ACTIVITY REPORT 2023

SUSTAINABLE AND RESPONSIBLE INVESTMENT AT BLI

BLI BANQUE DE LUXEMBOURG INVESTMENTS

INTRODUCTION

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Dear reader,

While 2022 could be described as a 'project' year, during which we had to find our bearings in a new world punctuated by SFDR, 2023 can be seen as a year of consolidation and gathering experience within the framework we had set. Indeed, the past year proved highly instructive, with a steep learning curve for all our teams.

The world of SRI is constantly evolving: the regulatory tsunami that began with SFDR is far from over; the variety and quality of available data is improving; investors' needs are becoming clearer and market practice is constantly adapting to this new situation.

All these developments mean that we are constantly reviewing our policies and methodologies to ensure they keep achieving their objectives.

In this context we made three major observations which, alongside the day-to-day management of our activities, guided our actions throughout 2023:

1) The management and provision of **extra-financial data** on issuers must be at the heart of the system, not only to meet regulatory requirements but also to feed into the quantitative and qualitative analyses carried out by the management teams;
2) The real-life use of the analysis model for **sustainable corporate issuers** developed in 2022 has led us to consider ways of improving it to make it more robust and give more room to a qualitative approach;
3) **Impact investing** is becoming a major topic for investors. When investing in equities on the secondary market, investment strategies can target impactful companies. But this impact, albeit measurable, will always be indirect since it depends on the activities of the financed companies. Therefore, we sought to complement this indirect impact with another vector more direct and more local.

Finally, 2023 saw the first publication of new regulatory reports linked to the entry into force of SFDR.

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REVIEW 2023

DATA MANAGEMENT – THE CORNERSTONE OF AN EFFICIENT ECOSYSTEM

In 2023, the day-to-day implementation of the new SRI ecosystem highlighted the challenge of effectively managing extra-financial data within the existing setup.

With this in mind, the cross-functional use of data needs to be taken into account: while it is obviously crucial for the asset management teams (sustainable asset model, input for qualitative analysis, etc.), it is also used by the teams in charge of regulatory and commercial reporting, as well as the risk management and compliance teams.

Non-financial data are not static. And as it is inconceivable to make investment decisions or carry out compliance checks on potentially out-of-date or incomplete data, all users must be able to rely on a robust and exhaustive data-ecosystem.

The recruitment of a data engineer has enabled the SRI - Strategy & Stewardship team to strengthen its skills in this area. One of his primary objectives was to structure efficient and dynamic data flows and develop data models that meet the specific needs of the various users within BLI.

His arrival quickly led to improvements in data quality, data flows and data dissemination. Initially, control processes were automated and refined and sent to the portfolio management tool's database were opened up, enabling additional pre-trade controls to be put in place.

But the efforts don't stop there, and major projects are currently underway or planned, including:

- The creation of a portal for asset management teams, bringing together the extra-financial data relevant to their analysis;
- Modelling climate risks (physical and transition risks);
- Automation of the quantitative part of the "sustainable assets" model.

TESTING THE CONCEPT OF SUSTAINABLE ASSETS FOR PRIVATE ISSUERS: STRENGTHS AND AREAS FOR IMPROVEMENT

The sustainable asset methodology for private issuers is based on four main dimensions:

- Sectoral and normative exclusions;
- Quantitative and qualitative DNSH[1];
- Quantitative "outside-in" dimension to take into account the effects of societal and environmental issues on the company's economic performance;
- Qualitative "inside-out" dimension aimed at identifying the effects that the company has on the environment and society.

After several months using this model, the results prove to be nuanced. The model allowed us to put in place an approach that complies with regulations and fits in with our historical investment philosophy. It also made our teams realise that qualitative analysis of ESG data strengthen their investment convictions.

1 The "Do No Significant Harm" principle means that one sustainability objective must not significantly harm another sustainability objective.

However, the preponderance, in certain key stages of the analysis, of these quantitative elements (many of which are dynamic) generates a certain level of volatility in terms of the eligibility of issuers for sustainable status. While this volatility does not lead to regulatory non-compliance, it does not seem to us to be compatible with the long-term nature of the concept of sustainability.

The SRI team and the asset management teams are working together to overhaul this model with the aim of

- Capitalising on its strengths;
- Making it more robust to the vagaries of changes in quantitative data; and
- Strengthening the qualitative aspects of analysis, in order to materialize the fundamental convictions of the asset management teams.

At the time of writing, this redesign project has not yet been finalised - more details will be provided in the next report.

CREATION OF A NEW RANGE OF IMPACT-ORIENTED EQUITY FUNDS

The 2022 report already announced our plan to launch new products classified under article 9 SFDR featuring impact investment strategies. These ideas were pursued and developed in greater depth during the first few months of 2023, leading to a broader project.

As mentioned in our introduction, we felt that while the impact generated by the companies in an equity portfolio was tangible and measurable, particularly by linking their sales figures to the United Nations Sustainable Development Goals (SDGs), the link between investment and impact remained indirect. This indirect impact does not, therefore, fully meet the needs of investors who want their capital to grow while actively participating in the development of a more sustainable world.

Our considerations have moved to developing a dedicated 'double impact' range in partnership with Funds For Good (FFG), a company specialised in generating direct and local impact.

Two new strategies were launched in mid-June 2023, one covering the European investment universe (FFG-BLI European Impact Equities), the other covering the American investment universe (FFG-BLI American Impact Equities).

The investment methodology is based on the Impact-Quality-Value triptych:

- The objective is to invest in companies whose products and/or services contribute directly and significantly to achieving one or more of the SDGs (Impact);
- In terms of fundamental financial analysis, the process is based on our historic Business-Like Investing methodology, which focuses on quality stocks with attractive valuations (Quality / Value).

The sustainable nature of this approach was confirmed by the award of the Towards Sustainability label (Belgium).

In addition, in the context of the partnership with FFG, part of the fund management fees is donated to the non-profit organisation Funds for Good Impact, which aims to support, in particular, people in precarious employment, initiators of entrepreneurial projects or sponsors of a project with a

social or environmental dimension. This support is provided in two ways: financing (by granting loans of honour) and support (via a network of volunteer coaches and experts).

FFG currently provides support mainly in the investors' home countries (Belgium, Luxembourg, France and Spain).

This project does not stop there, as it is planned that, during 2024, BLI's historic SRI Fund, BL Global Impact, will join this dedicated range under the name FFG-BLI Global Impact Equities, contributing to this 'double impact' effect as well.

WANT TO FIND OUT MORE ABOUT THIS PARTNERSHIP?

Watch the interview with Fanny Nosetti, CEO of BLI and Nicolas Crochet, co-CEO of FFG.

EVOLUTION OF THE EXCLUSION POLICY

On January 1st, 2023, BLI's exclusion policy evolved, to exclude from BLI's investment universe companies on the Global Oil & Gas Exit List (GOGEL) whose production of hydrocarbons from unconventional deposits and techniques exceeds 25% of their total production.

