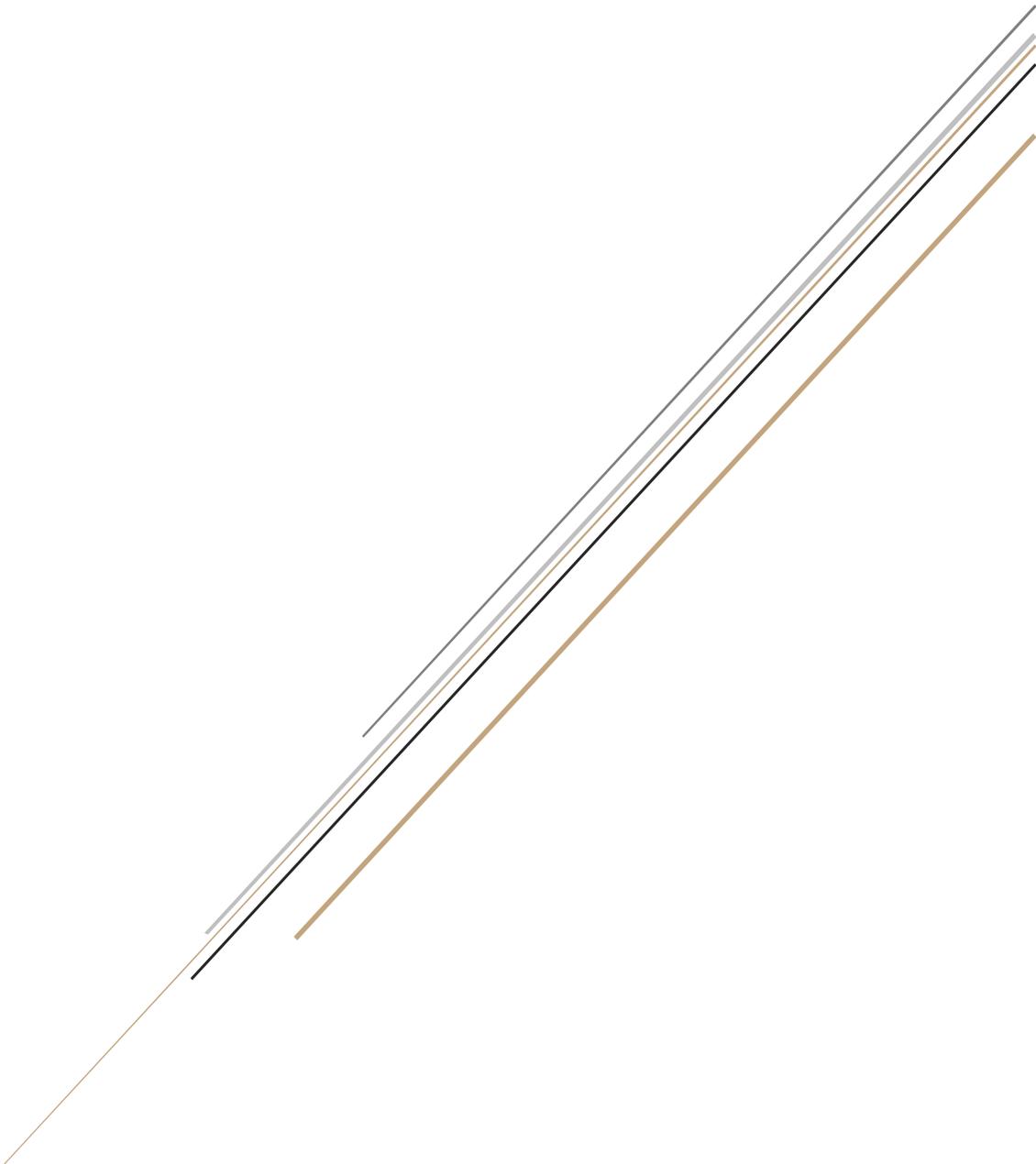


Investment Policy

BL Fund Selection Smart Evolution



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BL Fund Selection Smart Evolution Investment Policy

1. Context

BL Fund Selection Smart Evolution was launched in October 2020. This fund of funds aims to invest in the best sustainable and responsible investment funds, with an equity allocation that can vary between 25% and 75%. The selected funds must present a serious and rigorous extra-financial approach.

Sustainable and responsible investment emerged at the end of the 1990s, but for a long time was considered a niche approach for investors who were prepared to sacrifice part of their financial return in the name of philosophical, ethical and/or political principles. Following the Paris Climate Agreement and the launch of the UN Sustainable Development Goals, awareness of the magnitude of not only the environmental, but also the social and governance challenges facing humanity has accelerated the development of this type of strategy.

