Sustainable and Responsible Investment at BLI

ACTIVITY REPORT

NOVEMBER 2021

BLI BANQUE DE LUXEMBOURG INVESTMENTS

Disclaimer

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Introduction

The last year has been eventful in sustainable and responsible investing at BLI[1] to say the least – and we are delighted to say that the undertakings constitute a positive and fruitful evolution. Like all European asset management companies, we were facing the introduction of the Sustainable Finance Disclosure Regulation (SFDR) whose main objectives are to direct capital flows towards sustainable investments, to improve transparency and to integrate sustainability in risk management. While the objectives relate to both a central and righteous cause, the implementation of the underlying principles, remains a learning curve and is not without challenges.

One highlight this year was the attribution of the French Label ISR to two of our biggest and oldest funds; the BL-Equities America and the BL-Equities Europe. Additionally, the Luxembourgish LuxFlag Label and the Label ISR were extended by another year for our ESG flagship fund, the BL-Sustainable Horizon. Thus, 22% of BLI's assets under management[2] are now labelled. The labels constitute a gratifying acknowledgment of our efforts in the development and implementation of ESG frameworks.

In the equity department, we further deepened our controversy analysis and rigorously applied our ESG integration process. In the chapter "Equity", of this report we share our experiences with the ESG enhanced Business-Like Investing approach.

Our duties as active shareholders/owners were not neglected either. During the year, we increased our engagement efforts and in October 2021, we introduced our new engagement policy. In tandem with this, BLI participated at more general meetings and voted on more ballots than ever. Results of our engagements and voting records are presented on page 30 and page 32.

Finally, BLI updated its exclusion policy and decided to exclude coal-related investments officially from its investment universe. BLI is applying the Global Coal Exit List by the German NGO Urgewald and defined an internal exclusion procedure – "More details can be found on the 'Exclusions' chapter of this report".

The fixed income team did not rest either. While continuously applying its ESG integration optimisation process, the team has continued its quest of seeking impact wherever it can. This motivation led them not only to increase the amount of green bonds, but most and foremost they worked tirelessly on the launch of a dedicated microfinance fund – the Impulsum Reserved Alternative Investment Fund (RAIF), more information can be found in the chapter "Microfinance".

Last year, when we published our first activity report on sustainable and responsible investment, our goal was twofold: to present sustainable and responsible investing at BLI as well as to demonstrate the same level of transparency across our activities that we ask of the companies in which we invest. As you'll be able to see in this report, a lot has been done – but there's still a long road ahead. Thus, we'll continue to improve to try to play our role as best as we can in doing our part to render the finance world more sustainable.

1 BLI has acquired Conventum TPS in January 2021. However the scope of this report remains the same as last year: SICAV BL and BL Fund Selection.

2 Assets where BLI is the financial manager – as of end of August 2021.

Equity

BLI's long-standing Business-Like Investing has since last year been enhanced by the integration of an ESG dimension in the valuation model. This, alongside with incoming regulation, went hand in hand with an update of the equity funds' prospectus which now includes a part on ESG and our approach. Consequently, our handling of sustainability risks has been introduced to the legal framework of our equity funds, which constitutes a big step. This evolution will evidently through the beforementioned regulation like SFDR continue over the next years.

Below an overview of the principal features of the ESG equity investing framework:

Pre Investment	Intra Investment	Post Investment
Exclusions	ESG Integration	Engagement & Voting
Controversies screening		Controversies followup

Exclusions

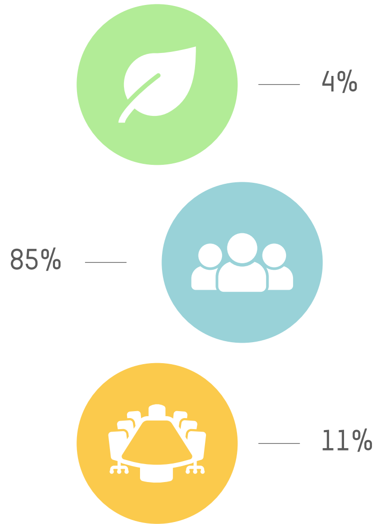
As already mentioned in the introduction, BLI updated and expanded its exclusion policy during the year by the official removal of companies active in the coal value chain. By following the Global Coal Exit List and excluding companies on the list created by the German NGO Urgewald, BLI is moving with the times and has formalised an aspect which was already a natural outcome of our approach – as a matter of fact, only one company was on the list. So why include it in an exclusion policy at all? The goal is to be as transparent as possible to clients about what is expected to be found in one of our portfolios.

Back to the excluded company – what happened to it? The fund manager followed the newly introduced exclusion procedure, where he can decide to defend the company before BLI's own Comité ISR in order to keep it in the portfolio (more details on both Comité and exclusions page 45). The result: the Comité ISR voted that the company can stay in the portfolio with the following reasoning: *"The Comité ISR determined that it shares the manager's view on the social impact of the company and that the percentage of turnover derived from coal is minimal at <5. The panel encourages the manager and the SRI team to continue their engagement efforts to ensure that the company ceases its coal-fired power generation activity."*

Here are some additional facts about the company to give some further context to better understand the reasoning:

- The company's core business (83% of turnover) is water supply and wastewater treatment. This is a segment that has a strong social and environmental impact through the supply of water to tens of millions of people;
- The fund manager is in regular contact with the company which has confirmed several times that the water segment would continue to grow and that it would remain its core business. Furthermore, the company does not plan to expand its coal segment.