From January 1st, 2024, this threshold will be lowered to 20%. A grandfathering clause is applied to positions existing prior to the entry into force of this new provisions: these holdings may be maintained but not increased.

All applicable sectoral and normative exclusions are detailed in the exclusion policy available on our website.

CORPORATE BONDS: REDUCING CARBON EMISSIONS

The promotion of sustainability factors for corporate bond issuers is based on the definition of carbon emission reduction targets (scopes 1 & 2) for the holdings of BL Global Bond Opportunities and BL Corporate Bond Opportunities portfolios.

These objectives, defined at the end of June 2021, are still in force and have evolved as follows during 2023:

CARBON EMISSION REDUCTION TARGETS FOR PORTFOLIOS INVESTED IN CORPORATE BONDS

Portfolio	BL Global Bond Opportunities	BL Corporate Bond Opportunities
Indicator	Carbon emissions – Scopes 1 & 2 intensity (tonnes/$million sales)	Carbon emissions – Scopes 1 & 2 intensity (tonnes/$million sales)
Initial value (30.06.2021)	160	85
Target objective (30.06.2025)	-20%	-15%
Target value (30.06.2025)	128	72,25
Value at 31.12.2022	148	60
Value at 31.12.2023	134,59	60,41

BOND MANAGEMENT WITH IMPACT OBJECTIVES

Impact bonds are a perfect asset class for financing projects linked to the SDGs and targeted objectives.

Within impact bonds, we distinguish:

- **Green bond :** bond used to finance only projects with an environmental impact;
- **Social bond :** a bond used to finance social projects only;
- **Sustainable bond :** bond used to finance environmental and/or social projects;
- **Sustainability-linked bond:** bond used to finance environmental and/or social projects whose objectives are measured by specific key performance indicators.

A MARKET THAT CONTINUES TO GROW

The development of the impact bond market has reached a sufficient level of maturity to be considered a fully-fledged pillar of certain investment strategies.

This level of maturity is assessed on two levels:

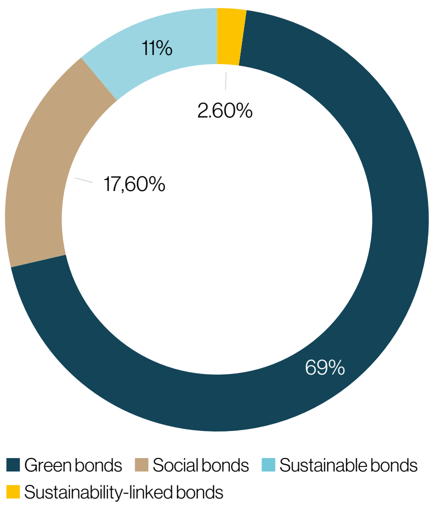
- **Growth in the size of the market** (issues in euros): whereas in 2012, impact bonds represented barely 0.16% of the amount of bond issues in euros, by 2023 they would represent 8.1% of that same amount;
- **Better visibility over the use of the amounts lent:** the classification of an issue as an impact bond is now the subject of particular attention. An increasing number of issues now benefit from a “second-party opinion”, which independently assesses the selection criteria for the projects financed by these bonds and the actual allocation of funds. A link with the Sustainable Development Goals is also increasingly established, making it easier to understand the potential impact.

EXPOSURE OF BLI’S BOND PORTFOLIOS TO IMPACT BONDS

Impact bonds are used in BLI’s bond portfolios in combination with traditional issues.

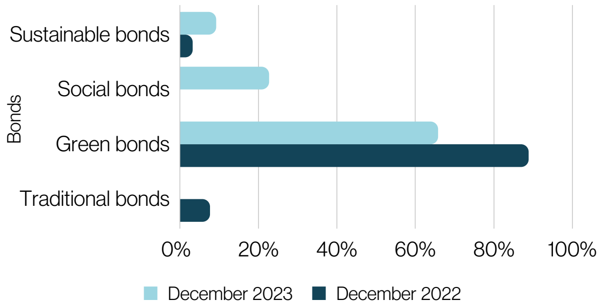
At the end of December 2023, of the **€1.349 billion in assets spread across 6 funds, 45.1% (or €608 million) were invested in impact strategies**. The previous year, this figure was €255 million out of €1.194 billion assets under management.