It is becoming increasingly clear that individual initiatives will not be enough to change the course of things but sustainable and responsible investment could make it possible to pool efforts to progressively bring about change.

As a result, the range of sustainable and responsible investments has been expanded and professionalised in recent years. Most global ESG approaches have now reached an attractive level of maturity while, at the same time, robust thematic strategies are starting to be developed.

The idea of launching an SRI fund of funds was initially mooted in 2018 when the ESG fund universe was becoming more mature and plentiful, allowing for sufficient diversification and the construction of a solid portfolio.

Within the wide range of ESG investment strategies that now exist, fund management companies take ESG factors into account to varying degrees depending on their investment styles, level of experience and resources allocated to this area.

Our ambition, through the BL Fund Selection Smart Evolution Fund and the associated SRI analysis, is to offer a balanced product in terms of its risk/return ratio, constructed from funds whose ESG processes have been thoroughly analysed, whose advantages and disadvantages have been measured and understood, and whose authenticity has been validated. The aim is to analyse the fund management companies and strategies in depth by initiating a continuous and systematic dialogue. In this collaborative vein, we prize good practice, best efforts and transparent reporting.

2. Management team

The Lead Manager of BL Fund Selection Smart Evolution is Fanny Nosetti. She is assisted by Fabrice Kremer.

Fanny Nosetti

Conducting Officer, Head of Multi-management

Educational background

- 1992–1996: Bachelor and Master's degrees - University of Aix-Marseille, France & McGill University, Canada
- 1996–1997: DESS (post-graduate degree) - University of Nancy, France

Professional experience

- 1997–2000: Fund administration (Paribas, Luxembourg)
- From April 2000: Fund Analyst then Head of Multi-management (BLI - Banque de Luxembourg Investments, Luxembourg)

Fanny Nosetti works closely with the other members of her team, which is composed of seven people and is structured by type of activity (fund management and analysis) and by area of expertise in order to cover the entire investment universe.

Laurence Terryn, a senior analyst specialised in SRI and thematic strategies, has a key role in the management of this ESG/impact-focused fund of funds.

Name	Function	Specific Expertise	Exp.	Average length of career at BLI
Fanny Nosetti	Head of Multi-management Fund of Funds Manager		24 years	21 years
Fabrice Kremer	Fund of Funds Manager	Convertible bonds CTA	15 years	15 years
Maxime Hoss	Fund of Funds Manager, Senior Analyst	Absolute return strategies US equities Japanese equities	15 years	9 years
Jean-Baptiste Fargeau	Head of Fund Selection Senior Fund Analyst	Emerging market equities Emerging market bonds High yield bonds Corporate bonds Flexible bond strategies	15 years	5 years
Laurence Terryn	Senior Fund Analyst	Global equities Themed equities Sector equities SRI equities Diversified and mixed strategies	25 years	2 years
Charles Espiau de Lamaestre	Senior Fund Analyst	European equities European bonds	17 years	2 years
Alexis Cuellar	Junior Fund Analyst	Absolute return strategies US equities Japanese equities	2 years	1 year

3. Objectives of the strategy

BL Fund Selection Smart Evolution is a fund of funds with a **dual objective**. The Fund's approach combines active asset allocation and rigorous fund selection with regard both to the Environment, Social and Governance (ESG) aspects of the strategies analysed and to the purely financial aspects.

→ Investment objectives

The objective of BL Fund Selection Smart Evolution is to **generate long-term capital appreciation** by investing in funds with a relevant and well-founded SRI approach while maintaining an attractive risk/return profile.

As the Fund is actively managed, it does not follow a benchmark but places risk/return at the heart of the investment process. It combines long-term strategic allocation and shorter-term tactical allocation to maintain a risk/return profile in line with the defined performance objectives.

→ Sustainability objectives

The Fund seeks to provide access to the best in sustainable investment within a universe that is expanding as the field develops and practices improve.

Several general objectives that are part of a long-term transition towards a more sustainable finance and society are identified, either through the investment strategy of the Fund itself or via the themes addressed by the underlying funds:

- **Improving investment practices:** the Investment team aims to promote and encourage new methods of analysis through BL Fund Selection Smart Evolution. A stock can no longer be analysed solely on the basis of its future cash flow. External factors, as well as stakeholders, are taken into account. Investments are then monitored, not only in terms of financial aspects but also, for example, through voting and engagement policies;
- **Ecological transition:** providing solutions to environmental challenges (energy efficiency, renewable energy, smart infrastructure, pollution control, water and waste treatment, etc.);
- **Lifestyle transitions:** participating in the creation of new economic models (sharing economy, circular economy, cybersecurity, development of clean transport, infrastructures, connectivity, logistics, solutions related to well-being, etc.) in order to respond to societal challenges;
- **Health transition:** meeting the major challenges linked to an ageing population, improved diagnostics and accessibility of care, new treatments and techniques, new methods of prevention, etc. are being developed.
- **Demographic transition:** addressing challenges related to agricultural production, food security, transport and distribution of food, education, and issues related to broader changes in consumption behaviour, particularly in emerging market countries.