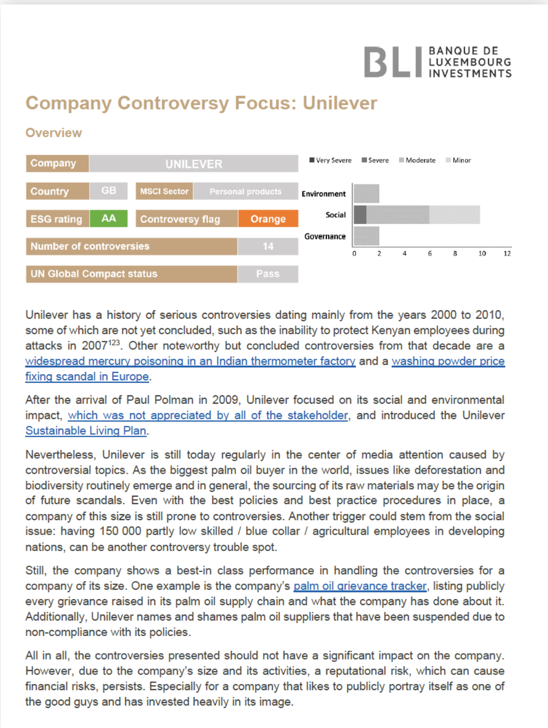
Controversy Monitoring



The SRI team continued the monitoring of severe controversies of investee companies and expanded its efforts in the controversy analysis and started to create so-called *Controversy Focus* documents, which, as the name implies, have a specific focus either on a company or a whole equity fund. Together with the ongoing controversy analysis, a lot of effort is being invested to cover this aspect of the policy.

At the end of September, there were 48 unique controversies monitored and analysed on a quarterly basis. The split between the ESG thematics is similar to last year's, but that's because of the nature of severe controversies. They do not tend to vanish or be resolved overnight and that's why it is important to keep tabs on them. During the year, only 5 were concluded, i.e. the company changed its behavior, or the controversy was deemed less severe than initially thought and was upgraded. By far the largest part of controversies are related to the social dimension, trailed by governance issues and environmental aspects.

The newly introduced *Controversy Focus* has been implemented to allow for a deep-dive into all events of one controversy-ridden company. The document aims to provide a better overview and understanding of the risks associated with these events and the possible remedies and actions the company has introduced to improve its situation as well as the probability of avoiding similar issues in the future. The document can also have a whole fund as target, if it either has too many controversies as a whole or if no single company qualifies as target as the controversies remain rather benign.



Company Controversy Focus: Unilever

Overview

Company	UNILEVER		
Country	GB	MSCI Sector	Personal products
ESG rating	AA	Controversy flag	Orange
Number of controversies	14		
UN Global Compact status	Pass		

Unilever has a history of serious controversies dating mainly from the years 2000 to 2010, some of which are not yet concluded, such as the inability to protect Kenyan employees during attacks in 2007[123]. Other noteworthy but concluded controversies from that decade are a widespread mercury poisoning in an Indian thermometer factory and a washing powder price fixing scandal in Europe.

After the arrival of Paul Polman in 2009, Unilever focused on its social and environmental impact, which was not appreciated by all of the stakeholder, and introduced the Unilever Sustainable Living Plan.

Nevertheless, Unilever is still today regularly in the center of media attention caused by controversial topics. As the biggest palm oil buyer in the world, issues like deforestation and biodiversity routinely emerge and in general, the sourcing of its raw materials may be the origin of future scandals. Even with the best policies and best practice procedures in place, a company of this size is still prone to controversies. Another trigger could stem from the social issue: having 150 000 partly low skilled / blue collar / agricultural employees in developing nations, can be another controversy trouble spot.

Still, the company shows a best-in class performance in handling the controversies for a company of its size. One example is the company's palm oil grievance tracker, listing publicly every grievance raised in its palm oil supply chain and what the company has done about it. Additionally, Unilever names and shames palm oil suppliers that have been suspended due to non-compliance with its policies.

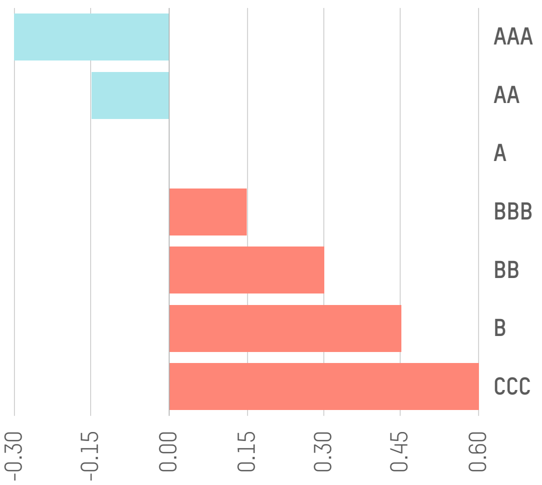
All in all, the controversies presented should not have a significant impact on the company. However, due to the company's size and its activities, a reputational risk, which can cause financial risks, persists. Especially for a company that likes to publicly portray itself as one of the good guys and has invested heavily in its image.

ESG Integration

The integration of an ESG rating in BLI's Business-Like Investing approach was a milestone for BLI: the philosophy was first applied at the end of the eighties by Guy Wagner, CEO of BLI and has now been expanded by an ESG factor or to be more specific, an ESG rating provided by our ESG research provider MSCI. The rationale behind it is straightforward: A company with a solid ESG profile will be attributed a lower cost of equity (CoE), which in turn leads to a higher fair value, whereas an ESG laggard will be penalized with a proportionately higher cost of equity and hence a lower intrinsic value.

Over all of our equity portfolios, the average change in the cost of equity was +0.04 basis points (bp.). For developed markets the CoE increased on average by only 0.01 whereas emerging markets companies CoE increased by 0.15bp. While this may seem little, an average Cost of Equity adjustment of -0.1bp had a nearly 4% impact on one portfolio's fair value pre-and post ESG integration [3].

CoE adjustment



Across sectors [4], the impact on the cost of equity was diverse:

	Average Cost of Equity Adjustment [5]			Number of companies in sectors		
	BLI 2021	BLI 2020	Global Index 2021	BLI 2021	BLI 2020	Global Index 2021
Materials	-0.05bp	0.01bp	0.22bp	28	29	281
Health Care	0.01bp	0.05bp	0.14bp	47	51	286
Industrials	0.04bp	0.08bp	0.13bp	77	73	415
Information Technology	0.04bp	0.08bp	0.15bp	58	51	352
Consumer Discretionary	0.05bp	0.12bp	0.17bp	38	39	323
Consumer Staples	0.06bp	0.08bp	0.14bp	91	95	251

3 BL Equities Europe 08 2021.

4 Sectors in which we detain more than 10 companies.

5 At the end of September of the respective years.

In the table above the CoE adjustment across sectors at different points in time are presented. BLI's universe of investee companies showed on average an improvement in its adjustments, compared to last year's universe. A further interesting thing to note is the comparison with a global equity index, where the Cost of Equity adjustment was only a fraction of the global index'. In some sectors, a stark contrast of 0.27bp (Materials), 0.13bp (Health Care) or 0.12bp (Consumer Discretionary) is observable. This can be explained by the selection process applied which often, even before the ESG revolution of recent years, identified high quality companies which in turn also manage ESG challenges quite well and are accordingly rated.

