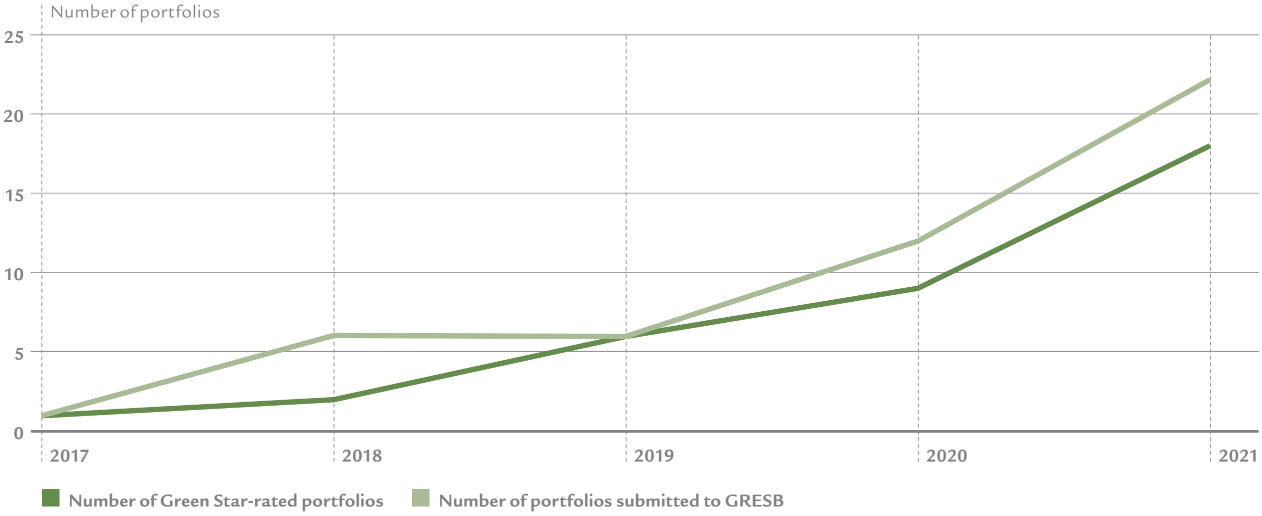
Achievements in 2021

Considering Swiss Life Asset Managers' ESG plan (see chapter "Swiss Life Asset Managers' ESG navigation route"), the next paragraphs highlight the achievements in real estate in 2021, which contributed to translating our ambition into practice.

GRESB: a significant step forward

In 2021, 22 real estate funds and vehicles were submitted to GRESB (Global Real Estate Sustainability Benchmark) covering 65% of the overall AuM, 82% of the overall PAM portfolio and 100% of the real estate portfolio in Switzerland (PAM and TPAM), with a significant improvement in ratings throughout. In 2020, 12 funds and vehicles were submitted with resulting 9 Green Stars and 60% AuM coverage. The Green Star funds have doubled from 9 to 18 funds, with the majority (81%) of our investment solutions achieving a rating of between 70 and 80 points (maximum of 100). Furthermore, Swiss Life Asset Managers' newest entity, Swiss Life Asset Managers Nordic, can proudly add to this performance with a further Green Star fund

Real estate fund and vehicle submissions to GRESB



Source: Swiss Life Asset Managers

with an above-average GRESB score. The transparency we achieve with the major GRESB participation is exceptional in the market.

Sustainability risk assessment

In 2020, we shed light on climate-related risks, as major challenges may arise in the asset management industry. In the long term, heatwaves, flooding and other natural hazards pose risks to physical assets. It is our fiduciary duty to manage funds and portfolios in a manner that mitigates and manages those physical and transitional risks due to climate change. New investment opportunities arise, such as sustainable energy-efficient buildings becoming the new market standard. Conventional properties will require investment to reduce the risk of devaluations, leading to so-called brown discounts in the future. This year, we added further scenario assessment metrics to our ongoing risk management, thereby increasing our physical and transitional climate risk understanding. The carbon reduction pathway tool, together with the scenario outcomes, enables us to better understand climate-related challenges.