4. Investment universe

BL Fund Selection Smart Evolution is an asset allocation fund of funds with an emphasis on internationally diversified investments and a high degree of flexibility in terms of the asset classes, themes and sectors that may be included in the portfolio. ESG/impact criteria are also applied to ensure that only strategies with strong ESG or impact profiles are selected.

→ **Asset classes**

The fund is mainly exposed to UCITS and other UCIs investing in different asset classes: equity, fixed income, mixed, money market and alternative strategies. The equity allocation may vary between 25% and 75% of net assets.

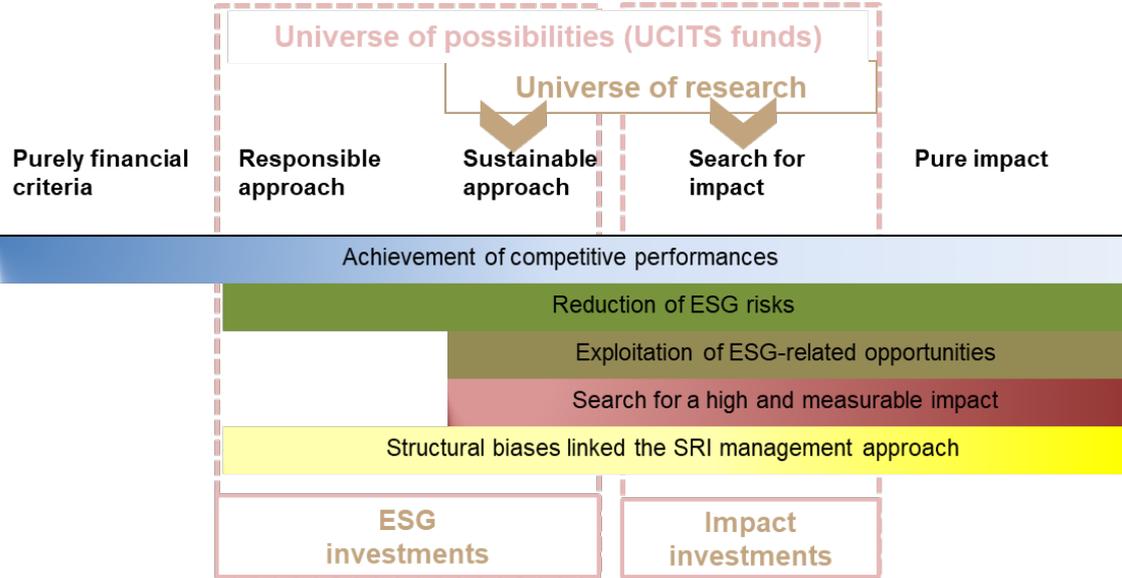
To guarantee the sustainability of the investments, a minimum of 75% of the assets (excluding cash) must be invested in funds classified as article 8 or article 9 according to the European SFDR regulation.

The Fund adds the possibility of exposure to so-called anti-fragile assets, such as precious metal ETFs (a maximum 10% in ETCs¹ is defined in the prospectus) and volatility strategies, which are intended to protect the portfolio in periods of falling equity markets. These investments will generally not be classified as article 8 or article 9 according to European SFDR regulations.

In addition, the use of derivatives is permitted for hedging and portfolio optimisation purposes.

→ **SRI profile**

As mentioned above, the selection of underlying funds is based on traditional financial criteria and on ESG/impact criteria. The fund covers a very broad universe and differentiates between two main families of strategies, as illustrated below:



More information on the detailed characteristics of these two categories can be found in Section 5.