Steve Glod – Fund Manager of the BL Equities Japan Fund about the integration of ESG:

"The integration of the MSCI ESG rating into the determination of the CoE has become an inherent part of our valuation approach. Since the start it has fit seamlessly into our approach to use a rigorous investment process to reduce and control risks as much as possible; the ultimate goal being to end up with a portfolio with attractive risk/rewards profiles.

The determination of the CoE is an important part to assess the fair-value of a company, which itself is strongly influencing buy targets and portfolio weightings of individual holdings. While risk considerations have always been the main factors determining the CoE, company cyclicality and stock price volatility have been the only considerations before. The integration of MSCI's assessment in terms of ESG risk (expressed by the rating) has added an important layer to this approach.

The impact of the adoption of the ESG factor has certainly not been negligible on my portfolio management. For companies with a low rating (e.g. a B-rating, the lowest rating among my holdings), I have observed a negative impact on fair-values being lowered by up to 20%. This has resulted in lower weightings in companies with seemingly riskier ESG profiles and candidates not being introduced into the portfolio, as the intrinsic value has not provided me with the necessary margin of safety to initiate a position. On the other hand, companies with an attractive ESG rating (so basically a better ESG risk profile) have seen their weightings increase at the beginning of the adoption of the new approach.

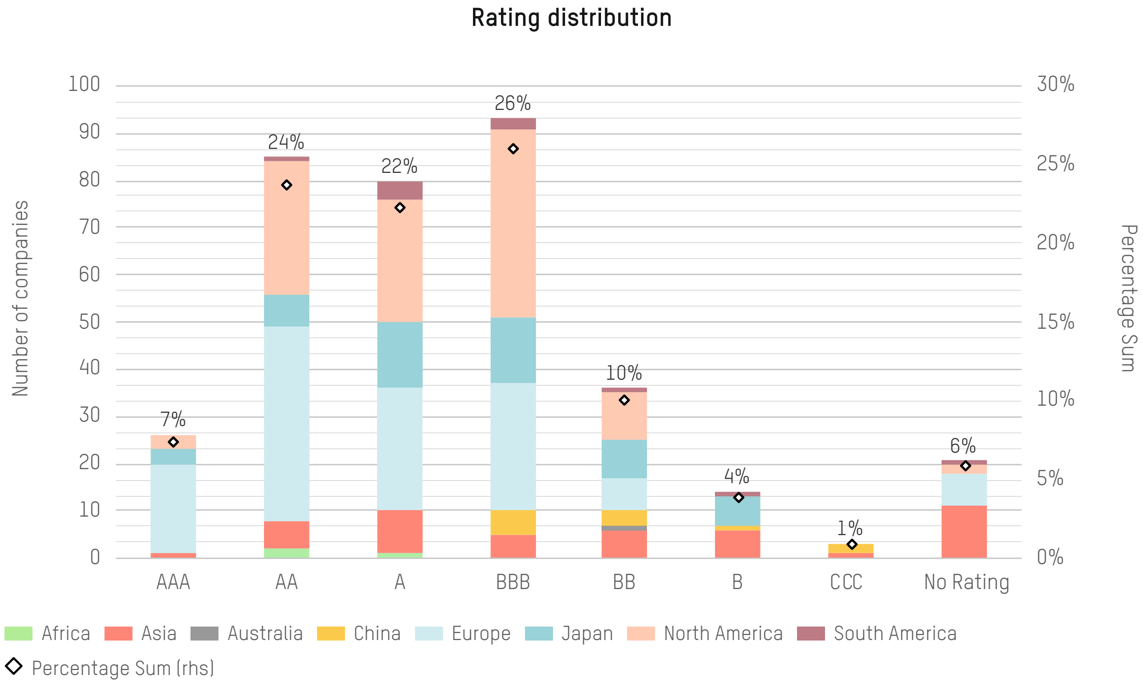
Today, the ESG-approach for the determination of the CoE has become firmly entrenched into the process. Every change in ESG rating is immediately reflected in a lower or higher CoE, resulting in an adjustment to the fair-value, and thus, ultimately, in the weighting of the position. Although other factors also come into play, this approach should positively contribute to the aim to improve the risk profile of the portfolio (with the nice side effect that the overall ESG rating of the portfolio also improves). While the numbers have to be taken with a grain of salt and an evidence-based correlation is difficult to establish, I am convinced that this new approach has also played its part in ensuring that BL-Equities Japan continues to rank among the least volatile funds in its asset class."

Engagement and Voting

BLI continued its efforts in the engagement and voting dimensions during the year:

- A strong increase in the number of participated general meetings – more on this on pages 32-33 of this report.
- Two large-scale engagement campaigns have been launched – more on this on pages 30-31 of this report.

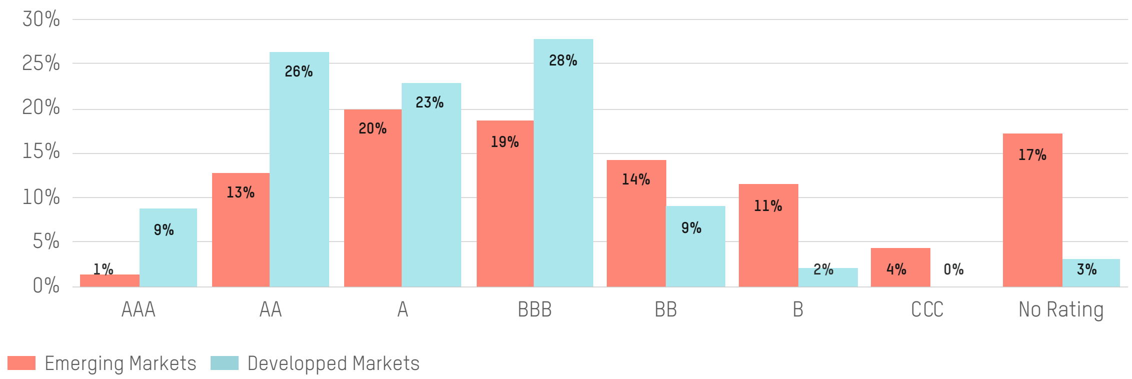
Further Equity Statistics



Below a geographic distribution of the ratings of companies in our equity portfolios. Compared to last year, the amount of ESG leaders, rated AAA, AA and A, has increased and lies now at over 53% (right-hand scale) (191 companies – left-hand scale) vs 46% (171 companies) last year. The amount of ESG laggards, rated B and CCC, has decreased and lies at 4.8% (17 companies) vs 9.6% (36 companies) last year. The number of companies still missing a rating has marginally decreased, a positive evolution which we'll probably be able to continue to observe.