BREAKDOWN BY TYPE OF EMISSIONS WITH IMPACT TARGET

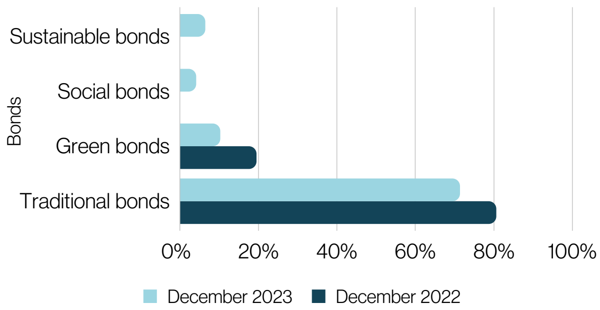


INVESTMENT BREAKDOWN IN ARTICLE 8 BOND FUND RANGE

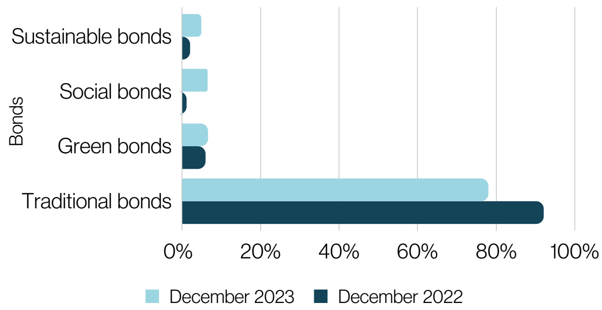
BL BOND EURO



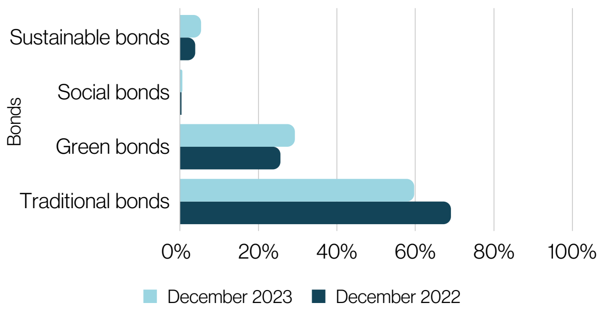
BL BOND EMERGING MARKETS DOLLAR



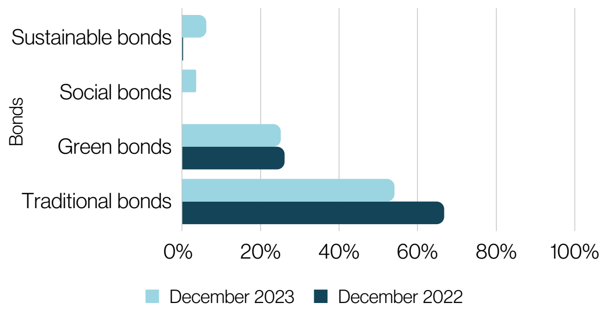
BL BOND EMERGING MARKETS EURO



BL CORPORATE BOND OPPORTUNITIES

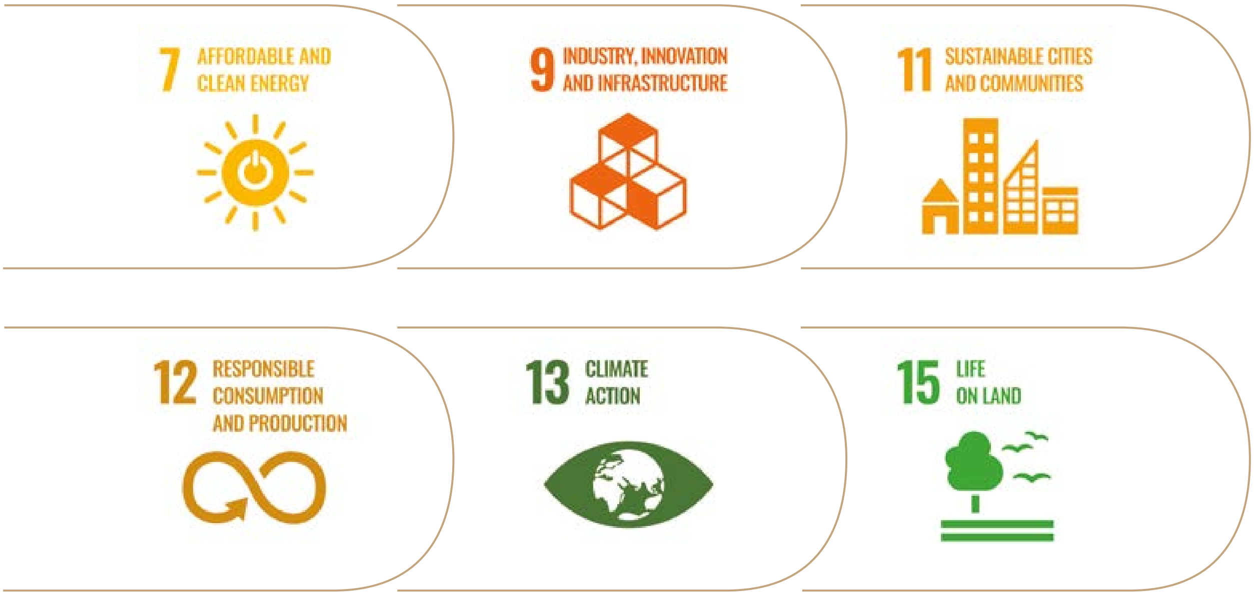


BL GLOBAL BOND OPPORTUNITIES



MAIN TARGETED SDGS

Impact bonds usually target several SDGs because of their interconnectedness. During the 2023 financial year, the following SDGs were predominant in the bond funds range:



INDIAN RAILWAYS: CASE STUDY OF A GREEN BOND

Context: Indian Railways is a quasi-public corporation supervised by the Indian Ministry of Railways.

The company has one of the largest rail networks in the world (top 5 in terms of km) and carries 23 million passengers every day. It also transports 1,225 million tonnes of freight a year, representing 36% of Indian traffic, with a target of 45% by 2030.

Indian Railways aims to achieve net zero CO_2 emissions by 2030.

Potential exclusion of the issuer as it has been on the Global Coal Exit List since October 2021. Indian Railways generates almost 30% of its revenue from coal transport.

→ The exclusion can be lifted if the investments are made in an issue with an impact objective that mitigates the risk identified by the exclusion.

ANALYSIS OF THE GREEN BOND (MATURING 13/12/2027)

- **Purpose of the bond:** to finance the electrification of the rail network (purchase of 385 electric locomotives), excluding the transport of fossil fuels.
- Green Bond Framework audited by KPMG and **certified by the *Climate Bond Initiative.***

- **SDG 11 - Sustainable cities and communities.**
- Target 11.2: Safe, accessible and sustainable transport - *"(...) provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport (...)"*

MULTI-MANAGEMENT: A MANAGEMENT AND ANALYSIS FRAMEWORK REVIEWED IN THE LIGHT OF SFDR

EVOLUTION OF THE ANALYTICAL FRAMEWORK AND FINDINGS

Multi-management is probably the asset management activity that was the most affected by SFDR, since the impact was felt on two levels:

- The methodology used to analyse the implementation of the new regulation by the underlying funds;
- In terms of the fund management and portfolio construction of funds of funds, which had to position themselves in terms of classification, and definition of sustainable assets, etc.

The extra-financial analysis of the funds is based on two proprietary questionnaires designed to understand the sustainable and responsible investment policies implemented within the funds and to capture the sustainable development efforts of the management companies (see the "Overview of methodologies deployed" section of this report for more details).

These questionnaires currently cover 80 funds and their respective management companies.

In order to capture changes in regulations and best practices, these questionnaires are dynamic, evolving in line with the experience of the analysis teams, changes in market practices and latest trends.

For example, **in 2023, the updated questionnaires included**

- Integration of the latest regulatory developments linked to SFDR: sustainable assets, taxonomy, PAI, DNSH, etc;
- Clarification of the definitions of sustainable assets within funds classified as Article 8 or 9;
- Additional information on the practical application of exclusions and their evolution;
- A more in-depth analysis, where relevant, of the impact objectives and proposed reports in this area.

Among the funds we analysed, we were able to make a number of observations demonstrating that extra-financial criteria are being increasingly integrated into the investment process:

- Ongoing evolution in terms of resources, development of tools and data, and ESG-related communications;
- A broadening of exclusion policies. In addition to controversial weapons, other topics such as tobacco, alcohol and fossil fuels are increasingly included in sectoral exclusion lists;
- More in-depth policies (investment, CSR, voting, engagement policies, etc.) with more communication, tools and monitoring indicators available.

Some asset management companies have made it a priority to move the majority of traditional investments to at least Article 8 SFDR classification. In the meantime, we saw a stabilisation in the percentage of assets under management following SRI and/or impact strategies.

In view of the increasing number of communications and the continuing changes in regulations, and in order to properly assess the progress made by different funds in these ESG areas, it remains essential to implement a disciplined proprietary analysis methodology based on a combination of quantitative and qualitative indicators. By way of example, the SFDR classification appears to be increasingly taking precedence over national ESG labels.

BLI's multi-management team continues to improve its quantitative and qualitative monitoring tools, in parallel with regular exchanges with the managers of the target funds and their ESG specialists in order to monitor both their financial and extra-financial approaches. For example, the development of ESG integration processes with new data and the updating of exclusions were monitored in 2023, during interviews with the managers and ESG specialists of the funds invested in.