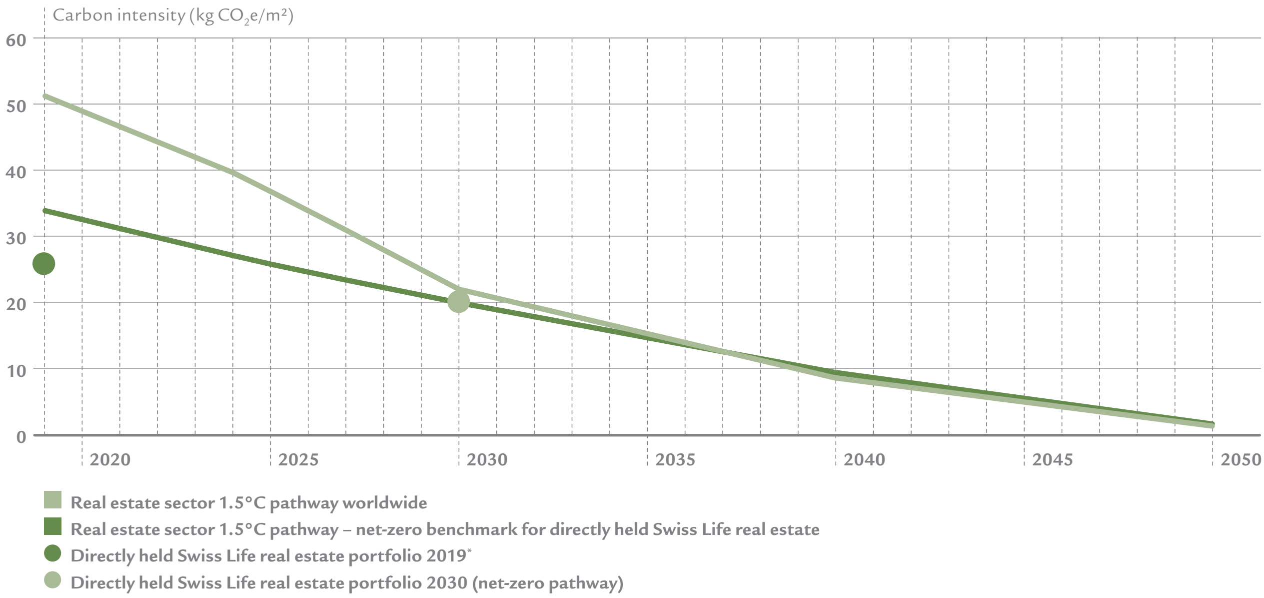
Regulatory changes: Sustainable Finance Disclosure Regulation (SFDR)

Swiss Life Asset Managers has classified 60% of its focus funds from its entire investment universe (across all asset classes) as Article 8 or 9 products under the SFDR. For real estate, we have successfully classified 100% of our focus funds as Article 8 or 9 products in 2021. In 2022, we will launch new Article 8 SFDR funds, in addition to classifying further existing funds and thereby fulfilling our ambition to provide more transparency on ESG integration and sustainable investments to investors.

ESG data integration in real estate

An internal project aims to create a sustainable global IT platform for Swiss Life Asset Managers' real estate business. The programme is designed to support the operational capabilities needed to grow the real estate business and maintain Swiss Life Asset Managers' leading position in the market. It will facilitate collaboration across all real estate entities and strengthen the quality of the pan-European fund and asset management. In 2021, the full integration of ESG into the conceptional design landscape was achieved, thereby fully integrating ESG

Carbon intensity reduction path in direct real estate portfolio (PAM)



* The carbon intensity corresponds to 63% of the floor area of the PAM real estate portfolio directly owned by Swiss Life. The greenhouse gas emissions of office buildings used by the company are included in operational ecology and are excluded from the calculation of the starting point.

Source: Swiss Life Asset Managers

data gathering, storage and analysis into daily business tools and processes, with further milestones to be achieved in the coming years.

Tenant engagement: green leases

Throughout all entities, Swiss Life Asset Managers is continually implementing green leases. Green leases are contracts which strive to increase awareness of tenants regarding their environmental impact. They go further than awareness-raising by making tenants commit to minimising their environmental impact overall. In Swiss Life Asset Managers' green leases, tenants agree to share their energy consumption data and commit to sustainable waste management and continued cooperation with the landlord. Green leases are continually being included in new contracts and added to old contracts throughout Swiss Life Asset Managers' entities.

Where does Swiss Life Asset Managers' focus lie for 2022?

Carbon reduction pathway

In 2021, Swiss Life Asset Managers examined what role the real estate portfolio plays regarding CO_2 emissions. According to the International Energy Agency (IEA)[13], all sectors including real estate should achieve climate neutrality by 2050. This scenario is the most ambitious one to date, following a 1.5°C pathway. In the net-zero emissions (NZE) 2050 scenario, the total carbon emissions from the real estate sector must decline by more than 95%, from almost 3 Gt CO_2equivalents in 2019 to around 120 Mt in 2050. The global real estate energy consumption needs to decrease by at least 39% by 2050. This implies that emissions per floor area need to be close to zero by 2050, and 85% of buildings need to be zero-carbon-ready by 2050, thereby reducing overall energy consumption.

13 Net Zero by 2050: A Roadmap for the Global Energy Sector, revised version, October 2021 (4th revision)

Building on this target, Swiss Life Asset Managers developed a carbon reduction pathway tool in line with current best practices. The tool facilitates the implementation of a 1.5°C target by 2030. The underlying model chosen is the Carbon Risk Real Estate Monitor (CRREM) 1.5°C tool, which is based on the 1.5°C Friends of the Earth scenario. The CRREM 1.5°C tool downscales the global emission targets to country-level scenarios in Europe and to each asset type, thereby allowing a better understanding of associated CO_2 risk at the asset level. The CRREM 1.5°C reduction targets are higher than those of the NZE 2050 scenario, which only includes emissions generated on site (i.e., tenant energy consumption but not embodied carbon), as they include indirect emissions from energy production and transport. Swiss Life Asset Managers' direct real estate portfolio already enjoys an advantageous starting position in terms of carbon intensity compared to the average real estate stock in the countries in which Swiss Life operates (Switzerland, Germany and France): for properties directly owned by Swiss Life for investment purposes (Proprietary Insurance Asset Management (PAM)), the current carbon intensity of 26 kg CO_2 equivalents per m² floor area is already consistent with the Paris Climate Agreement and well below the global net-zero path of the entire real estate sector, as illustrated in the figure "Carbon intensity reduction path in direct real estate portfolio (PAM)". However, the carbon intensity is to be reduced by a further 20% by 2030 compared to 2019 to stay on track with the pathway. To achieve this target, Swiss Life Asset Managers aims to invest CHF 2 billion in its real estate assets.