¹ ETC = Exchange Traded Commodities

5. Investment philosophy

The approach implemented for the management of funds of funds is based on **active management, focusing on capital preservation and achieving long-term performance without compromising the risk profile of the portfolios.**

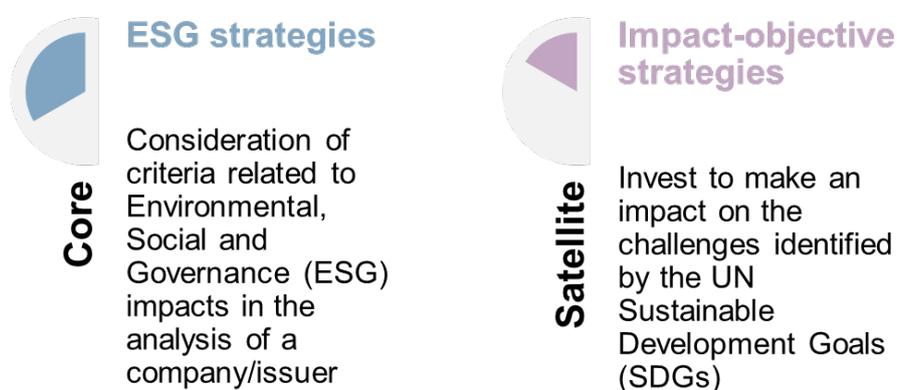
→ Diversification of performance drivers

Unlike traditional asset management, funds of funds do not rely solely on pure asset classes, equities and fixed income, but also use mixed strategies. This diversity offers an **extremely effective complement to traditional wealth management funds.**

- **Equity funds:** allocation to these funds is managed at different levels: geographical zones (international diversification), current styles (style bias such as value, growth or dividend management, etc.) or specific themes (small caps, sector strategies, themes, etc.);
- **Fixed income funds**
 - Flexible structure according to market conditions, mainly composed of euro-denominated bonds with duration management and inflation expectations taken into account
 - Corporate bonds and local-currency bonds are used if their risk/return profile is sufficiently attractive.
- **Mixed and alternative strategy funds:** these funds invest in traditional asset classes (fixed income funds, mixed funds, absolute return funds) or alternative strategies (e.g. long/short funds) and offer greater potential for diversification than equity investments, generally with lower volatility
- **Anti-fragile asset funds:** this category includes precious metal ETFs and volatility strategies. The Fund Manager will use this type of strategy to protect the portfolio in bear markets.

→ Diversification of sustainable and responsible approaches

In addition to this financial management philosophy, BL Fund Selection Smart Evolution approaches **sustainable and responsible investment from a global perspective.** This enables it to adopt a multidimensional approach combining ESG investments and investments with a more specific impact objective through a core-satellite approach.



This method is based on two observations:

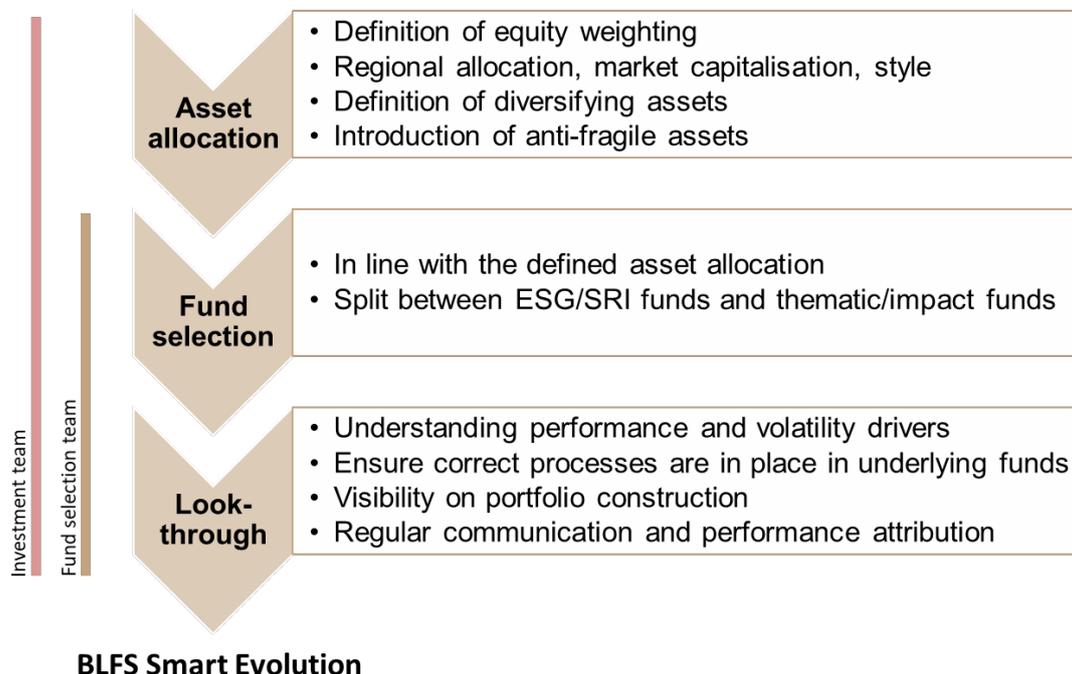
- From a management point of view, a single-theme approach (e.g. ecological transition) is likely to lead to significant biases (mainly sector allocation) which influence the risk/return profile of a portfolio composed in this way. As our objective is to generate consistent long-term performance with controlled volatility, this approach reduces the field of possibilities.
- While some ESG themes are in the media spotlight (such as climate change), other very pressing and palpable concerns feature regularly in the news (access to healthcare, corruption and governance, workers' well-being, etc.). These issues need to be taken into consideration as globally as possible through systematic multidimensional ESG processes.

