



*Swiss Life Collective Foundation 2nd Pillar, Zurich*  
(the Foundation)

# Investment regulations

**Effective date: 1 January 2018**

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## Art. 1 General

### 1 - Basis

The Board of Trustees of Swiss Life Collective Foundation 2nd Pillar ("Foundation") issues the following investment regulations, based on Art. 3 of the foundation charter.

### 2 - Purpose

The investment regulations set out the investment principles, including the objectives, strategy and guidelines, within the framework of the provisions of the BVG and BVV 2. They govern investment organisation and contain information on the accounting principles.

## Art. 2 Investment principles

### 1 - Investment objectives

Investing the fund assets ensures that the total return together with the contributions are enough to guarantee the long-term provision of benefits by the foundation.

The investment policy objectives of "liquidity", "security" and "income" must be reconciled with the requirements of the actuarial situation. Due consideration is to be taken of the risk capacity of the overall portfolio.

The objective is to achieve a total return in line with the market, which enables the foundation to build up appropriate reserves and provisions in the medium term, while taking into account all sources of funding. Care must be taken to avoid disproportionate risks and to ensure optimum diversification of investments.

Ongoing liquidity planning ensures that the collective foundation always meets its payment obligations on time.

### 2 - Investment strategy

The Board of Trustees sets the investment strategy in order to achieve the investment policy objectives. It mainly concerns the strategic allocation of total assets to the individual investment categories. In addition, the Board of Trustees determines the tactical investment scope for related divergences in the form of bandwidths per investment category. The investment strategy is reviewed regularly.

The current investment strategy, including bandwidths, is shown in the appendix I.

### 3 - Investment guidelines

The following specifications are to be observed when selecting investments:

#### Liquid assets

Account balances can be held at top-class banks and Swiss Post. Liquid assets include time deposits, other bond money market investments and bonds with a maximum remaining maturity of 12 months.

#### Debt securities

In addition to the above-mentioned liquid assets, the following debt instruments for fixed monetary amounts are permissible:

- Medium-term notes,
- Bonds, including those with conversion or option rights,
- Covered bonds,
- Swiss mortgage deeds,
- Promissory notes issued by Swiss public-sector entities,
- Surrender values under group insurance contracts,
- In the case of investments which are geared to a conventional, broad-based and widely accepted bond index: the debt instruments included in the index.

All other debt instruments constitute alternative investments, in particular:

- Debt instruments not for a fixed monetary amount or for which full or partial repayment is subject to conditions,
- Debt instruments such as asset-backed securities or other debt instruments created in the process of a risk transfer, such as debt instruments transferred to a special purpose vehicle or debt instruments based on credit derivatives,
- Senior Secured Loans.

Permissible debt securities have an average rating of at least "BBB+" according to Standard & Poor's or a similar agency. Unless otherwise stipulated in the investment strategy, only investment grade borrowers are considered.

Investments can be indexed, closely track the index or be active.

#### Equity securities

Investments can be indexed, closely track the index or be active.

#### Real estate

Only well diversified indirect real estate investments are permitted. Investments can be indexed, closely track the index or be active.

#### Alternative investments

Only well diversified collective investments, which are either supervised by the OAK BV (investment foundations), FINMA (investments regulated by Collective Investments Act (KAG)) or a similar foreign authority, are permitted. In the case of investments, there is to be no additional payment obligation for the foundation.

#### Collective investments

Swiss and foreign collective investments, which comply with the above guidelines and are governed by the OAK BV, FINMA or a similar foreign supervisory authority, may be applied. The assets contained in such collective investments must be allocated to the various investment categories in order to comply with the limitations under BVV 2 and the internal bandwidths.

#### Derivative instruments

The use of derivative instruments is permitted. However, only derivatives with underlying instruments permitted as investments under the above guidelines may be used. To comply with the limitations under BVV 2 and the internal bandwidths, the so-called economic exposure is definitive.

#### Expansion of investment opportunities

The Board of Trustees may expand investment opportunities in accordance with Art. 50 BVV 2, if the risk capacity so permits. Compliance with Art. 50 paragraphs 1-3 BVV 2 must be documented conclusively in the notes to the annual report.

#### Securities Lending

Securities can be lent for a fee (securities lending), provided the intermediary bank guarantees securities in line with the market. The relevant requirements of the Collective Investments Act (KAG) are to be complied with.