FUND MANAGEMENT: REVIEW OF THE RANGE AND IMPLICATIONS

Within BLI's funds of funds, the introduction of SFDR prompted to review the positioning of the various strategies available and to identify which were best suited to implementing a sustainable and responsible investment strategy.

It is against this backdrop that the names of two of BL Fund Selection's Article 8 sub-funds were changed, with the aim of materialising the evolution of the extra-financial approach within these sub-funds.

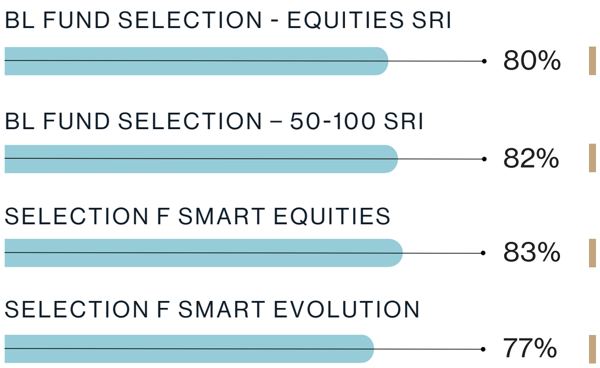
Former name		New name
BL Fund Selection – Equities	→	BL Fund Selection – Equities SRI
BL Fund Selection – 50-100	→	BL Fund Selection – 50-100 SRI

The reference to "SRI" in the names of the sub-funds reflects the management team's objective of selecting a majority of target funds with a proven sustainability profile.

Within the FCP Selection F, the BL Fund Selection Smart Evolution sub-fund, a flexible ESG-oriented fund of funds (article 8), was absorbed by Selection F Smart Evolution in June 2023.

The implementation of SFDR required a definition of **sustainable assets** for funds of funds. Given the diversity of approaches applied within the underlying funds, we decided to refer to the **definition of sustainability in force within the selected funds.** We carry out an in-depth internal analysis of these different definitions in order to assess their robustness and relevance.

The proportion of funds in the portfolio with SFDR categories of 8+[2] or 9 and reaching a grade exceeding 70% in our proprietary ESG scoring system was:



These figures are robust and emphasize funds that seek to implement ESG policies while still achieving the performance targets of 'conventional' funds.

PUBLICATION OF THE FIRST SFDR REGULATORY REPORTS

2023 saw the publication of the first reports introduced by SFDR.

On June 30th 2023, BLI published its first PAI statement **entity level**. This report summarises the most significant negative impacts of the investments made within the various portfolios managed by BLI.

In addition, the SFDR require that all (extra-financial) commitments made in pre-contractual documents be set out in **periodic reports**. These were incorporated into the financial reports of the funds concerned.

UN PRI: A NEW RATING SYSTEM

After a period of non-reporting due to UN PRI's overhaul of its rating system, BLI resumed reporting in 2023, covering the year 2022.

This new, more granular rating system identifies the strengths and weaknesses highlighted by the new assessment grid, on our various SRI policies and strategies across asset classes.

The highlighted strenghts mainly concern the practicality and transparency of extra-financial strategies and the incorporation of ESG issues into issuers' analyses.

While some of the proposed improvements (e.g. sharing our voting intentions ahead of general meetings) do not necessarily seem relevant to us, in particular given our size, other points put forward (such as further incorporating climate risks into our investment theses) had already been identified and are already part of our roadmap in the upcoming months.

BLI continues to support the UN PRI transparency initiative and the associated principles, which remain an interesting framework for implementing and developing a relevant sustainable and responsible investment strategy.

The detailed report on this reporting exercise is available on the UN PRI website.

2 Funds categorised under Article 8 and which have undertaken to invest a certain proportion of their assets in issuers qualified as sustainable.

TOWARDS ACTIVE OWNERSHIP

BLI's equity investment methodology has always been geared towards the long-term: we invest in companies with an entrepreneurial mindset. The aim is to follow the company's development over the long-term.

We have already emphasised on many occasions that integrating sustainability criteria into our investment approach is a natural evolution of our historical methodology.

The gradual development of a policy of active ownership is entirely consistent with this approach; all the more if we start from the premise that, in the context of equity investments on secondary markets, this kind of practice is the most effective and efficient way of getting things to move and usher companies to adopt a more sustainable approach..

VOTES AT GENERAL MEETINGS

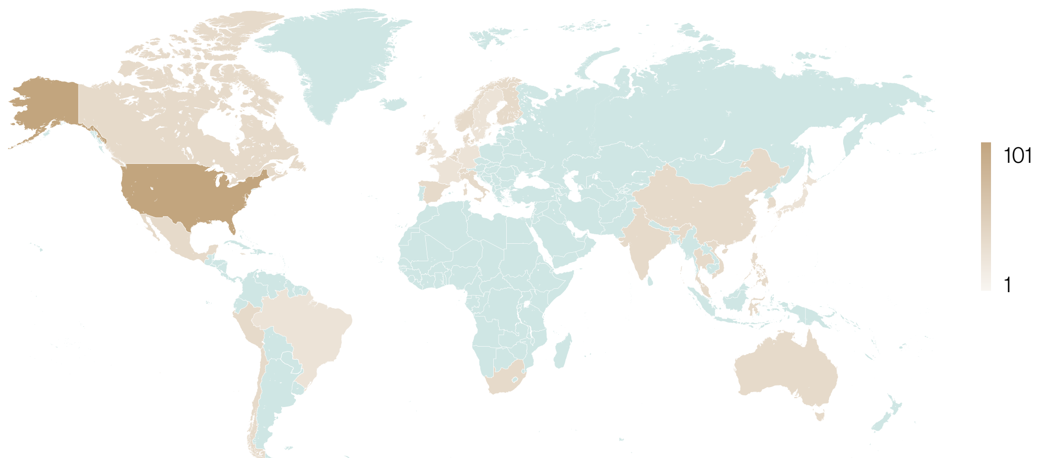
In line with the long-term approach adopted in our portfolios, BLI's voting policy is designed to serve the long-term interests of our investors.

Since 2018, BLI adheres to the "sustainable" voting policy proposed by Institutional Shareholders Services Europe S.A. (ISS). This echoes our wish to support systematically proposals in favour of sound environmental, social and governance practices. Furthermore, our approach does not hesitate, if necessary, to go against the suggestions of the management of the companies in question.

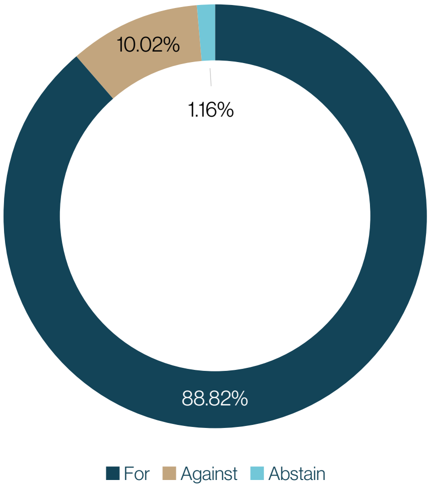
However, we do not apply this policy blindly and give ourselves the opportunity to modify any voting proposal if we do not share ISS's views.