Equity

DM vs EM Rating Distribution



When the ratings are distributed by developed and emerging markets, the informed reader will recognize a now familiar pattern of ESG ratings:

- Companies active in developed markets are on average better rated than companies in emerging markets. This is not breaking news and has been the topic of many roundtables and remains simply a given: the sustainability angle is still in its infancy in some of those markets and has a long way to go;
- By extension, emerging markets are also the markets with the least amount of disclosure, which in turn makes it cumbersome to attribute a meaningful rating. Another reason for the high number of missing ratings in emerging markets is the fact that some are not yet in the scope of our ESG research provider.

Nevertheless, we have noted that the situation isn't as dire as it used to be – the amount of ESG information on companies available is constantly increasing as the companies feel the pressure from (mostly) European investors. An additional and significant impactful push comes from the respective regional regulatory authorities who have also started designing and implementing stricter disclosure rules that give investors the much sought inside. The financial industry is on the right track, but there's still some way ahead.

Marc Erpelding – Fund Manager of the BL-Emerging Markets and BL-Equities Asia:

"Global emerging markets are still lagging their developed counterparts on various ESG metrics, reflected by their lower overall ESG rating. Adding to this general observation, my investment universe further encompasses companies that simply lack an ESG rating. Indeed, a non-negligible number of holdings are not part of major indices and therefore not covered by our research provider.

For poorly rated companies, ESG research helps me to identify the weaker aspects of those companies and to evaluate whether those metrics epitomize a risk for long-term stake- and shareholders like us. That risk will be accounted for in the cost of capital and thus in the fair value calculation of the company.

For the non-rated investments, we decided not to exclude them systematically. Indeed, excluding the non-rated companies would markedly reduce *the investment universe and alter the BL-Emerging Markets' and the BL-Equities Asia's current composition. At BLI, we believe in active stock-picking and it would not feel right to sell investments for the simple reason that they are not part of an index and therefore not covered. For the time being, we will adopt for the non-rated companies the same ESG factor in our cost of capital as the average of the portfolio's holdings. Thereby, neither penalizing, nor benefitting the non-rated companies relative to their peers.*

Going forward, I sincerely hope we will be able to extend the ESG research to those non-rated companies, with the aim to identify potential long-term risks. For me, ESG research is very complimentary to our "Business-Like Investing" approach as it sheds light on a company from a different angle, thereby completing the overall perception of our investments."

BL-Equities Europe and BL-Equities America

Label ISR

The BL-Equities Europe and the BL-Equities America funds were awarded the French Label ISR in the final weeks of 2020. The label was created under an initiative from the French Finance Ministry. Its goal is to allow savers, as well as professional investors, to distinguish investment funds implementing a robust SRI methodology, thus leading to measurable and concrete results. With the labelling of two of BLI's biggest funds, we took the next step and showed our commitment towards a more transparent and sustainable product range.

The funds have **two entwined objectives, a financial one,** generating long-term added value to BLI's clients, and an **impact objective**. It is ensuing from the realisation of social, economic and environmental challenges, and for which measurable and quantifiable objectives [6] have been fixed:

Environmental

- Carbon Emissions Intensity: represents the company's most recently reported or estimated Scope 1 + Scope 2 greenhouse gas emissions normalized by sales in USD;
- Climate Change Theme Score: combines several climate change related sub-elements such as energy efficiency and environmental impact financing. It crystallises the companies that are best placed to address climate change risks with a score between 0 and 10 [7].

Social

- Severe labour controversies: intends to measure the extent to which companies are exposed to severe risks related to the human resources field. A high number of controversies can be an indication that a company is not adequately addressing the health and safety of its employees;
- Human Capital Theme Score: Companies are evaluated on criteria such as the existence of development programmes, occupational health and safety objectives, standards for suppliers (existence of a policy against forced labour and child labour, existence of a minimum wage, etc.) with a score between 0 and 10 [7].

Gouvernance

- Corporate Governance Score: evaluates the extent to which companies' corporate governance practises in specific governance areas – audit, board, compensation/remuneration, shareholder rights – pose financial risks to shareholders with a score between 0 and 10 [7].