## Art. 3 Investment organisation

### 1 - Management organisation

The Board of Trustees has issued organisational regulations governing the management of the foundation. As regards asset management, the management organisation comprises three levels:

- a) Board of Trustees
- b) Investment Committee
- c) Management

## 2 - Responsibilities and competencies of the Board of Trustees

The Board of Trustees

- is responsible for the investment strategy and asset management in general; issues these investment regulations and monitors their compliance
- approves the investment strategy, including the tactical bandwidths, and checks them at regular intervals
- elects an Investment Committee and its chairman; determines the responsibilities and competencies of the Investment Committee and defines members' compensation.
- approves the contracts associated with asset management and, in particular, appoints an asset manager
- ensures that asset management is monitored appropriately and that the affiliated Vorsorgewerke (employee benefits units) are regularly informed of investments.

## 3 - Responsibilities and competencies of the Investment Committee

- The Investment Committee is elected by the Board of Trustees. It comprises at least three members and can also include internal or external specialists (with or without voting rights). The Investment Committee is the professional body responsible for the foundation's asset management. It prepares investment-related decisions on behalf of the Board of Trustees and is responsible for their execution.
- The Investment Committee advises the Board of Trustees on the formulation, implementation and monitoring of the investment strategy and the investment regulations and, in the case of selection of an asset manager, on his/her briefing and monitoring. It also issues the basis of decision-making if amendments are necessary or appropriate.
- The Investment Committee is the link between the asset manager and the Board of Trustees. It determines the duties and the management mandates for the asset manager and suggests an appropriate investment organisation. It submits a report on asset management activities to the Board of Trustees at least every quarter. The Board of Trustees can request reports at shorter intervals, if necessary.

## 4 - Responsibilities and competencies of management

- The foundation's management is responsible for liquidity control, planning processes, accounting and payment transactions. It provides the Board of Trustees and the Investment Committee with a regularly updated analysis of targeted returns depending on contributions and payments, and cash flow projections, as a basis of investment process decision-making.
- Management checks the monitoring of investments and supports the Investment Committee in its work. In particular, it monitors compliance with the investment regulations and the investment strategy as well as investment returns and the investment risk on behalf of the Board of Trustees.
- Management regularly informs the affiliated Vorsorgewerke of the performance of investments on behalf of the Board of Trustees.

## 5 - Asset manager

Only an institution which is supervised by FINMA or an equivalent foreign supervisory authority may be appointed asset manager. The Board of Trustees concludes a written contract for a mandate with the asset manager.

The asset manager issues a report at regular intervals on investment activities and the investment results achieved.

## 6 - Loyalty provisions

- Persons entrusted with asset management must have a good reputation and provide assurance of proper business conduct. They are subject to the fiduciary duty of care and

must safeguard the interests of the foundation's insured persons when carrying out their work. The persons entrusted with asset management are listed in Appendix II.

- Persons and institutions entrusted with asset management must be authorised to do so and provide assurance that they comply with Art. 51b, cl. 1 BVG and Art. 48g to 48l BVV 2.
- Every personnel change in asset management as well as the completion of verification of the assurance of loyalty and integrity on the part of the new persons entrusted with asset management must be reported to the responsible supervisory authority without delay. In the case of external persons, only changes in contract partners (financial institutions) are to be reported; changes in natural persons (employees of financial institutions), on the other hand, do not need to be reported.
- External persons entrusted with asset management or financial beneficiaries of companies entrusted with such tasks may not be represented on the Board of Trustees.
- Asset management contracts must be able to be terminated at the latest five years after conclusion with no adverse effect on the foundation.
- In the case of major legal transactions (in particular conclusion of a global custody agreement; conclusion of contracts in asset and real estate management as well as investment management; purchase and sale of directly owned real estate) with related parties, offers from competitors must be obtained. The placing of contracts must be carried out with complete transparency.
- Own-account transactions: Persons and institutions entrusted with asset management must act in the interests of the foundation. In particular they may not:
  - exploit knowledge of the foundation's mandates in order to execute corresponding transactions for their own account in advance, in parallel or immediately afterwards ("front running", "parallel running", "after running");
  - deal in a security or investment if the foundation deals in the same security or investment and might be disadvantaged by this; participation in such business in another form has the same status as trading;
  - reallocate the foundation's custody accounts if it is not in the economic interest of the foundation.
- Surrender of financial gain: Persons and institutions entrusted with the foundation's asset management must clearly record the type and method of compensation and its amount in a written agreement. They are obliged to hand over to the foundation all financial gain which they additionally receive in connection with the exercise of their duties for the foundation.