Building on this expertise and the carbon reduction pathway tool, Swiss Life Asset Managers encourages and advises its clients in Third-Party Asset Management (TPAM) to reduce their CO_2 emissions and be consistent with the Paris Climate Agreement. Irrespective of investors' decisions, the developed tool provides a clearer outline of the current CO_2 emissions of the portfolio and alignment with the Paris Climate Agreement.

Social inclusion

In a similar systematic vein, Swiss Life Asset Managers plans an overarching concept for the integration of social inclusion factors into its real estate portfolio. A working group with members from different business units will derive strategies on how to generate social inclusion and well-being impact across specific contexts (country, location, sector). Internal and external ESG experts will support the working group with the provision of the latest social science-based insights into demographic and socio-economic realities.

Case study

The Circle: Switzerland's biggest construction project

Swiss Life Asset Managers is managing the largest privately held real estate portfolio in Switzerland. A prime example of the portfolio is the Circle at Zurich Airport. After being Switzerland's biggest construction project, Swiss Life Asset Managers opened the Circle with a 49% ownership stake at the end of 2020. A compact construction method enabled to create an area of 180,000 m² from just over 30,000 m² floor area. A medical centre, two hotels, offices, restaurants, arts, culture and education facilities are part of the versatile building users. Besides its excellent transportation links including intercity trains, regional bus and tram networks as well as direct access to motorways and international direct flights, the Circle combines a wide range of environmental aspects. Heating and cooling are supplied via a geothermal system while electricity is sourced from photovoltaic panels on the roof of the buildings. The energy demand is greatly reduced through a sophisticated recovery system. Thanks to the high energy efficiency standards and proportion of renewable energy resources, the Circle was certified with the LEED [14] Platinum standard and is also the largest building ever certified by MINERGIE [15].

The Circle. *Source: Zurich Airport*

14 Leadership in Energy and Environmental Design (LEED) is an internationally recognised green building certification system.
15 MINERGIE is a Swiss registered quality label for new and refurbished low-energy consumption buildings.

Infrastructure

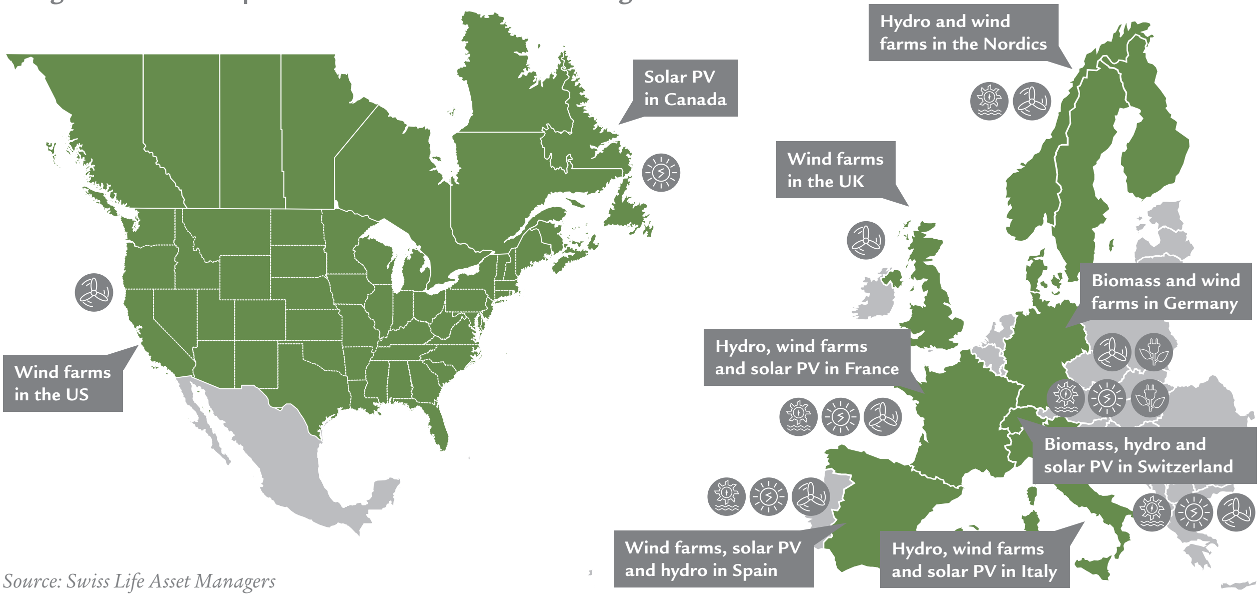
ESG and sustainability continue to be prominent as part of Swiss Life Asset Managers' infrastructure business. In addition to implementing ESG as a fundamental factor at every stage of the investment process, several initiatives have been put into action to further promote ESG within the team and our asset companies.