The combination of these two families, each of which has its own advantages and disadvantages, helps ensure effective portfolio diversification at different levels (asset classes, sector and/or geographical allocation, ESG and financial risks, impact generation, etc.).

6. Investment process

BL Fund Selection Smart Evolution is an asset allocation fund of funds aimed at capital growth. Its investment approach is based on two inseparable pillars.

- Flexible asset allocation focused on generating an attractive risk-adjusted return over the long term
- A diversified selection of strategies whose sustainable investment process is sufficiently mature and robust.



→ **Asset allocation**

The portfolio's target risk profile is the baseline for the investment process, which then combines a long-term strategic approach with a shorter-term tactical approach in its asset allocation.

Long-term approach: strategic allocation

The first step is to determine the weight of equity investments in the final portfolio, in light of the portfolio's risk profile. This allocation is defined according to the general macroeconomic and market environment and the medium-term attractiveness of the different asset classes and strategies considered.

The starting point is BLI's Asset Allocation Committee², which is composed of the members of the multi-asset class strategy fund management teams, namely:

- Guy Wagner, CIO and EUR Flexible Strategies Manager
- Fanny Nosetti, Head of Multi-management
- Joël Reuland, Profiled Strategies Manager
- Fabrice Kremer, Fund of Funds Manager
- Jean-Philippe Donge, Head of Fixed Income
- Luc Bauler, USD Flexible Strategies Manager
- Maxime Hoss, Fund of Funds and Diversified Mandates Manager.

This Committee meets once a month to analyse developments in the macroeconomic environment.

The major balances defined in the strategic allocation are not expected to change frequently.

▪ ***Management of the equity portfolio***

There is little variation in the weight allocated to equity funds in order to allow the selected investment styles full leeway to create added value compared to their benchmarks. This allocation is made according to a conservative, contrarian strategy that places upside potential and reduced downside risk at the heart of the approach.

▪ ***Management of the defensive/diversification component***

These segments offer diversification potential to offset equity investments. They mainly translate into fixed income, diversified/alternative strategy or anti-fragile asset instruments, which are arbitrated according to interest rate levels and credit spreads that define whether or not fixed income investments are attractive.

For instance, in a specific context, if fixed income investment opportunities do not make it possible to build a portfolio that meets the given performance objectives, the Fund Manager will increase the portfolio's exposure to absolute return strategies or anti-fragile assets.

² This committee is not a governance body of the company but a functional committee facilitating the decision making process within the portfolios managed by BLI.

Tactical management of the overall risk level

The portfolio's total sensitivity to equity market trends is managed through the tactical use of hedging instruments.

This allocation may move very quickly and very steeply depending on events.

While the gross exposure to equity markets reflects the Investment team's medium- to long-term view, the use of hedging instruments allows the exposure to equity markets to be managed dynamically and thus reflect the team's short-term market sentiment.

Derivatives are based on stock market index futures. This hedging is designed to achieve performance and risk-reduction objectives.

The main catalysts for hedging the portfolio are:

- A deteriorating economic climate justifying structural hedging;
- Short-term overbought markets after too-fast or too-steep a bull market;
- A sudden volatility spike due to bad news.