The guidelines on token gifts are defined in Appendix III.

- Disclosure
  - Persons and institutions entrusted with asset management must disclose their interests to the Board of Trustees on an annual basis. This also includes in particular beneficial ownership of companies which are in a business relationship with the foundation. The Board of Trustees discloses this information to the statutory auditors.
  - Persons and institutions entrusted with asset management for the foundation must supply a written declaration to the Board of Trustees every year that they have surrendered all financial gain in accordance with Art. 48k BVV 2.
- Only the following may be entrusted with the investment and management of the pension fund assets as external persons and institutions:
  - Banks pursuant to the Federal Law on Banks and Savings Banks
  - Securities dealers pursuant to the Federal Act on Stock Exchanges and Securities Trading

- Fund management companies, asset managers of collective investments pursuant to the Federal Law on Collective Capital Investments
- Insurance companies pursuant to the Federal Law on the Supervision of Insurance Companies
- Financial intermediaries operating abroad, who are subject to equivalent supervision by a recognised foreign supervisory authority.

#### 7 - Exercise of shareholder rights

The Board of Trustees is responsible for ensuring that voting rights are exercised in the interest of insured persons.

Voting rights for submitted proposals are to be exercised at least in relation to the following:

- Election of members of the Board of Directors
- Election of the Chairman of the Board of Directors
- Election of members of the Compensation Committee
- Election of the Independent Voting Representative
- Articles of Association provisions in accordance with Art. 12 of the Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC)
- Voting on compensation for the Board of Directors, the Executive Board and the Board of Advisors (Art. 18 OaEC) and on inadmissible compensation within the Group (Art. 21, item 3 OaEC).

Voting rights are to be exercised in the interests of the insured persons within the foundation. The focus must be placed on the long-term prosperity of the foundation and its affiliated Vorsorgewerks. A share is deemed to serve the long-term prosperity of the foundation and its affiliated Vorsorgewerks if it performs above average on a long-term basis taking distributions into account. Voting behaviour must enable the company to sustainably guarantee above-average share performance.

The proposals of a company's Board of Directors to the General meeting of Shareholders are generally in its financial interests. The proposals of the Board of Directors are therefore to be followed when exercising voting rights except in the case of extraordinary events in the company, non-typical proposals of the Board of Directors or proposals for excessive compensation. In these cases the Board of Trustees decides its vote prior to the General Meeting of Shareholders without seeing the proposals of the Board of Directors. It can also decide to abstain from voting on a particular item on the agenda.

- The Board of Trustees decides each vote by resolution.
- The Board of Trustees has the right to be represented by the independent voting representative to execute its obligation to vote.
- The Board of Trustees includes a summary report on its voting in its annual report each year. A detailed disclosure of its voting is provided where it did not follow the proposals of the Board of Directors or abstained from voting.

#### 8 - Controlling and reporting

Compliance with the investment strategy and the bandwidths therein agreed is to be checked monthly. Violations of the bandwidths and permitted substantial deviations from strategic asset allocation are brought to the attention of the Board of Trustees.

A report is submitted monthly to the Investment Committee for the purposes of monitoring the asset manager. It contains the following: inflows and outflows of funds, composition of

assets, returns and risk key figures of the overall portfolio and any sub-portfolio and any other quantitative and qualitative analyses for asset management.

### Art. 4 Accounting principles

#### 1 - Valuation regulations

Investments are valued in accordance with the legal stipulations (Swiss GAAP FER 26) and commercial standards. Where no market values are available, industry-standard valuations are used.

#### 2 - Accounting

Accounting and preparation of the financial statements are also carried out in accordance with the legal stipulations and commercial standards.

#### 3 - Value fluctuation reserve

Investments are partly subject to considerable value fluctuation risks. To buffer expected fluctuations in value, a separate value fluctuation reserve is set up. The level of the value fluctuation reserve depends on the investment strategy and is indicated in the appendix I.

The level of the value fluctuation reserve is determined on the basis of financial and economic considerations and takes into account the principle of consistency.