In 2023, BLI exercised its voting rights for all its equity funds in the BL, BLB and FFG SICAVs. BLI voted at 361 different general meetings, representing 90.4% of the general meetings for which we had voting rights. The missing percentage is due to technical operational challenges.

The map below shows the geographical distribution of votes.



BREAKDOWN OF VOTES



The regional breakdown is explained by the presence in the SICAVs of six funds focusing on Europe (117 meetings) and four on North America (122 meetings).

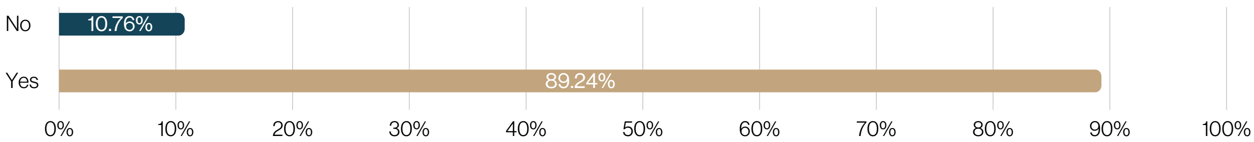
As shown in the adjacent graph, of the 4,489 resolutions put to the vote, BLI voted 3,987 times (88.8%) in favour, 450 times (10.0%) against and abstained 52 times (1.2%). All votes were cast in accordance with the sustainable voting policy defined by ISS.

514 votes (10.8%) cast by BLI at 165 different meetings went against management's suggestions. 87% of these votes related to governance issues, such as the lack of diversity were the Executive Committee, undocumented approval of remuneration policies and motions concerning the company's capitalisation.

In addition, BLI repeatedly voted against management's recommendations – in particular in favour of voting motions submitted by shareholders. Indeed, many shareholder recommendations concerned efforts to be made in terms of environmental reporting (mainly climate change) and/or social reporting (risks of human rights violations in the supply chain, adjustment of the gender or ethnic pay gap).

During the period presented, BLI did not encounter any potential conflict of interest concerning the exercise of its voting rights. BLI's Voting Policy can be consulted here.

BLI VOTES VS MANAGEMENT RECOMMENDATIONS



ACTIVE DIALOGUE

Over the period, following on from the momentum created by SFDR around the theme of transparency, we continued to focus our engagement efforts on three main areas:

- The publication of specific statistics, particularly relating to some PAIs, which were not yet published by companies;
- The signing of the United Nations Global Compact by the companies, which commits them to communicating data on four major ESG areas;
- The submission of objectives validated by SBTi.

In 2023, 38 engagements were made with companies present in our equity funds. The response rate was 47% (18 responses), 61% of which were considered satisfactory.

The approach remained the same as in the previous period and seeks to seize opportunities for engagement based on the materiality of the issues for companies, with reference to the 4 main areas of engagement selected by BLI:

- Clarifying information;
- Transparency;
- Identification of ESG misbehaviour and controversy;
- A specific theme.

BLI's Engagement Policy can be consulted here.

COLLABORATIVE ENGAGEMENT: AMAZON – FEEDBACK

In addition to these individual engagements, we teamed up with other asset managers to start a dialogue with Amazon on their reporting of greenhouse gas emissions.

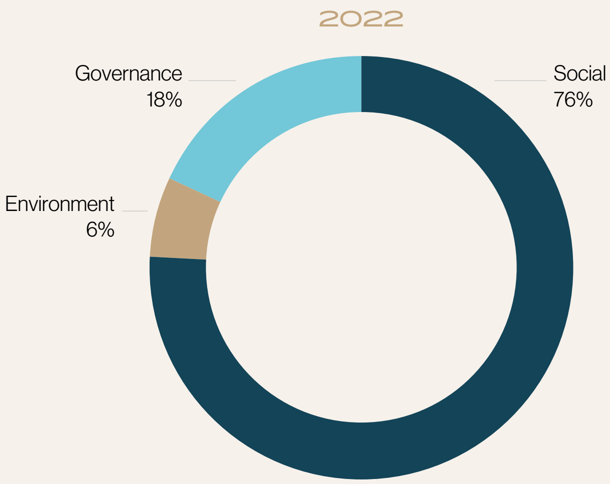
A comparison of the data published by Amazon on their “scope 3” greenhouse gas emissions with those of peers of comparable size is surprising. The values published by Amazon are much lower than those of its peers. In addition, data are aggregated in a way that makes it difficult to understand the reasons for these significant differences. Finally, several scope 3 categories (product use, end-of-life management) only take into account Amazon-branded products, excluding all products from third-party manufacturers and merchants using the platform, which represent the vast majority of items sold.

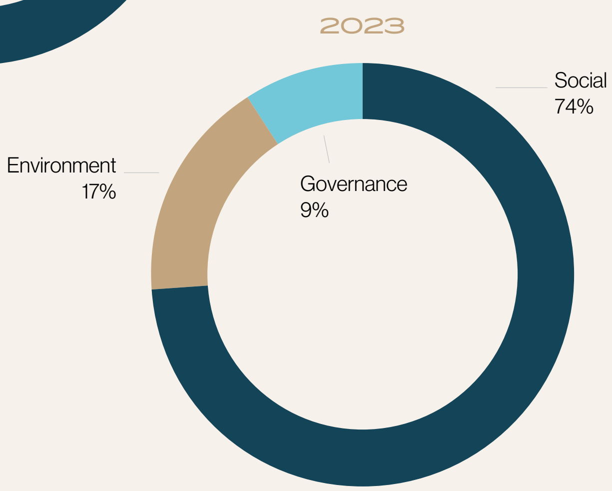
On another note, a motion from a shareholder who is not part of the collaborative engagement but who seems to have the same concerns, has been tabled for the 2024 AGM. We will support this motion and report on it in our next activity report.

MONITORING CONTROVERSIES - TAKING ACCOUNT OF SUSTAINABILITY RISKS YET IDENTIFYING OPPORTUNITIES FOR ENGAGEMENT

Controversy monitoring is coordinated by the SRI Strategy & Stewardship team in collaboration with the asset management teams. This enables us to identify potential future risks, but yet highlight opportunities for engagement.

For our **equity investments,** 68 controversies involving 53 individual companies were analysed. Controversies relating to social issues continue to dominate, but **2023 saw a reversal in the ratio between environmental and governance controversies**.





For our bond issuers, 44 controversies relating to 27 individual companies were monitored over the past year. While the legacy controversies concerning financial companies are still ongoing, we note **the worsening of a number of controversies related to the forced labour of Uighurs in the supply chain of multinationals**.

A COHERENT, EASY-TO-UNDERSTAND RANGE

The changes implemented in 2022-2023 (SFDR classification, sustainable assets, new range with impact objective) result in the definition of a coherent and legible range that allows our investors to easily identify the SRI ambitions of each of our products.