In March 2021, certain disclosure obligations of the EU Sustainable Finance Disclosure Regulation (SFDR) came into force, requiring fund providers to disclose internal self-categorisation of their funds based on the sustainability focus of the respective investment strategy. We are very pleased to report that as a result of our stringent adherence to ESG credentials in the target investments for our latest core products, two of our infrastructure funds qualified as Article 8 funds.

In addition to the existing ESG scoring model, which the team has implemented across all investments to date, this year, the infrastructure team introduced a comprehensive set of ESG key performance indicators for our infrastructure asset management teams. The indicators help to assess in which areas our portfolio companies are performing well against our parameters and which areas can be further improved. Other focus areas in 2021 include the review and implementation of initiatives regarding health and safety, modern slavery, anti-bribery, ethics codes, carbon footprint reporting, and corporate governance.

We continued proactively engaging our asset companies to submit assets for Global Real Estate Sustainability Benchmark (GRESB) assessments, with success; two further assets have

The global renewable portfolio of Swiss Life Asset Managers



Source: Swiss Life Asset Managers

been submitted from our second core fund, which is a great achievement. Our scores for 2021 reflect the efforts of our team in promoting ESG and GRESB submission within our assets, with much improved scores for our second core fund and a great initial score for our third core fund.

"Through sustainable infrastructure investments and ESG improvements across our infrastructure assets, we create lasting value."
Swiss Life Asset Managers

Focus on our strong investment competencies in renewables

With around 18% of the entire infrastructure portfolio invested in renewable energy facilities, renewable energy is one of the core focuses of Swiss Life Asset Managers' infrastructure business. We have developed our strong renewable energy assets into a technologically and geographically widely distributed portfolio.

More and more renewables will need to be developed in order to make the carbon-neutral energy system a reality. This ensures a continuing pipeline of new opportunities in which capital can be invested profitably. We have invested a combined EUR 1,233 million across a very broad range of renewables assets. Within those assets, around 3,000 GWh of power has been generated by heat and renewables sources, which is enough to power 500,000 homes[16]. Further to this, as a result of the power generated through our renewables sources, 1,140,000 t of CO_2 has been mitigated[17].

16 Calculated on an average electricity consumption of 6 MWh per household based on data from the OECD, the US Energy Information Administration and ODYSEE-MURE.
17 Calculated on an average greenhouse gas intensity of electricity of 380 t of CO_2 per GWh based on data from the US Energy Information Administration.

Case studies

Brisa: Contributing to the future of electric vehicle usage

Brisa – Auto-estradas de Portugal (Brisa) is a transportation company that manages a network of roads in Portugal, totalling 1,575 km (979 miles) across 14 motorways, six complementary routes and six national roads. The network is the largest in Portugal and is the backbone of the country's road system, traversing 12 of the 18 Portuguese regions.

Brisa has continued to work on its efforts to achieve operational efficiency and offset its environmental impact since its participation in the Clima 2.0 project in 2018. Brisa also scores extremely well in its GRESB assessment each year. It ranked as the most sustainable road infrastructure operator in Europe in 2020, and the second in the world. Indeed, for its environmental initiatives, the company scored a full 100 out of 100, and was given a five-star rating by GRESB, for the second consecutive year, in the three criteria of ESG.

One of the key initiatives that Brisa has implemented in 2020/21 is the Via Verde Electric project, which has seen the company develop a network of fast and super-fast electric charging points along its motorways. The charging points have become operational throughout 2021. Once the network is completed, 42 electric service stations and 82 electric car chargers will have been installed across rural areas to facilitate medium- and long-distance journeys. This will be a positive step in reducing the "range anxiety" often associated with electric vehicles

One of Brisa's main highways in Portugal. *Source: Brisa* and will significantly cut the emissions caused by long-haul road journeys. The installation of the chargers will mean that the full 1,124 km (698 miles) network of Brisa's motorways, covering a significant portion of Portugal, will be served. By creating many locations across the country where electric vehicle users can charge their vehicles (in as little as 5–15 minutes in the case of the ultra-fast chargers), Brisa is further supporting the continued uptake of these environmentally friendly modes of transportation.

The Via Verde Electric project is just one of many, and Brisa's commitment to combatting climate change through its environmental initiatives is clear. Via Verde Electric not only represents an important contribution to electric mobility in Portugal, but also strengthens Brisa's position as a green mobility services company.

Brussels Airport: Supporting the global fight against Covid-19

The past 24 months have undoubtedly been very difficult for the global aviation industry. Despite this, Brussels Airport has mobilised support in the fight against Covid-19, through early safety initiatives and the provision of transport for essential vaccines.