→ Analysis and selection of underlying funds

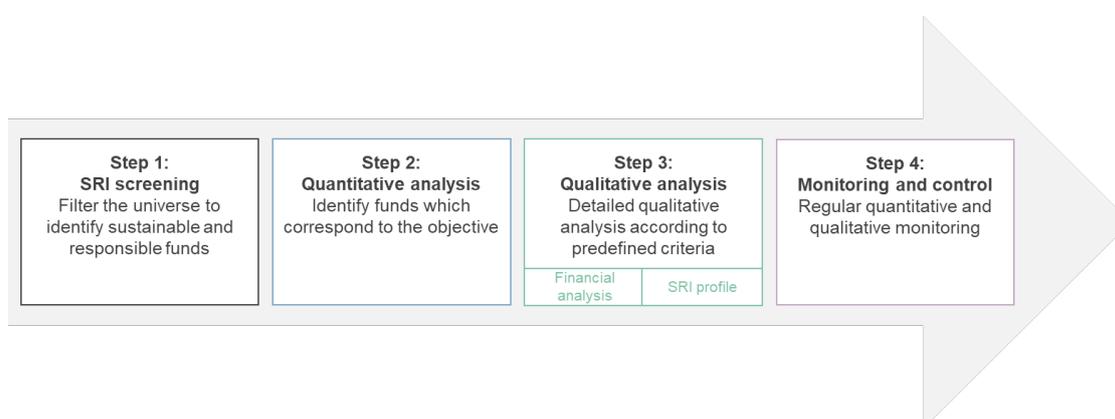
The selectors base their analysis on the **journalistic '5W1H' approach** of asking the questions *What, Who, Where, When, Why, How*.

In addition to the objective of assessing fundamental qualities (both from a financial management point of view and regarding the fund's sustainable and responsible profile), the fund selectors seek to understand the structure of the portfolios analysed in order to **identify their individual biases** so that these can be factored in when constructing the final portfolio.

Each fund included in BL Fund Selection Smart Evolution's portfolio must meet strict criteria in terms of fundamental quality (financial perspective) and SRI/ESG profile.

The starting point of the analysis is the **establishment of clear specifications** such as: What type of fund should be identified (e.g. asset class, investment style, geographical area)? What objectives will it serve (e.g. core portfolio / diversification, performance trends, risk/return profile)?

Once these specifications have been defined, the analysis process can begin. This is a 4-step process as shown below:



Step 1: SRI screening

In the first stage, the Investment team narrows down the analysis universe by identifying funds that adopt a sustainable and responsible approach.

This initial analysis of the universe is carried out with the help of the Lipper analysis tool, which filters funds according to SRI/ESG criteria, as well as drawing on the team's (analysts and managers) own in-depth knowledge of the universe of available funds.

Step 2: Quantitative analysis in two phases

▪ **Initial quantitative analysis**

This first phase aims to apply a quantitative filter to the asset class as a whole to identify the funds likely to meet the objective specified in the specifications.

The (principal) parameters are as follows:

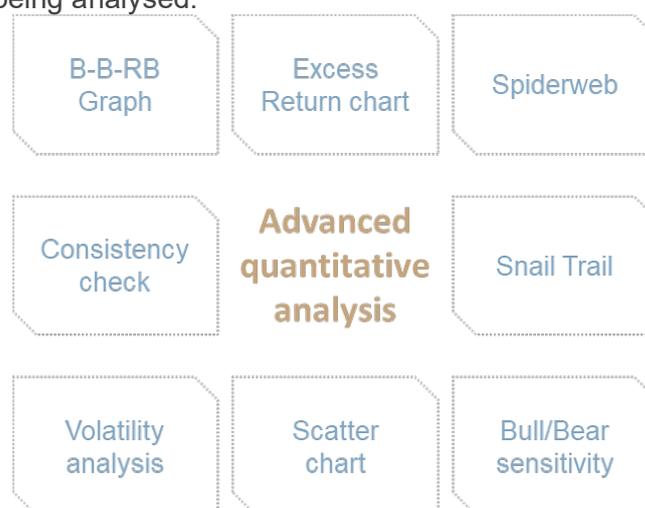
- Performance;
- Fund classification;
- Ratios: alpha, Sharpe, maximum loss, Sortino, etc.
- Volatility;
- Fund volume;

In order to evaluate the fund and its profile in various market contexts, these parameters are tested over different periods, depending on the type of fund in question.

▪ **Advanced quantitative analysis**

The objective of this second phase is to engage in a deeper analysis of the fund to identify its precise risk/return characteristics and thus determine whether it meets the profile sought in the specifications.

This analysis is performed by means of various tests that provide the most complete view possible of the fund being analysed:



These quantitative tests are conducted according to their relevance, which varies according to the type of fund considered.

