BLI – Banque de Luxembourg Investments S.A. (BLI)’s ESG investment policy relies on 4 distinct pillars.

First Pillar: Controversies

Human Rights and UN Global Compact Compliance

BLI’s investment approach is relying on two overlapping and complementary data points: The UN Global Compact Compliance and Human Rights Compliance criteria, which cover a wide array of E, S and G issues at one stroke. These summary assessments are compiled by MSCI using publicly available data (annual reports, environmental and social reports, news media, government data, NGOs).

The assessments are based on controversies that may constitute violations of these norms. Controversies can be best described as news of any kind involving the impact of company operations, governance practices, and/or products and services that allegedly violate national or international laws, regulations, and/or commonly accepted global norms.

MSCI analysts determine whether a new controversy violates the norms and determine the company’s signal which can be either Pass, Watch List or Fail (for further explanations on the signals, updates, etc., please refer to the appendix).

The UN Global Compact (UNGC) consists of the principles guiding corporate behavior in the following areas:

→ **Human Rights**: General human rights concerns, indigenous peoples’ rights, civil liberties, disputed territories issues, environmental incidents that harm local livelihoods.

→ **Environment**: Issues related to energy and climate change impact on land, water, and air; impact on habitats and ecosystems; water stress; operational waste issues; environmental issues in the supply chain including sourcing of high impact raw materials; controversial funding or investment in projects with high environmental impact.

→ **Corruption**: Bribery and corruption.

→ **Labor**: Same topics as the Human Rights Compliance but not as thorough.

The Human Rights Compliance screen encompasses a full array of human rights issues. Additionally, it relies on the United Nations Guiding Principles on Business and Human Rights which references the following International Labour Organisations (ILO) fundamental conventions:

→ **ILO conventions**:
  - Child labor: Child labor in direct operations or supply chain,
  - Forced labor: Forced, bonded, or slave labor; includes issues in the supply chain,
  - Discrimination: Discrimination against employees in direct operations or supply chain,
  - Collective bargaining and freedom of association: Union-management conflicts, strikes and other work actions, anti-union actions by the company; includes strikes and unionization efforts by non-unionized employees; includes issues in direct operations and supply chain.

**Rationale BLI**: Companies that fail the UNGC and/or the Human Rights Compliance criteria are flagged for removal from BLI’s investment universe within three months of the status change. The fund manager in charge has the possibility to present to the ESG Committee¹ reasons for the company to remain eligible.

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¹ The ESG Committee consists of representatives of different BLI departments.
for ongoing investments within two weeks of the status change. The committee will vote on the matter and release a justification of the vote.

**Periodical Controversy Screen**

BLI performs regular screenings of its portfolios for any kind of major controversy impacting targeted companies. The screening relies on the MSCI controversy flags (green, yellow, orange and red). BLI fund managers receive automatic status updates of MSCI’s controversy assessment.

**Rationale BLI:** Companies showing a red flag controversy are flagged for removal from BLI’s investment universe within three months of the status change. The fund manager in charge has the possibility to present to the ESG Committee reasons for the company to remain eligible for ongoing investments within two weeks of the status change. The Committee will vote on the matter and release a justification of the vote.

**Second Pillar: Exclusion List**

BLI will not invest in companies having ties to the area of controversial weapons:

- Cluster Munitions,
- Anti-Personal Mines,
- Landmines,
- Depleted Uranium,
- Biological/Chemical Weapons.

**Third Pillar: Proxy Voting**

BLI relies on ISS’ services to vote in its name at the annual company meetings according to ISS’ sustainable voting policy. Cast votes will be completely transparent as a summary is provided by ISS. Fund managers will have the possibility to adjust the vote and deviate from the sustainable voting recommendation by ISS, but need to be able to justify their decision.

**Fourth Pillar: Dialogue (Engagement)**

Engagement consists of a constructive dialogue between institutional investors and investee companies to discuss how they manage ESG risks and seize business opportunities associated with sustainability challenges. This can be done by letter or email to a company’s board or during company visits, explaining our ESG standpoint and addressing issues to be discussed.

BLI will engage with companies about ESG related issues during company visits.