In June 2020, Brussels was selected by the European Union Aviation Safety Agency (EASA) as a pilot airport for the implementation of operational recommendations linked to Covid-19. By taking part in this initiative, Brussels Airport was able to test-run best practices, monitored by

Vaccines waiting airside to be transported at Brussels Airport. *Source: Brussels Airport*

EASA, and help develop new ones, which ultimately contributed to the safety and protection of passengers not only at Brussels Airport but also in the wider aviation industry.

One of the first measures to be implemented at the airport was body temperature checks. Body temperature check cameras were placed on the pavement in front of the departures hall at Brussels Airport to ensure that no passenger with a temperature higher than 38°C would be able to enter the terminal, and for those passengers who were in transit through the airport, mobile body temperature monitoring units were set up at strategic points. Another measure was the establishment of on-site mobile testing labs to administer rapid Covid-19 tests, which helped to instil a sense of safety among both passengers and airport employees by enabling departing and returning passengers to take a rapid Covid-19 PCR test on site.

Perhaps the most important role that Brussels Airport has played during the pandemic has been in the transportation of Covid-19 vaccines. As the most important hub serving the pharmaceutical industry in Europe, Brussels Airport has been crucial in the distribution of the Pfizer-BioNTech Covid-19 vaccine. The very first flight carrying vaccines flew from Brussels Airport, and since the end of November 2020, vaccines have been flown to more than 40 destinations.

In its handling of the Covid-19 crisis, Brussels Airport has demonstrated its commitment to social responsibility, in terms of the safety of passengers and employees at the airport, overall public health, and the willingness to implement new measures and guidelines to ensure the safe continuation of aviation activities. In doing so, Brussels Airport is in alignment with Sustainable Development Goal 3 (SDG3) of the United Nations (good health and well-being).

GR Value Development: Reinventing agriculture through clean-energy generation

Agrivoltaic systems combine clean-energy generation with agriculture. These systems are designed to combat the use of large amounts of agricultural land for renewable energy production – for example, the installation of solar panel farms. As renewable energy is set to increase in the energy transition, so too will the need for land to facilitate its production. GR Value Development is promoting two neighbouring plants of this kind in the municipalities of Galatina and Nardò in southern Italy.

The project provides for the installation of photovoltaic modules in alternate rows, with a 5.5-metre distance between each row, allowing crops to grow between the lines of photovoltaic panels and granting accessibility to agricultural machines. In addition, the plant perimeter is fenced by a double row of olive and lemon tree plantations. Agricultural activities will be managed biologically with cultivation cycles including garlic, spinach, broad beans and rocket. Once operational, the power plants will generate annual electricity of 38+ GWh from solar resources, which is enough to cover the electricity consumption of more than 12,000 households.

Soil consumption optimisation is also a priority for the deployment of new clean-energy generation capacity. GR Value Development mainly targets non-cultivated land, promoting its recovery and reutilisation for growing crops. Emphasis is placed on the selection of local product varieties, production of which would otherwise not be economically viable, thus bringing back traditional crops to the territories. The objective is to promote a process of experimentation, together with research centres, universities and local entrepreneurs, aimed at preserving biodiversity and exploring new agribusiness opportunities.

Holzheizkraftwerke Cuxhaven: Supporting decarbonisation in the energy sector and increasing sustainability in the energy and transport sector

In 2016, the Holzheizkraftwerke Cuxhaven (HHC) project was initiated by developers with the intention of contributing to the decarbonisation of the energy sector. The project has undergone a rigorous optimisation process in order to achieve the perfect mix of as many forms of energy and sectors as possible, finding the resources necessary for a high degree of local production.

The project, which is currently under construction, consists of a power plant that will produce electricity from biomass, in the form of wood chips, for the German electricity market, and a district heating network partially operated by highly efficient combined heat and power units. This district heating network will provide the local community with a sustainable heating solution and will help them to reduce fossil-fuel energy consumption. Several connection points for the local shipping industry in the Cuxhaven harbour will be built to support the transition towards a greener maritime transport sector in the North Sea.

Due to its renewable and efficient nature, the HHC project will be run under the Renewable Energy Act and will be supported by other initiatives to decrease carbon output over the long term.

From the beginning of 2023 on, HHC is expected to provide approximately 140 GWh/year of electric power and 22 GWh of heat from sustainable, renewable resources. As well as supplying the local heating and electricity network, HHC will also substantially lower the CO_2 output from inland and seagoing vessels by providing them with district heating and electricity.

The harbour of Cuxhaven will become the first harbour in Germany to carry out such a project.

Energy production from biomass – a reliable and effective way to combat climate change

Biomass, mostly derived from plants and, as in our HHC project, from sustainably sourced wood chips, is a renewable source of energy which is widely available across the globe. With the ability to replenish itself over only a few years, biomass is a highly reliable and essentially infinite resource.

Contrary to fossil fuel combustion, where large quantities of surplus CO_2 are released into the atmosphere without a natural sink to absorb the greenhouse gas, the CO_2 emissions from burning plant-based biomass can be virtually kept balanced at net zero. This is due to the inherently fast natural growth cycle, in which plants sequester CO_2 for re-growth on a continuous basis.