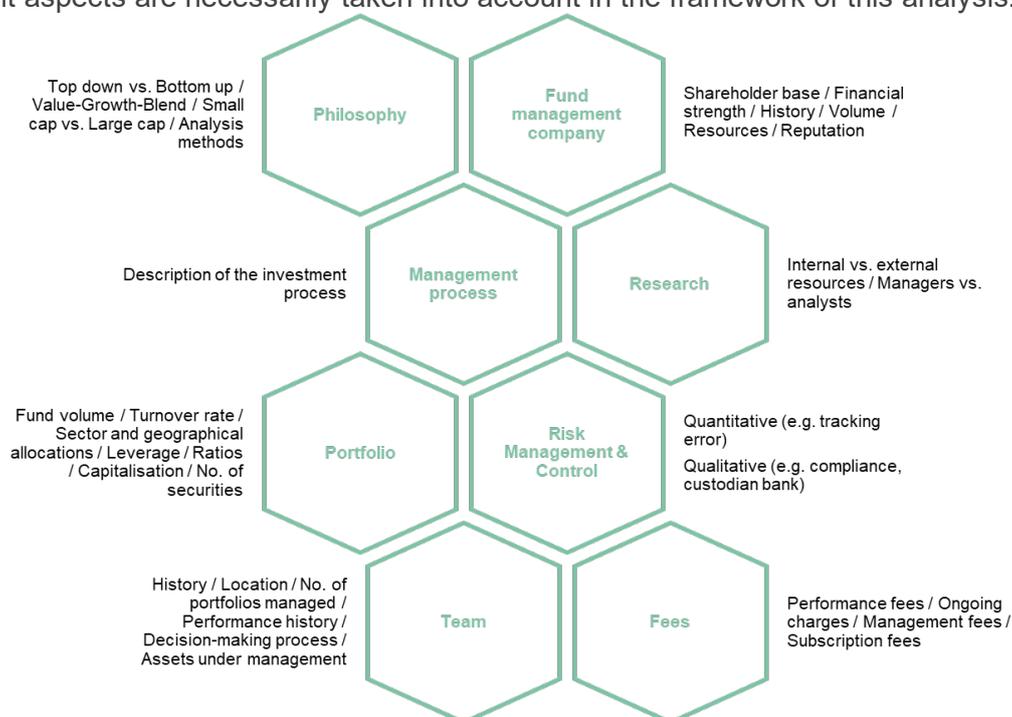
None of these tests, taken independently, constitutes a criterion for elimination. It is the overall analysis of these tests that will enable the selector to form an opinion as to the profile of the fund and its suitability for the specifications.

Stage 3: Qualitative analysis

■ **Financial analysis**

This third major step in the fund selection process is designed to analyse the fund in detail to gain the greatest possible understanding about who is managing it (not just the investment team but also the fund management company) and what management method is used to generate performance.

Different aspects are necessarily taken into account in the framework of this analysis:



■ **SRI profile analysis**

The objective of this analysis is to understand to what extent and in what way sustainable and responsible investment is taken into account in the investment process of each fund analysed.

The analysis covers not only the fund in question but also the fund management company and is structured in several stages.

- A specific questionnaire is sent out to:
 - Identify the extent to which the fund management company has embraced the theme of sustainable and responsible investment;
 - Determine the degree of SRI/ESG integration in the fund's construction;
- All relevant documentation is reviewed: voting policy, policies and procedures (e.g. CSR, SRI, engagement), sustainability report, etc.;
- Regular meetings and discussions with the fund investment team.

At the end of this research process, an SRI ID card is established and an internal score assigned to the management company and the fund. This identity card and these ratings provide our fund managers with a holistic view of a fund's positioning within the SRI universe and facilitate comparison between different funds.

To be eligible for inclusion in BL Fund Selection Smart Evolution, the funds (article 8 and 9 for a minimum of 75% of the assets invested) and their management company will have to achieve at least two steps in terms of SRI:

- The **management company** shall as a minimum:
 - Be a signatory to the UN PRI;
 - Have a CSR policy;
 - Have a voting and engagement policy;
- The **fund** must have an internal score of at least 70% which assesses the following four elements
 - An exclusion policy including at least the exclusion of the controversial arms, coal and tobacco sectors (with a maximum of 10% of their turnover);
 - A documented sustainable and responsible investment policy;
 - Clearly identified investments in sustainable assets
 - Detailed ESG/SRI reporting.



Step 4: Monitoring and control of funds

Continuous monitoring of the selected funds is a very important aspect of the work of BLI's selectors.

This is conducted according to the following schedule:

- **Daily monitoring of the funds' performance** in relation to their direct competitors and benchmark;
- **Regular quantitative review:** at least twice a year;
- **Regular direct contact** with the fund manager, particularly in the event of the fund behaving abnormally.