Human Rights

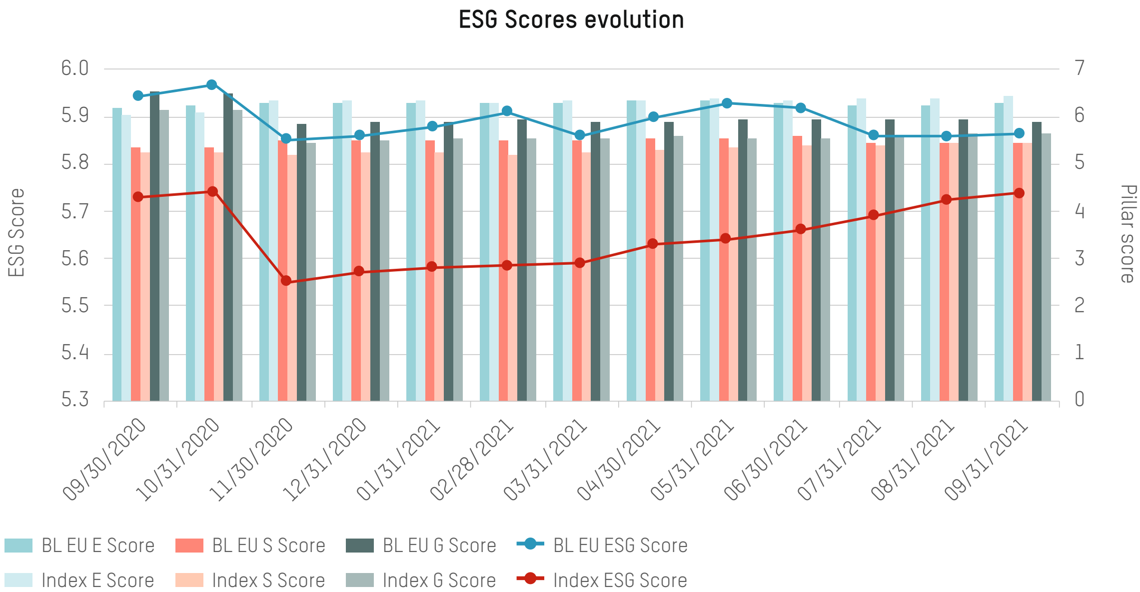
- UN Global Compact Signature: The signatory companies commit to respecting the 10 principles of the UN GC relating to the respect of human rights, international labour standards, the environment and the fight against corruption.

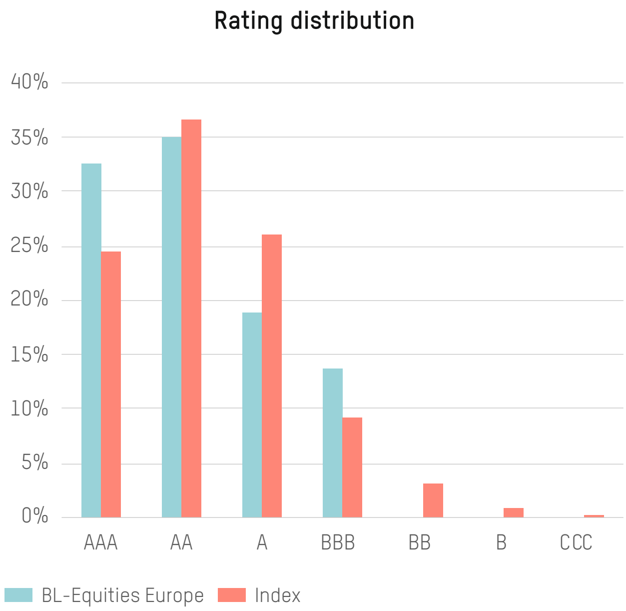
On the subsequent pages, we'll review the past ESG performance of the two funds by providing explanations and background information.

6 The quantifiable data stems from the MSCI ESG Manager platform.
7 0 being the worst and 10 the best, for a combination of all items integrating this score.

BL-Equities Europe

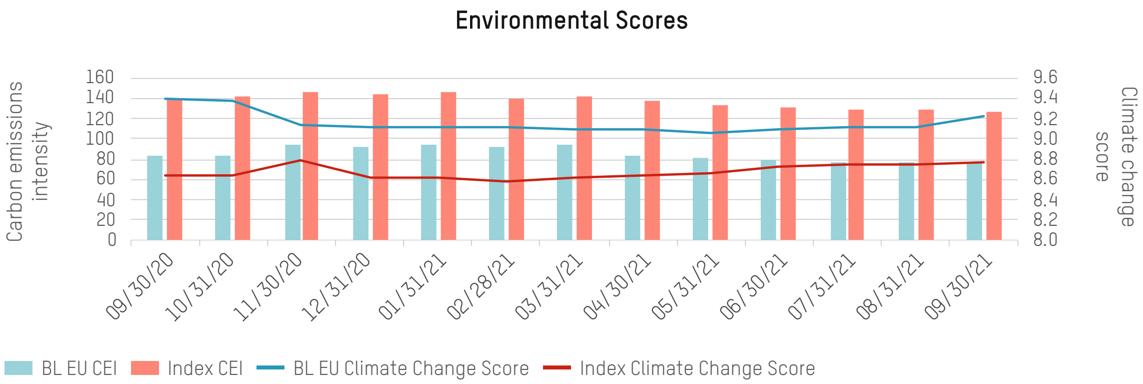
The overall ESG performance of the fund can be described as stable. The fund's ESG score (left-hand scale) stayed on a high level while the index's score slightly increased. The higher aggregated ESG score of the fund is generated through superior S and G scores. The index only shows a marginally higher E score compared to the fund.



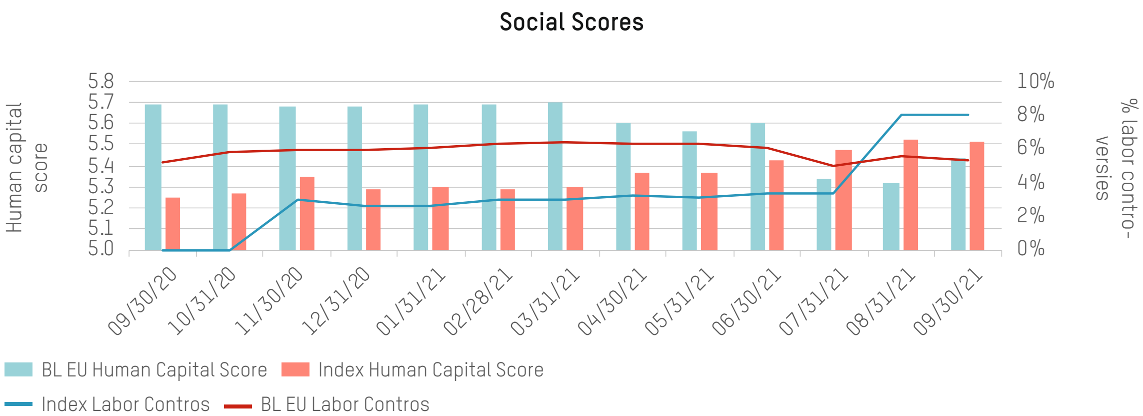


The stronger general ESG performance of the fund is also reflected in the rating distribution. Eliminating the laggards in terms of ESG performance (companies rated CCC, B and BB) is an integral part of the fund's investment approach as they are exposed to heightened extra-financial and thus potential long-term financial performance risks. The result of it can be seen in the graph on the left. At the end of September, 67% of the fund was invested in either AAA or AA rated companies.