**Carbon Emissions Intensity**

Additionally, the Carbon Emissions Intensity for BLI’s portfolios is lower than their representative market benchmarks. This is the result of BLI’s long-standing Business-Like-Investing philosophy. Should a fund manager decide to exclude fossil fuels/coal etc. from the portfolio, the improved CEI can be used as showpiece.
# ESG Pillars at a glance

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<th>Human Rights Compliance &amp; UN Global Compact Compliance</th>
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<td>Focus:</td>
<td><strong>Human Rights</strong>: General human rights concerns, indigenous peoples rights, civil liberties, disputed territories issues, environmental incidents that harm local livelihoods.</td>
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<td><strong>Labor</strong> (derived from ILO regulations):</td>
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<td>1. Child labor: Child labor in direct operations or supply chain,</td>
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<td>2. Forced labor: Forced, bonded, or slave labor; includes issues in the supply chain,</td>
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<td>3. Union and collective bargaining issues: Union-management conflicts, strikes and other work actions, anti-union actions by the company; includes strikes and unionization efforts by non-unionized employees; includes issues in direct operations and supply chain,</td>
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| Controversies Check | A red flagged controversy can lead to the exclusion from the investment universe. |

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<th>Second</th>
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<th>Fourth</th>
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<td>Dialogue about ESG issues during company visits.</td>
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Appendix (Definitions provided by MSCI ESG Manager)

SIGNALS
Fail: A Fail signal indicates that the company is implicated in one or more controversy cases involving misconduct or accident where there are credible allegations that the company or its management inflicted serious large scale harm through negligence or disregard for the law and/or international norms of behavior. The Fail signal may be applied to cases that are either ongoing or concluded within the last three years.
Watch List: A Watch List signal indicates that the company is implicated in one or more ongoing controversy cases where MSCI ESG Research has assessed that its involvement is serious and warrants ongoing monitoring but, based on information available to date, does not quite constitute a breach of the Global Compact. Concluded cases are not eligible for the Watch List signal.
Pass: A Pass signal indicates that the company has not been implicated (within the last three years) in any controversy case constituting a breach or near-breach of the Global Compact. Any company that does not receive a Watch List or Fail signal receives a Pass signal. Companies receiving a Pass signal may have been implicated in less serious controversies or in controversies related to issues that fall outside the UNGC framework.

DEFINITIONS
Controversy case: Within Global Norms Screening, a controversy case is defined as alleged company violation of a norm. An alleged violation may take the form of a single event such as a toxic spill or a set of closely linked events or allegations such as repeated incidents of violence at a given operation.
Case Status: A controversy case may be ‘Ongoing’ or ‘Concluded’:
- Ongoing: The case is active, with the last known development occurring within the last three years.
- Concluded: The case has been resolved, closed, or withdrawn. For example, the company has paid a settlement to close a regulatory action or a lawsuit has been dismissed and not appealed.

The status of a case is updated on the basis of new developments and regular research and review.

UPGRADE PROCESS
Fail cases: A case that meets Fail criteria retains this assessment for as long as the controversy case is ongoing and for at least one year following its conclusion. It may retain the Fail assessment for up to three years following conclusion, depending on whether the company has taken robust action to prevent future occurrences and whether similar additional allegations have surfaced in the interim. Once the Fail assessment is removed, if the company is not implicated in any other cases meeting Fail criteria, it would be upgraded to either a Watch List signal (if implicated in cases meeting Watch List criteria) or a Pass signal at this time.

QUALITY REVIEW
Quality review for Global Norms Screening is governed by the ESG Impact Monitor Methodology Committee (IMMC) and the ESG Ratings Review Committee (RRC).
The Global Norms Screening quality review process includes the following:
- Significant company updates receive a peer review
- Proposed downgrades of a case to a Fail signal must be approved by the IMMC and the RRC
- Proposed upgrades of a company rating from a Fail signal must be approved by the IMMC
- A subcommittee of research analysts evaluates all new cases assessed as meeting Watch List criteria.

ONGOING MONITORING AND UPDATES
Companies within the Global Norms Screening coverage universe are reviewed on an ongoing basis.
- Daily, Weekly, and Monthly updates: On a daily and weekly basis, the analyst team checks global and regional new sources for new controversies or serious developments in existing controversies for all companies in the coverage universe. On a monthly basis, the analyst team searches a wider array of media, government, and NGO sources to find new controversies or relevant developments of existing controversies. Updates to company reports are prioritized by company size and the assessment level of existing controversies. These updates are made using online databases.
- Annual updates: For cases that meet Watch List or Fail criteria, if no updates are uncovered over the course of the year via the above process, the assessments are reviewed and either confirmed or upgraded.