During the period under review, the French SRI label was confirmed for BL Equities Europe, BL Equities America, BL Equities Japan, BL Equities Emerging Markets, BL Global Flexible EUR and BL Global Impact. The latter also maintained its Luxembourg LuxFLAG label.

Asset class	Subfund *	SFDR Articles **	Min % in sustainable assets ***	Sustainable assets as of 31/12/2023	Implemented approaches					
					Exclusions	ESG Integration	Monitoring of controversies	Formalized engagement	Universe reduction	Impact SDGs
Article 6 Strategies (SFDR)										
Bonds	BL Bond Dollar	6	–	0%	×					
FoF	BL Fund Selection – Alt. Strat.	6	–	1%	×					
FoF	BL Fund Selection 0-50	6	–	5%	×					
FoF	Selection F - Alpha	6	–	5%	×					
FoF	Selection F - Capexpert	6	–	8%	×					

* Please note that all sub-funds and share classes are necessarily registered for local distribution in your country of residence. Please to contact info@bli.lu for any further information.

** Art. 8+ : Sub-funds categorized under article 8 of the EU SFDR regulation with a commitment to invest a portion of their assets in assets considered sustainable.

*** On total assets (including cash and derivatives)

Asset class	Subfund *	SFDR Articles **	Min % in sustainable assets ***	Sustainable assets as of 31/12/2023	Implemented approaches					
					Exclusions	ESG Integration	Monitoring of controversies	Formalized engagement	Universe reduction	Impact SDGs
Article 8 Strategies (SFDR)										
Equities	BLB American Equities	8	–	43%	×	×	×	×		
Equities	BLB European Equities	8	–	73%	×	×	×	×		
Equities	BL American Small & Mid Caps	8+	30%	58%	×	×	×	×		
Equities	BL Equities America	8+	30%	45%	×	×	×	×		
Equities	BL Equities Europe	8+	30%	74%	×	×	×	×		
Equities	BL Equities Europe PEA	8+	30%	75%	×	×	×	×		
Equities	BL European Family Businesses	8+	30%	52%	×	×	×	×		
Equities	BL European Small & Mid Caps	8+	30%	48%	×	×	×	×		
Equities	BL Equities Emerging Markets	8+	30%	38%	×	×	×	×		
Equities	BL Equities Asia	8+	5%	29%	×	×	×	×		
Equities	BL Equities Japan	8+	30%	61%	×	×	×	×		
Equities	BL Global Equities	8+	30%	60%	×	×	×	×		
Equities	BL Equities Dividend	8+	30%	48%	×	×	×	×		
Flexible	BL Global Flexible EUR	8+	20%	45%	×	×	×	×		
Flexible	BL Global Flexible USD	8+	15%	34%	×	×	×	×		
Mixed	BL Global 30	8+	5%	52%	×	×	×	×		
Mixed	BL Global 50	8+	5%	44%	×	×	×	×		
Mixed	BL Global 75	8+	20%	34%	×	×	×	×		
Mixed	BL Emerging Markets	8+	5%	31%	×	×	×	×		
Bonds	BL Bond Euro	8+	30%	98%	×	×	×			×
Bonds	BL Bond Emerging Markets Dollar	8+	30%	50%	×	×	×			×
Bonds	BL Bond Emerging Markets Euro	8+	30%	50%	×	×	×			×
Bonds	BL Corporate Bond Opportunities	8+	20%	48%	×	×	×			×
Bonds	BL Global Bond Opportunities	8+	30%	63%	×	×	×			×
FoF	BL Fund Selection - Equities SRI	8+	30%	58%	×	×				
FoF	BL Fund Selection - 50-100 SRI	8+	30%	44%	×	×				
FoF	Selection F - Smart Equities	8+	30%	58%	×	×				
FoF	Selection F - Smart Evolution	8+	30%	43%	×	×				
Article 9 Double Impact Strategies (SFDR)										
Equities	FFG - BLI Global Impact Equities	9	75%	95%	×	×	×	×	×	×
Equities	FFG - BLI European Impact Equities	9	75%	97%	×	×	×	×		×
Equities	FFG - BLI American Impact Equities	9	75%	98%	×	×	×	×		×

* Please note that all sub-funds and share classes are necessarily registered for local distribution in your country of residence. Please to contact info@bli.lu for any further information.

** Art. 8+ : Sub-funds categorized under article 8 of the EU SFDR regulation with a commitment to invest a portion of their assets in assets considered sustainable.

*** On total assets (including cash and derivatives)

OVERVIEW OF DEPLOYED METHODOLOGIES

SUSTAINABLE INVESTMENT STRATEGIES IN EQUITIES, BONDS AND MULTI-MANAGEMENT

EQUITY MANAGEMENT

ESG FACTORS AT THE HEART OF THE REACTOR...

BLI's range of equity strategies is firmly focused on sustainability. Most of the strategies are covered by Article 8 of the European SFDR regulation, and the funds are committed to investing a proportion of their assets in sustainable assets. This core range is complemented by a new, narrower range of impact funds classified under Article 9.

Sustainability risks are taken into account across four dimensions for all equity strategies: controversy monitoring, sectoral and normative exclusions, and voting and engagement.

For funds classified under Article 8 of the European SFDR Regulation, **sustainability factors** are **promoted** by integrating ESG factors into the core of BLI's approach, i.e., the valuation model. Indeed, a company with a solid ESG profile is assigned a lower cost of capital, resulting in a higher fair value and therefore greater upside potential, while a company lagging behind in ESG terms is penalised by a higher cost of capital and a lower fair value. This approach makes it possible to 'promote' issuers with a solid ESG profile over those of lesser quality, without totally ruling out investment in the latter.

Strategies of the funds classified under Article 9 place **sustainability objectives** on an equal footing with their financial objectives. In addition to integrating ESG ratings into the valuation model, the approach is based on identifying companies whose products and/or services contribute directly to achieving the SDGs. The internal methodology has identified 4 major themes linked to the SDGs:

ENVIRONMENTAL FOCUS

- NATURAL RESOURCES
- CLIMATE CHANGE

SOCIAL FOCUS

- GOOD HEALTH & LONGEVITY
- FAIR & INNOVATIVE SOCIETY

This classification is based on a 5-dimensional impact analysis: reach, potential, quality, corporate culture and proportion of revenues aligned with the SDGs. Also, as mentioned in the second part of this report, the sustainability and impact approach implemented in the portfolios is complemented by a post-investment impact accomplished by the Funds For Good initiative.

More information is available in the detailed methodology.

BOND MANAGEMENT

A HETEROGENEOUS ASSET CLASS REQUIRING DIFFERENTIATED APPROACHES

With the exception of a strategy invested solely in US Treasury bonds, BLI's bond strategies are classified under Article 8 of the European SFDR and, in addition to promoting sustainability factors, are committed to making a certain proportion of their investments in assets qualified as sustainable.