BL-Equities Europe and BL-Equities America



The fund's carbon emissions intensity, CEI, (left-hand scale / histogram) has been historically lower and has slightly decreased over the last year. At the end of September, the index had a CEI of 127 compared to the fund's 76. This is a result of BLI's consistent Business-Like Investing approach, through which some sectors are systematically underrepresented, as well as the fund manager's company selection. If we consider the Climate Change Theme Score (right-hand scale), a clear picture emerges: the very high score of 9,2 underlines the fact that most of the investees have strong and robust climate change mitigation and adaption policies in place or are generally active in less polluting sectors.



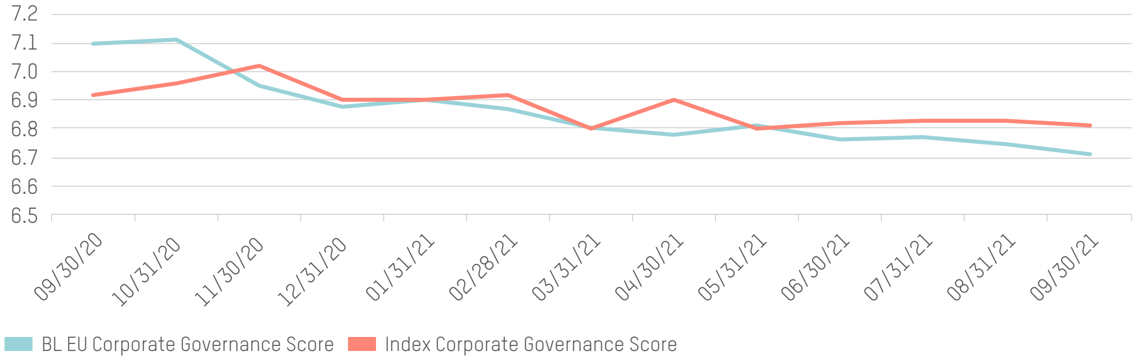
The social dimension has been a bit more challenging. A very distinct turning point can be identified in July. Up to July-August 2021, the fund showed a robust performance in both statistics and even led the index. Then several events occurred and the situation changed abruptly – among other things there were two main drivers of the score deterioration:

- One company had a severe controversy related to its handling of the Covid-19 health and safety measures. The issue has been resolved in the meantime – the OECD has determined that the policy to prevent, manage and monitor the pandemic deployed by the company corresponds to the expectations of corporate due diligence recommended by the OECD Guidelines;

- A second company's Human Capital Theme Score decreased as a result of a headcount increase after an acquisition, elevating its exposure to human capital risks according to MSCI's framework. Additionally, the company seems to fall short of best practices in promoting diversity and inclusion in the workplace (e.g. leading peers have established board-level oversight for diversity and inclusion programs).

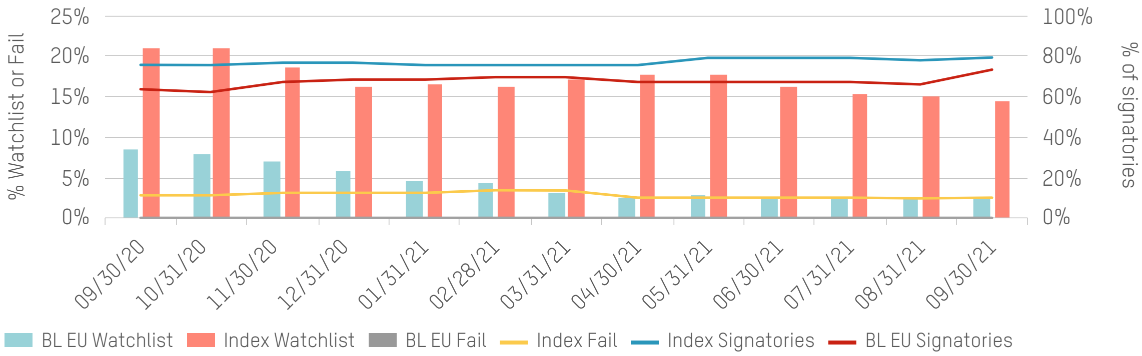
The issues were analysed and are followed closely – in the second case we have started an engagement and look to discuss the subject with the company.

Corporate Governance Score



The corporate governance scores of both the fund and the index declined slightly during the year. At the end of September, the index led the fund by 0.1. Although both remain at a relatively high level with scores around 7/10 and by consequence not really worrisome, we will concentrate one part of our engagement efforts in the next year on putting the laggard-companies' focus on the underlying issues in order to improve the fund's score.

UN Global Compact



The last impact factors focus on the UN Global Compact. In terms of compliance, the investee companies are very well positioned; MSCI deems that none of the companies fail to comply with the principles and that only one company is on the watchlist [8]. In comparison to the index, in which three companies (weight of 2.6% in the index – left-hand scale) are failing to comply and 32 companies (weight 14.6%) are on the ESG data provider's watchlist, the fund excels. About the number of signatories (right-hand scale), the fund has some catching up to do – 79.6% of the index compared to 73.5% of the fund companies in terms of weight in the portfolio have signed the pact. While this may seem like a big gap, the situation can change rapidly as the fund with its 35 positions is considerably more concentrated than the index, which means that 2-3 additional signatures can bring the targeted lead – this can also be seen in the graph below. Between August and September, two companies formally signed the principles increasing the statistic by nearly 7%. Additionally, the signature of the UN Global Compact was one of our engagement campaigns and the replies were mostly encouraging, which explains why we feel comfortable in saying that we expect this statistic to improve next year. More about the engagement campaign can be found on page 30.