In order to utilise the positive effects of wood chips, sustainable biomass management is crucial to maintaining availability and avoiding overuse as well as the associated adverse impact on the environment. HHC therefore intends to only burn certified wood products which adhere to several sustainability standards. Additionally, these wood chips stem from byproducts or undesirable residue of the forestry industry which cannot be used for production of construction materials or furniture, increasing the efficiency of the industry. To keep supply chain emissions low, the wood is sourced locally.

ESG integration for securities

In 2021, the relevance of active stewardship – influencing business activities and company behaviour – continued to rise. Indeed, both ESG concerns related to public health triggered by the Covid-19 pandemic and the tightening pressure around climate change, reflected in the UN Climate Change Conference in Glasgow (COP26)[18], led investors to redirect their capital towards a more sustainable world. To fulfil our ambitions in relation to active stewardship, we launched a pilot project on company engagement while continuing to exercise our voting rights.

Five building blocks encompassing ESG in securities

ESG data, sustainability assessment, sustainable product offering, active stewardship and reporting

In the *Responsible Investment Report 2020,* we provided an in-depth overview of ESG integration into the securities area. In 2021 and in alignment with the "Swiss Life 2024" programme, we have further developed our securities investment approach around five blocks: ESG data, sustainability assessment, sustainable product offering, active stewardship and reporting. For each block, we defined concrete action plans and set respective working groups to meet our ambition and to deliver state-of-the-art sustainable solutions to our clients. This includes leveraging of relevant ESG data to build innovative and reliable product solutions which speak to our clients and are in line with regulatory requirements, assess sustainability risks and opportunities with distinctive and credible measures, promote sustainable practices among our stakeholders through an encompassing engagement strategy and proxy-voting policy and to properly monitor and report on our sustainability journey.

Weighted average carbon intensity of Swiss Life Asset Managers' PAM securities portfolio* as at 31.12.2021

Asset class	Unit	2021**
Government bonds	t CO_2e/USD million nominal GDP	188
Corporate bonds	t CO_2e/USD million sales	148
Equities	t CO_2e/USD million sales	142

* In the context of this report, government bonds only comprise bonds issued by states. Corporate bonds also include covered bonds as well as bonds issued by state-affiliated companies and supranationals. This deviation from other financial publications is due to the calculation logic underlying the carbon intensity. The slightly refined methodology does not lead to significant changes in the weighted average carbon intensity values.

** The weighted average carbon intensity values correspond to more than 90% of the amortised costs of the analysed PAM government bond portfolio, more than 90% of the amortised costs of the analysed PAM corporate bond portfolio and more than 90% of the market value of the analysed PAM equity portfolio of the Swiss Life Group.
 Data from MSCI ESG Research LLC is as at 31 December 2021.

Source: Swiss Life Asset Managers

18 26th session of the Conference of Parties.

Our strategic sustainability efforts already revealed first achievements. Referring to the sustainability assessment block, Swiss Life Asset Managers' PAM securities portfolio has a lower overall weighted average carbon intensity than relevant benchmarks.

The weighted average carbon intensity values of the PAM government bond and corporate bond portfolio have remained at their prior-year level *(see TCFD Report)*. The weighted average carbon intensity of Swiss Life Asset Managers' PAM government bond portfolio reflects our strong presence in our domestic markets.[19] In addition, 100% of our PAM government bond portfolio is invested in countries that have ratified the Paris Climate Agreement. The weighted average carbon intensity of Swiss Life Asset Managers' PAM corporate bond portfolio reflects the strong presence of service-oriented industrial sectors in our investments.[20]

Since we partially pursue replicating equity index strategies for Swiss Life Asset Managers' PAM equity portfolio, the weighted carbon intensity of the PAM equity portfolio is not affected by targeted over- and underweighting based on selected characteristics. Swiss Life Asset Managers invests, among others, in bonds issued by countries and companies with an overall low carbon intensity. As an investor, however, we cannot directly control the carbon intensity of the issuers.

Regarding the sustainable product offering, we were able to launch innovative products in the equity impact and green mortgages field. Further, Swiss Life Asset Managers categorised its third-party products based on the EU SFDR regulation, transferred various products to Article 8 under the SFDR and adjusted the public documents accordingly. In a further step, we used the gained insights to analyse the proprietary insurance asset management portfolio in accordance with the SFDR. In doing so, we started examining the question of which measures are necessary for the entire portfolio to have an ESG strategy or to be declared as compliant with SFDR Article 8.

Another building block and key component of Swiss Life Asset Managers' responsible investment approach in securities is active stewardship. The next sections deep-dive into our stewardship practices by showing how we actively exercise our voting rights, but also how we enter dialogues with various stakeholders and organisations.

Active stewardship in securities

Active stewardship encompasses both engagement and voting as formalised in our Engagement and Voting Policy. A summary of our active stewardship for securities can be found in the table "Overview of our active stewardship activities for securities". Proxy voting has been the primary engagement activity for securities so far[21]. In 2021, we launched the Voting Disclosure Service (VDS) in cooperation with ISS Inc., which is an interactive dashboard of our voting statistics to provide enhanced transparency on all our voting efforts.