The bond universe, with its diversity of sub-asset classes, is quite complex to understand in terms of sustainability. This complexity leads us to adopt bespoke sustainability approaches depending on the sub-asset class under consideration and the objectives sought.

Sustainability risks are taken into account differently for corporate bonds and sovereign bonds. For corporate bonds, three approaches are combined: analysis of controversies, sectoral and normative exclusions, and active dialogue. For sovereign and supranational issuers, the development of a proprietary ESG rating methodology monitors changes in these risks.

Once again, **the promotion of sustainability factors** (Article 8 funds under the European SFDR) differs depending on the type of assets under consideration.

- **Private issuers:** a combination of qualitative consideration of extra-financial factors in the analysis of the risk/return ratio of issuers on the basis of various criteria (MSCI ESG rating, JPMorgan index ratings, carbon emissions intensity, monitoring of controversies, exposure to certain sensitive sectors, ESG trend) with the setting, at portfolio level, of formal improvement targets for a predefined impact indicator (e.g., improvement in carbon intensity over a 5-year period). Finally, the bond management team aims to achieve a MSCI ESG rating for corporate debt investments in the portfolios that is higher than that of the representative market (optimisation);
- **Sovereign issuers:** the bond management team aims to optimise the average ESG rating of the issues in the portfolio compared to the representative market universe. To achieve this, BLI developed a proprietary rating model that assesses sustainability factors of different governments, their economies and the reforms they have implemented. The approach is based on combining a fundamental rating based on quantitative ESG data that is relatively stable over time with a qualitative momentum rating fed by ongoing analysis of the qualitative information available on the countries. The aggregate country rating assigns greater weight to governance factors, given their criticality in the potential deployment of effective social and environmental policies;
- **Supranational issuers:** given the specific nature of these issuers, their generally high standards of governance practices and the conduct of their operations, these issuers are considered to be sustainable, unless otherwise indicated by internal analysis;
- **Impact debt:** two types of bonds make up this universe:
    - ***Liquid impact*** refers to bonds that are freely issued and transferable on the financial markets and which, within the framework established by the principles of the International Capital Market Association (ICMA), to finance environmental and/or social projects. These bonds are most often issued by governments or supranational bodies to finance large-scale projects, but companies can also use them to finance very specific projects. Investing in this type of bond involves an in-depth analysis of the projects considered by the bond management team, to ensure that they meet the set impact objectives;

- ***Alternative impact*** includes microfinance and debt issued by micro, small and medium-sized enterprises in developing countries. Including this type of issues in a bond portfolio is an attractive source of diversification (decorrelation effect thanks to lower volatility, lower default rate due to more resilient business models). Analysis of the financial and extra-financial aspects of these issues is crucial, and must be accompanied by rigorous post-investment monitoring.

For both types of investment, the sustainability of issuers and/or issues is analysed through the prism of the United Nations Sustainable Development Goals. The contribution of each issue in the portfolio to one or more of the SDGs must be clearly analysed and documented as part of the decision-making process.

More information is available in the detailed methodology.

MULTI-MANAGEMENT

AN APPROACH TO SUSTAINABILITY THAT COMBINES PROPRIETARY ANALYSIS AND METHODOLOGY SPECIFIC TO THE UNDERLYING FUNDS

BLI's range of funds of funds is divided more or less equally between strategies covered by Article 8 of the European SFDR and strategies classified under Article 6. The latter cannot claim to promote sustainability factors due to the high presence in their portfolios of so-called absolute return strategies, where ESG integration is more arguable to achieve.

Sustainability risks are assessed by analysing the sustainability strategies implemented by the target funds.

For strategies listed under article 8 SFDR, **sustainability factors are** integrated and **promoted** by taking into account an in-depth extra-financial analysis not only of the strategies of the underlying funds but also of the companies managing these products. The aim is to give preference to funds with a favourable sustainability profile.

These funds must comply with the following constraints:

- Commitment to invest part of the portfolio assets (min. 30%) in sustainable assets as defined by the SFDR regulation;
- 75% of the portfolio's investments will be made in funds categorised under Article 8 (promotion of sustainability factors) which also target investments in sustainable assets or in funds categorised under Article 9 SFDR;
- In addition to the SFDR classification, each fund in this category must meet strict criteria in terms of sustainability; an in-depth internal analysis is carried out on both the targeted fund and the management company responsible for it.

The **methodology for the extra-financial analysis** of third-party funds, which was first developed in 2019, is based on two proprietary questionnaires: one concerning ESG integration in the broad sense of the term in the investment processes of the related funds, and the other covering the SRI and CSR strategy of the management companies. This analysis results in an **internal rating** for each fund, to compare easily different strategies. The universe currently covered includes 80 individual funds and their respective management companies.

The analysis differentiates two main types of strategy: so-called sustainable strategies that take ESG factors into account in the investment process, and impact strategies.

SUSTAINABLE ASSETS: A SCHEMATIC OVERVIEW

PRIVATE ISSUERS (EQUITIES AND BONDS *)	SOVEREIGN BONDS *	MULTI-MANAGEMENT
Sectoral and normative **exclusions**	**Exclusions** (international sanctions)	**Internal SRI analysis** – Management company score – Fund score
Governance	**DNSH** (PAI analysis)	**Classification of sustainable assets** According to the methodologies defined by the selected fund managers
DNSH (PAI analysis)	**Sustainability analysis** – Governance filter – E/S conviction	
E/S conviction via dual materiality analysis		

* Given their specific characteristics, the application of certain criteria may differ for impact bonds.

More information is available in the detailed methodology.

OUTLOOK

The world of sustainable and responsible investment is extremely vast and constantly evolving.

While these characteristics make it very interesting, there is a risk of getting lost if clear priorities are not well-defined.

In addition to the purely regulatory and therefore mandatory dimension, our objective remains to focus our efforts on those aspects of sustainable investment that we believe are likely to generate the greatest impact.

CHANGES TO THE REGULATORY FRAMEWORK

In Europe, SFDR sets the framework for sustainable finance. This regulation and its technical implementation measures are fairly recent, so it is not surprising that the regulator feels the need to go back to the drawing board to identify areas for improvement.

In 2023, the European Commission launched a **public consultation on the technical standards relating to these regulations.** The feedback from this consultation has now been reviewed and a proposal for new Regulatory Technical Standards (RTS) was submitted to the European Commission and Parliament for formal validation.

The planned adjustments do not challenge the fundamental structure of the regulation, but are essentially intended to make up for omissions in the first version and to review the documentation to be produced.

While at first this may seem trivial, the practical consequences for management companies will be significant, as they will have to amend a large number of regulatory documents for all concerned funds.

The new RTS are expected to come into force in early 2025.

A second public consultation has been launched on SFDR itself. The results are not yet available, but we can expect much more far-reaching changes, which will in turn lead to another new version of the RTS.