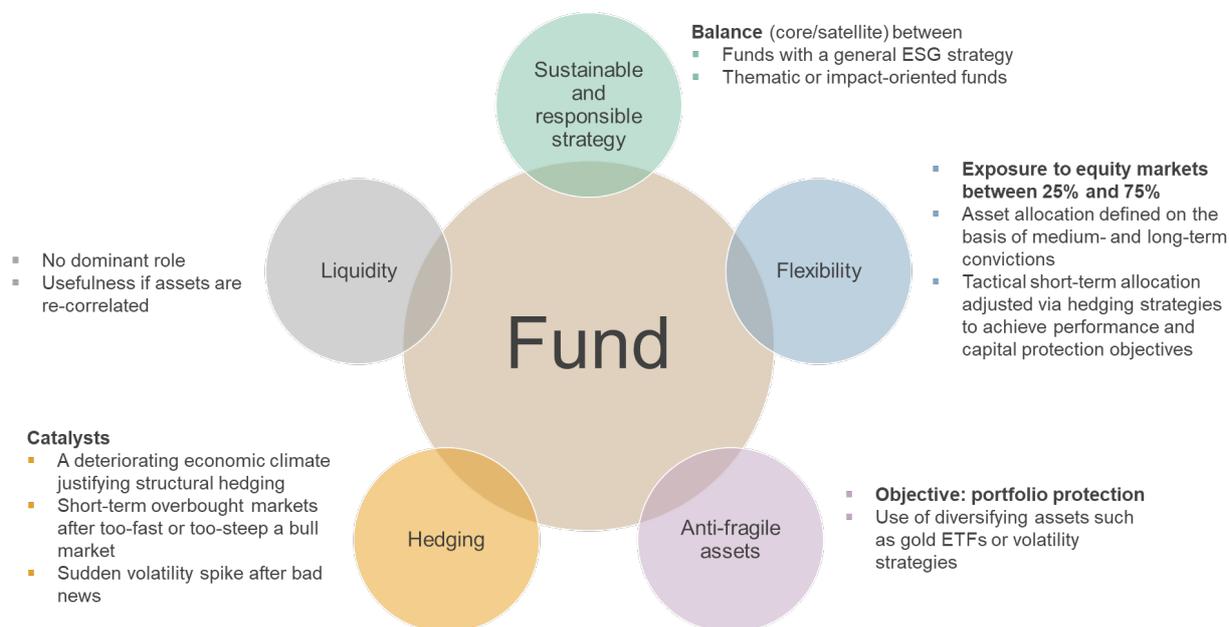
In addition to this traditional form of monitoring, the Investment team of BL Fund Selection Smart Evolution has set up a specific monitoring system dedicated to the analysis of the sustainable and responsible profile of the underlying funds and hence of its own portfolio.

For further information, please refer to Point 8.

7. Portfolio construction

The final portfolio is constructed to incorporate the various investment constraints and the following key management principles:

- Search for performance without compromising the risk profile;
- Exposure to equity markets defined on the basis of long-term trends;
- The price paid determines the return.



→ Buying and selling discipline

Buying discipline is based on three essential elements:

- Fund compliance with research criteria;
- ESG score of the company (min. 2 steps) and of the fund (min. 70%);
- Suitability of the fund in relation to the envisaged asset allocation.

At the same time, the **selling discipline** is guided by the following factors:

- A change in the asset allocation that requires the sale of the fund in question (to reduce exposure to the asset class);
- A question over the inclusion of the fund in the authorised fund selection. The main reasons are:
 - Inexplicable performance;
 - Lack of transparency in communication;
 - Less convincing sustainable and responsible approach; a better approach found in other funds;
 - Concentration of risks;
 - Fund manager's departure;
 - Financial difficulties/promoter's reputational risk;
 - Change in management philosophy;
 - Fund volume too high/low.

8. ESG quality of the fund: transparency and impact indicators

As mentioned previously, each fund introduced into the portfolio (apart from anti-fragile funds) must have:

- An exclusion policy including at least the exclusion of the controversial arms, coal and tobacco sectors (maximum 10% of turnover);
- A voting policy;
- An engagement policy;
- A sustainable and responsible investment policy.

To monitor the ESG quality of the selected funds, the Investment team carries out a quarterly transparency evaluation of the portfolios.

Currently, only the equity funds, which make up the majority of the portfolio, are subject to this specific monitoring, but eventually the objective is to cover all the selected strategies.

The following statistics are analysed:

- Carbon intensity (t/USD million sales);
- Water expenditure (m³/USD million sales);
- MSCI E, S, G and overall ESG ratings (score out of 10);
- MSCI ESG rating of securities and funds (AAA to CCC).

Where the analysis reveals securities with particularly low E, S or G ratings, the Investment team (the manager or fund analyst) will contact the management company to obtain an explanation regarding the inclusion of this security in the portfolio.

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