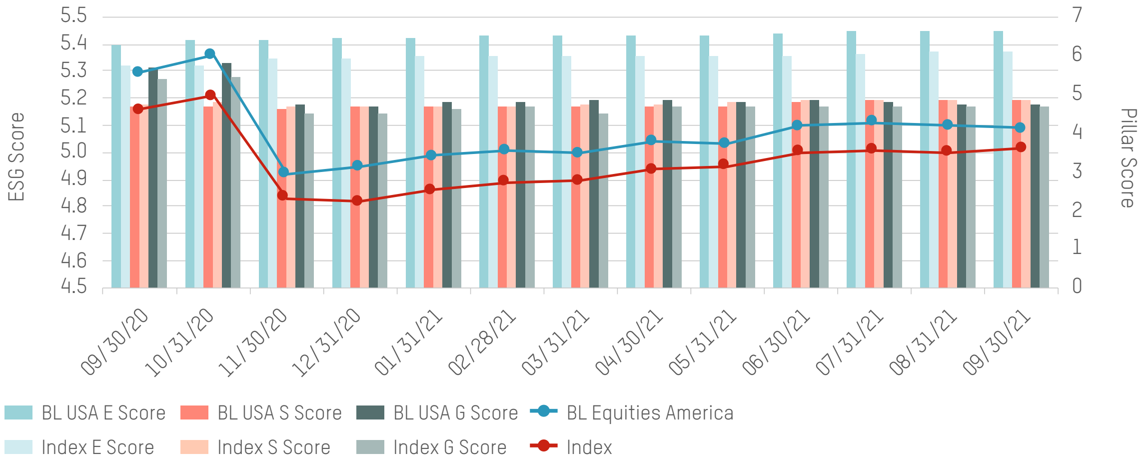
Ivan Bouillot – Fund Manager BL-Equities Europe:

"As a fund manager in the European equity markets for almost 20 years, I have been looking for quality, well-managed companies with attractive financials and profitable growth opportunities. In recent times, the more systematic integration of environmental considerations and indicators, corporate governance and the social interaction of the company with its stakeholders into my analysis has significantly strengthened my investment process, sharpened my search for investment candidates and aligned the portfolio with the needs of society today and tomorrow. It has also strengthened the investment profession. The opportunities arising from environmental challenges, the risks linked to the social challenges of companies, the increased transparency in relation to corporate governance and an increasingly accepted dialogue by companies on these considerations, risks and opportunities gives me greater confidence in my investment choices and their impact for a more sustainable society."

8 A company figures on the watchlist if it is implicated in one or more controversy cases that are serious and warrant ongoing monitoring but do not constitute a major breach of one of the principles.

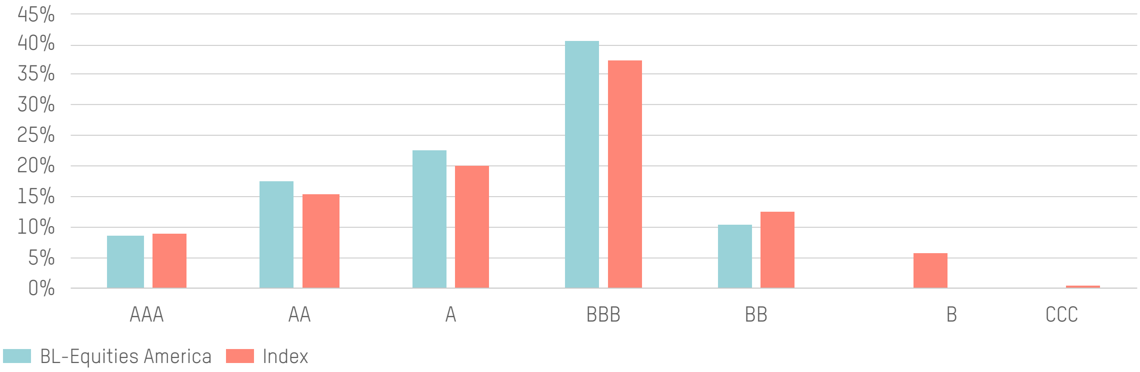
BL-Equities America

ESG Scores evolution



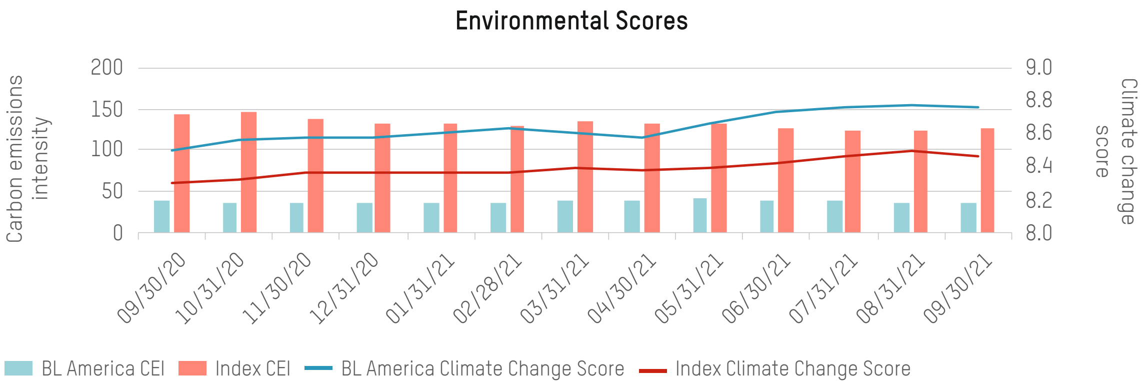
The BL-Equities America's ESG performance was stable over the year. In October-November 2020, our ESG research and data provider changed the underlying scoring model for the governance dimension which explains the sharp decline in not only the governance score of the fund and index, but also in the general ESG score (left-hand scale). At the end of September 2021, the fund led the index in general and on each ESG pillar (right-hand scale).