But the potential changes do not stop there. In 2022, ESMA launched a consultation aimed at setting guidelines for **fund names using ESG and sustainability-related terms**. In fact, it identified a risk of *greenwashing* through the use of misleading fund names that label strategies as green or socially responsible when in fact the sustainable and responsible investment strategies implemented in the portfolios are not sufficient.

As things stand, the proposed fund naming guidelines will use quantitative thresholds and mandatory sectoral and normative exclusions; only funds meeting these criteria would be able to use ESG and sustainability-related terms in their names.

The final version of ESMA's recommendations is expected in 2024, with entry into force scheduled for early 2025.

The years ahead promise to be busy.

REVIEW OF THE DEFINITION OF SUSTAINABLE ASSETS

As we mentioned in the first part of this report, after several months of use, we pinpointed the need to review the definition of sustainable assets for corporate issuers.

Having set up a concept that relies heavily on quantitative indicators, the limitations of such a concept became apparent during 2023. As sustainability is a fundamentally qualitative and long-term concept, the quantitative approach does not do it justice.

This review is one of our main priorities for 2024. The SRI Strategy & Stewardship team and the portfolio management teams are working together to overhaul this model to better the integration of sustainability convictions of our portfolio managers and analysts.

The results of this project will be communicated in the SRI Activity Report 2024.

MANAGEMENT OF NON-FINANCIAL RISKS

As we journey through the vast world of sustainable and responsible investment, we inevitably need to distinguish between areas with high added value and those with little.

As the majority of equity and bond transactions take place on secondary markets, their impact on the sustainability of companies and the real world is mainly indirect and moderate[3].

On the other hand, we find the issue of non-financial risk management particularly compelling.

In our view, considering the effects of sustainability on the overall risk profile of companies (profitability, growth, physical and transition risks) represents a significant source of added value.

For this reason the main contribution of an asset manager in the SRI effort lies above all in identifying, modelling, analysing, taking into account and measuring extra-financial risks.

It is in this area that we wish to strengthen our expertise over the coming months, in order to focus on the following **tasks**:

- Research and identification of relevant sustainability risks;
- Formalisation of their impact on BLI's investment activities in collaboration with all the concerned teams (management team, middle office, compliance, etc.);
- Creation of tools to master the concepts in terms of portfolio investment decisions, data flows and monitoring.

Climate risk modelling for issuers in BLI's investment universes is currently a key area of research. Our aim is to understand the physical and transitional risks of the companies we analyse using clear indicators.

DATA, DATA, DATA

In the first part of this report, we highlighted the extent to which the success of all SRI research projects is intimately connected to readily available exhaustive and reliable data. This data is then used to create analysis models or cross-referenced to define clear concepts.

The recruitment of a data engineer during 2023 helps implementing an increasingly comprehensive and user-friendly data ecosystem.

This work will continue through 2024, with the main projects being:

- The programming of a data interface providing management teams with a multitude of data required for portfolio in-depth extra-financial analysis;
- The development of a tool to add a dynamic dimension to the analysis of controversies using a language recognition system. This tool will make it possible to complete the analysis of controversies (the status included in MSCI being relatively static) and thus take better account of sustainability risks;
- Modelling of climate risks.

All these projects are long-term and will be carried out in several phases over several years.

We'll be coming back to the major stages of these projects in future reports.

3 An in-depth analysis of these interactions is available in an article written by Thierry Feltgen, Head of SRI Strategy & Stewardship, available on the BLI blog.

GLOSSARY

Business-Like Investing	BLI's management strategy, developed by Guy Wagner in the 1980s, consists of buying and selling securities and adopting an entrepreneurial spirit when investing in a company. It is an active, long-term approach.
Controversies	A controversy indicates a company's involvement in non-financial and/or financial-related incidents.
Corporate governance	The set of rules, practices and processes by which a company is managed, and its management supervised.
Corporate Social Responsibility (CSR)	A commitment by a company to manage the environmental, social and economic effects of its activities in a responsible manner consistent with the expectations of all its stakeholders.
Engagement	An active and long-term dialogue between investors and companies on environmental, social and governance factors.
Environmental, Social, Governance (ESG)	Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.
ESG integration	The systematic integration of non-financial information into the investment decision-making process.
Global Coal Exit List (GCEL)	The exclusion list developed by the NGO Urgewald, which lists companies that are part of the coal value chain.
Global Oil & Gas Exit List (GOGEL)	The exclusion list developed by the NGO Urgewald, which lists companies that are part of the oil and gas value chain.
Green bonds	Green bonds are debt securities financing climate and environmentally sustainable projects.
Impact investing	Investments are considered as impact investing when they are intentionally made with the aim of creating a measurable beneficial impact on the environment or society while also pursuing a positive financial return.
LuxFLAG label	The LuxFLAG label is a tool to promote sustainable investment sectors. Created by the Luxembourgish NGO LuxFLAG, the label aims to give the investor an insurance that the assets under management of the labelled vehicle are really invested in a responsible manner.
MSCI ESG Manager	An ESG data provider that BLI has relied on since 2017.

PAI (Principal Adverse Impact)	Indicators used to measure any impact of investment decisions or advice that results in a negative effect on sustainability factors. SFDR requires financial market participants to publish a PAI statement and describe PAI in pre-contractual information.
Scope 1 + scope 2 carbon emissions	Scope 1 carbon emissions correspond to carbon emissions resulting directly from the company's activities. Scope 2 carbon emissions correspond to carbon emissions resulting from energy consumption.
Sectoral or normative exclusion	An exclusion involves preventing the securities of a company from being included in a portfolio because of business activities deemed unethical, detrimental to the company and community or in violation of laws or regulations.
Socially Responsible Investment (SRI).	An investment strategy that seeks to consider both financial return and social good by taking sustainable development priorities into account.
SRI Label	The SRI Label is a tool for choosing responsible and sustainable investments. Created and supported by the French Ministry of Economy and Finance, the label aims for a greater promotion of SRI products to savers in France and Europe.
Sustainable Finance Disclosure Regulation (SFDR)	A regulation established by the European Commission implemented in March 2021, which aims to implement harmonised rules for financial markets in terms of transparency on the integration of risks relating to sustainable development. European funds are classified between three Articles: Article 6, Article 8 and Article 9. Funds classified under Article 6 consider sustainability risks in their selection and management processes. Funds classified under Article 8 promote sustainability characteristics – environmental, social or a combination of both – through their investments, while ensuring that the companies invested have good governance practices. Funds classified under Article 9 are funds with a sustainable investment objective and clear and measurable impact objectives.
United Nations Global Compact (UN Global Compact)	A United Nations initiative to encourage companies around the world to adopt a sustainable and responsible attitude by committing to integrate and promote several principles relating to human rights, international labour standards, the environment and anti-corruption.
United Nations Principles for Responsible Investment (UN PRI)	These six Principles provide guidance on possible actions for incorporating ESG issues into investment decisions.
United Nations Sustainable Development Goals (SDGs)	The 17 sustainable development goals provide a roadmap for achieving a better and more sustainable future for all. They respond to global challenges including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

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