Furthermore, in the pursuit of further improving our active stewardship pillar, we launched a pilot on engagement consisting of 1) one-to-one dialogues with listed companies and 2) the Swiss Life Asset Managers engagement survey. The following two sections describe the pilot project and report our key learnings and next steps.

19 For instance, Switzerland has a lower carbon intensity compared to many other countries.
20 On average, service-oriented industrial sectors have a lower carbon intensity than other industry sectors.
21 A detailed description of our proxy-voting activity and how we analyse voting items related to environmental and social topics at our investees' annual general meetings can be found in our *Responsible Investment Report 2020*.

Overview of our active stewardship activities for securities

	Activities
Voting	– Voting based on volume thresholds – Voting on all environmental and social topics based on our watchlist
Engagement	– In-house and third party – Corporate dialogue: pilot – Engagement survey: pilot
Collaborative engagement	– Climate Action 100+: General Electric
Public policy engagement	In addition to our active ownership efforts, we promote responsible investment by providing resources and know-how to industry and sustainability associations. We are signatories or active members of:

Source: Swiss Life Asset Managers

1) Pilot: company dialogues

To align with our active stewardship pillar, we launched a company dialogue pilot to develop a robust and efficient proprietary engagement approach.

The figure "Various steps of our pilot exercise" shows an overview of our engagement process for corporate dialogues. First of all, the working group, consisting of ESG team members and portfolio managers, defined selection criteria to derive an engagement universe and potential target companies. We screened our portfolio based on MSCI ESG data and selected companies which match one of the criteria listed in the table below:

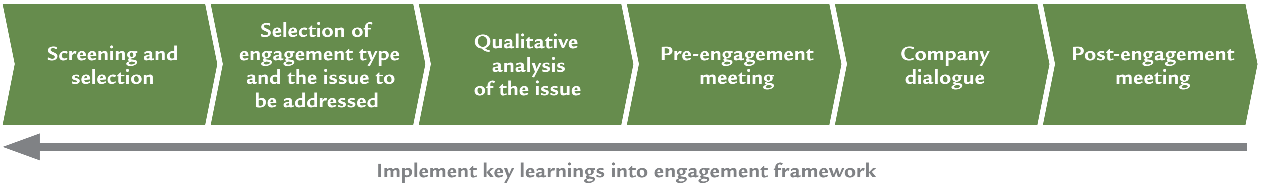
Selection criteria		
MSCI ESG rating	CCC rating or	B rating and orange flag (simultaneously)
MSCI ESG controversy flag[22]	Red flag	
Carbon emissions	Carbon intensity (scope 1 and 2) >2,000 t of CO_2e/mUSD	Worst-in-class emitters: carbon intensity (scope 1 and 2)
UNGC[23] principles	Failure of UNGC principles	

Once the engagement universe was defined, the portfolio managers and the ESG team analysed the universe qualitatively and selected five issuers for a one-to-one dialogue. To identify those target companies, indicators such as the potential for ESG improvement of the issuer, expected engagement success and ESG efforts, among others, were considered. We used our data providers as well as companies' public reports and news to run the selection analyses and to decide on the dialogue topics.

All dialogues were conducted via video conference and were attended by both ESG team members and portfolio managers. After the meeting with the company, an internal post-engagement meeting was set up where we shared our key learnings and defined the next steps to refine our future engagement framework.

22 Indicator to analyse companies' involvement in ESG controversies. Further information can be found in MSCI ESG Research, Controversies and Global Norms, Executive Summary, Methodology, July 2020.
23 United Nations Global Compact.

Various steps of our pilot exercise



Source: Swiss Life Asset Managers

Key learnings from corporate dialogues

In the pilot phase, we conducted corporate dialogues with representatives from the energy, consumer, mining, utilities and transportation industries based in North America, South America, Europe, Asia and Australia. Out of the anticipated six corporate dialogues, we were able to conduct five, as one engagement request remained unanswered. The key learnings for the corporate dialogues can be summarised as follows:

Getting in touch and setting up a meeting with the issuers can be a lengthy process. On average, it took up to two months from the first contact to the actual meeting. An existing relationship with the company and the involvement of the relevant investment bank contacts (e.g., the main partner of the investee to issue new debt) were helpful in connecting us with the respective company.

Some engaged companies had divergent opinions regarding the data providers' assessments and appreciated the opportunity to share their views on the controversies and rating methodologies. We identified that issuers perceive that the assessments and the process of some data providers lack transparency and that the dialogue between issuers and ESG rating providers is limited.

We identified four major reasons for insufficient disclosures related to ESG topics:

1. Lack of resources: lack of financial resources, or lack of dedicated individuals to address the issues.
2. Low visibility: the complexity and interdependencies of some controversies make it difficult to properly trace and analyse the root cause of the issue for the company.
3. Regulatory environment: due to the fast-evolving regulatory requirements, early adoption can be costly and past efforts can be useless and be overridden by new regulations, which seems to lower the willingness to adapt quickly.
4. Communication issues: some companies took relevant measures to address the controversies but struggled to communicate them properly to the public and the data providers.