### Art. 5 Final provisions

#### 1 - Effective date

These investment regulations shall come into effect on 1 January 2018 after a decision of the Board of Trustees of 31 October 2017 and replace the previous regulations. They can be modified by the Board of Trustees at any time in accordance with the legal provisions and the foundation charter.

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# Appendix I

## Investment strategy (effective as of 1 January 2018)

Investment category	Lower bandwidth	Strategic rate	Upper bandwidth	BVV 2 category limits
Liquidity	0%	1%	10%	
Bonds CHF	0%	4.5%	10%	
Bonds Foreign Currency				
• Governments, hedged in CHF	0%	5%	15%	
• Corporates, hedged in CHF *)		11.5%		
• Corporates, Short Term, hedged in CHF *)	12%	6%	30%	
• Corporates Emerging Markets Investment Grade, hedged in CHF		5%		
• High Yield, hedged in CHF **)	0%	2%	6%	
Equities				
• Switzerland	0%	4%	8%	
• Foreign	0%	3%	8%	
• Protect Enhanced, hedged in CHF	10%	16%	26%	
Real Estate				
• Switzerland (NAV-based)		11%		30%
• Switzerland (listed on an exchange)	6%	4%	32%	
• Foreign, hedged in CHF *)		9.5%		
Hedge Funds		6%		
Infrastructure *)	5%	7.5%	20%	15%
Senior Secured Loans, hedged in CHF **)		4%		
Total		100%		
• of which shares	10%	23%	30%	50%
• of which foreign currency	0%	10.5%	15%	30%
• of which real Estate	10%	24.5%	30%	30%
• of which alternative investments	0%	17.5%	20%	15%

\*) The Real Estate Foreign investment category, hedged in CHF, is in development. Alternative investments include a target share in infrastructure. This is built up for both investment categories in stages (capital calls). Until the capital is called, the corresponding funds are provisionally invested in the investment category FX Corporate Bonds, hedged in CHF, with a short term.

\*\*) These investment categories contain, directly or indirectly, securities mainly categorised as "Non-Investment Grade".

## Target value fluctuation reserve (effective as of 1 October 2016)

Based on the above-mentioned investment strategy, the level of the required value fluctuation reserve has been calculated using the value-at-risk method and taking into account the following factors:

- level of targeted return
- historic volatilities (risk) and correlations between investment categories
- expected returns of investment categories
- shortfall probability of 1% over a one-year period <sup>1)</sup>

This gives a required target level for the value fluctuation reserve of 9.5%.

<sup>1)</sup> The calculated value fluctuation reserve is sufficient to cover one-year falls in the market, provided they do not fall below a certain level, which should only occur once in 100 years. This procedure gives 99% security (100% minus permitted shortfall probability of 1%).

# Appendix II

## Persons entrusted with asset management

The following are entrusted with the foundation's asset management:

Name	Address
External investment managers - Swiss Life Asset Management Ltd	- General-Guisan-Quai 40, 8022 Zurich

# Appendix III

## Token gifts

Token gifts and customary occasional gifts are not subject to a disclosure obligation, but the following arrangements apply:

- 1 - Token gifts and customary occasional gifts (including invitations) are deemed to comprise one-off gifts worth up to CHF 200 each and CHF 1 000 per year and business partner, up to a maximum, however, of CHF 2 500 per year. Token gifts and customary occasional gifts are permitted and do not have to be declared.
- 2 - Customary occasional gift status is also given to invitations to an event, in which the benefit to the foundation is paramount, such as expert seminars, provided they do not take place more than once a month. Admissible events are generally limited to one day, do not apply to an accompanying person and can be reached by car or public transport. The event may be followed by a social event at lunchtime or in the evening.
- 3 - Gifts and invitations which exceed the limits per case or per year under points 1 and 2 may be admissible if approved by the Board of Trustees. They must be declared.
- 4 - Financial gains in the form of cash benefits (vouchers, compensation) as well as kick-backs, retrocessions and similar payments which are not based on a written agreement with the Board of Directors, as well as private invitations with no apparent business purpose (e.g. to concerts, exhibitions, etc.) are to be handed over to the foundation.
- 5 - If financial gains are falsely retained, the foundation is obliged to reclaim these monetary assets immediately and is authorised to impose sanctions which in each individual case may go as far as termination of the employment relationship or cancellation of the mandate together with legal action for misappropriation of funds.

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