One-to-one dialogues are very useful for gaining additional insights into the ESG concept of the companies and could help solve potential gaps in the companies' disclosures.

Case study

BHP

BHP produces various commodities, including iron ore, copper, metallurgical coal and crude oil. Their main production operations are located in Australia and the Americas. While BHP has an MSCI ESG rating of A, they have attracted attention due to controversies in relation to the environment and local communities. A major issue was the Samarco dam failure in 2015 in Brazil, which caused severe environmental and property damage as well as multiple casualties. BHP owns 50% of the shares in Samarco (with Brazilian mining company Vale owning the other 50%) but is not the operator of Samarco's assets; Samarco has an independent management team.

We had the chance to engage in a direct dialogue to discuss BHP's action plan to tackle these issues. The widespread impact of this incident prompted BHP to launch a range of remediation programmes, such as environmental work, financial compensation and rehousing. These programmes are being delivered by the Renova Foundation, with the support of Samarco, BHP and Vale. At the same time, the local infrastructure, regulation and authorities proved to be challenging and made it difficult to complete these programmes in a timely manner, and BHP (and the other parties) are still in the process of resolving the controversy in Brazil.

The discussion with BHP representatives helped us to understand the challenges they face and what efforts they have made to resolve the controversies. It helped us to go beyond the management of credit risk and to integrate reputational and transition risks into our analysis of the issuer. Doing a prudent analysis based on publicly available information on the various remediation actions of the company allows us to make more informed decisions regarding what the next steps of our engagement approach should be and how we should monitor the company's progress. Furthermore, the discussion provided us with additional insights into the company's ESG strategy, which is key for further investment decisions.

2) Pilot: Swiss Life Asset Managers engagement survey

As mentioned previously, we introduced the Swiss Life Asset Managers engagement survey as a proprietary engagement tool. During the pilot project, we learned that one-to-one meetings require considerable in-house resources. A survey allows us to standardise the process of gaining insights into companies' ongoing controversies, remediation and mitigation actions, and compensation efforts, and it also enables us to monitor progress towards the resolution of the controversies. In the pilot phase, we created two surveys with different aims.

The first survey focused on the portfolio companies' governance, business practices and disclosures on climate change, human and labour rights, and social inclusion. Its intention was to close data gaps and evaluate a company's ability to address those topics. To collect the desired data, and subsequently evaluate the information provided, we sent out a questionnaire to 10 companies and received three responses in return. The responses were valuable in complementing company data that is not covered by our data providers.

The second survey focused on controversies that portfolio companies are confronted with. The purpose of this survey was to foster our understanding of the governance, preventive, corrective and compensation measures related to the controversy, as flagged by MSCI ESG research (see overview of survey content in the table "Engagement survey (controversy focus)"). We sent the survey to five companies and received one response. We expect to use the results to better understand the risks related to the issue at hand and to estimate a company's ability to manage these risks going forward.

Engagement survey (controversy focus)
Part 1: Reason for the controversy
Part 2: Materiality of the controversy for business operations and stakeholders
Part 3: Preventive, corrective and compensation measures (evidence required)
Part 4: Actions regarding internal governance (evidence required)
Part 5: Comments and remarks

Outlook

The engagement pilot phase provided valuable learnings to further refine our engagement activities. In particular, the outcomes of the corporate dialogues and the engagement survey helped us to understand the guidance and support required by portfolio managers to conduct a fruitful company dialogue, which is essential for measuring the progress of the companies and assessing the outcomes of our engagement initiatives objectively. We also learned that the response rates in our surveys were relatively low. Going forward, we need to think of ways to incentivise companies to increase participation.

Furthermore, we identified the need for the development of a "decision tree" to better structure our engagement framework. A decision tree with predefined rules and criteria will help us to identify investees with whom we expect to have a better chance of exercising a positive influence, as well as what the most suitable type of engagement for a given company is. This will help to set out the possible outcomes and escalation process of our engagement efforts.

It is our belief that a robust engagement framework will enable us to lead successful engagement activities that will help to foster more sustainable business practices, likely resulting in companies improving both their financial and non-financial performance.

Summary and outlook

The increase in capital flows into ESG assets continues to transform financial markets in their shift towards greater sustainability. This brings new challenges, including increasingly complex ESG regulations and difficulties in measuring ESG returns.

New challenges require new business solutions. At Swiss Life Asset Managers, we believe that we can find the best possible solutions by building ESG expertise across all business units and employees. That is why we continued strengthening our ESG governance framework in 2021. Our sound ESG governance is reflected in the steady progress of ESG projects for all of our asset classes. We have increased the transparency across our real estate and infrastructure portfolios and set significant carbon reduction targets for our direct real estate investments. In the securities field, we advanced our investment approach with a new encompassing framework and established a base to further improve our engagement efficacy.

Given that the challenges in sustainable markets will likely persist, Swiss Life Asset Managers will continue to innovate responsible investment solutions. The insights into the progress of our ESG projects in this report underscore the effectiveness of our responsible investment approach. With our steadily growing ESG expertise, we are confident that we will continue to successfully pave the way towards more sustainability.

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