Rating distribution

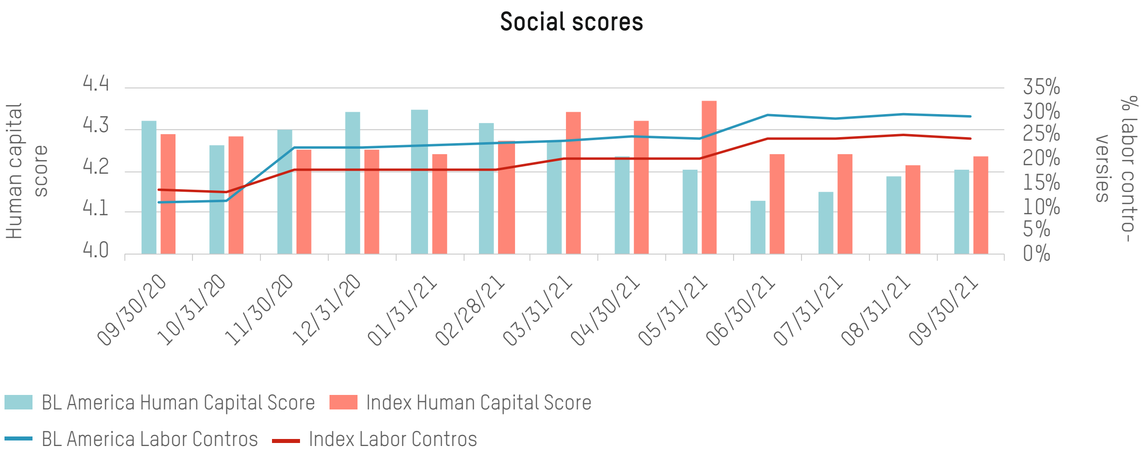


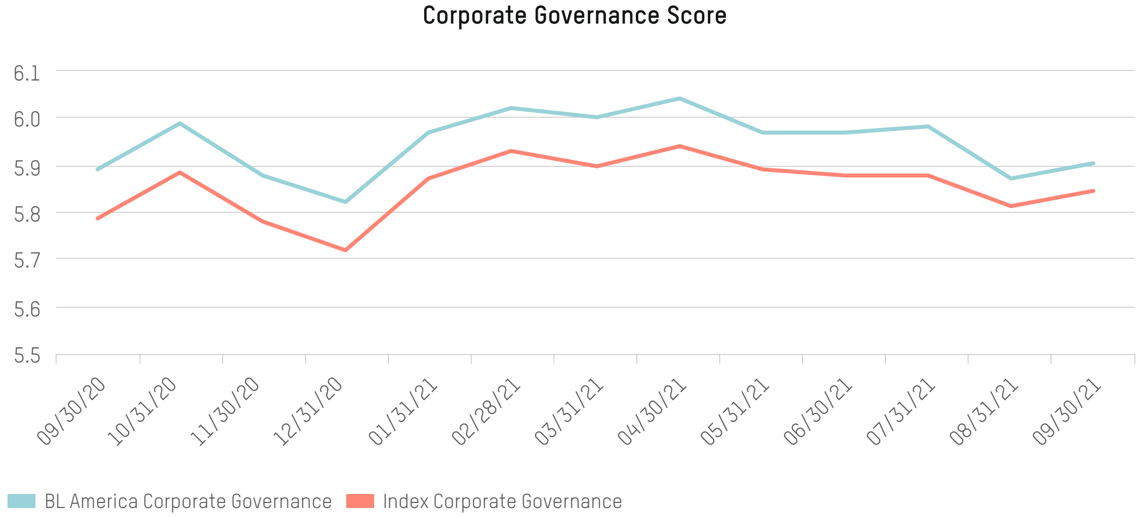
The distribution of the fund's ratings shows a concentration in highly rated companies; nearly 50% of the fund is invested in AAA, AA or A rated companies while no investment is made in low-rated companies (B and CCC), as they are excluded from the investment universe to ensure a high ESG performance of the fund. However, as can be noticed, the index trails the fund only slightly with 44% invested in the top three ratings which by extension implies that the fund must put up a strong ESG performance to beat the index. But as the fund manager has already proven in the past, he does not flinch when compared to the index.

The fund's impact scores related to the environment show the fund leading the index by a comfortable margin. As already mentioned before, the mix of our investment approach and the selection by the fund manager result in a fund with a small carbon footprint, or more specifically a low carbon emissions intensity (left-hand scale). The Climate Change Theme Score depicts a fund whose investee companies have addressed and tackled the subject, have drawn their insights from it and put into motion the needed policies and actions. Another beneficial factor is surely the fact, as already demonstrated by the low carbon emissions intensity, that the companies in the fund are not in the eye of the carbon emissions storm i.e. are not active in carbon intensive sectors and therefore do not need to change radically to be able to mitigate and adapt to climate change.



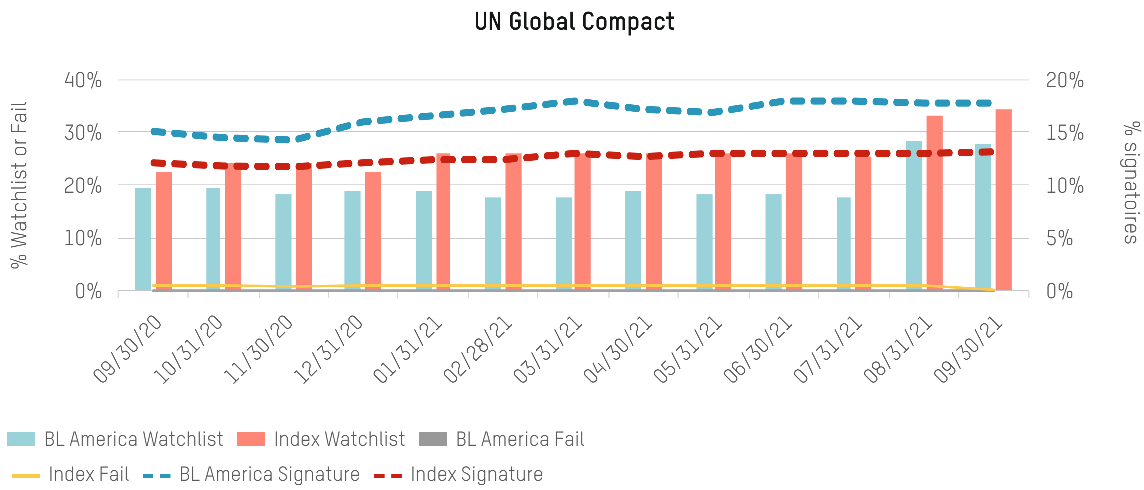
The fund's social dimension is trailing the index in both impact factors. It may seem like a significant gap, but looking at the Human Capital Theme Score, the left-hand scale is to be considered. Over the year, the fund's score has decreased from 4.32 to 4.20 and is trailing the index by 0.03 at the end of the year. Nevertheless, the goal is to outperform the index, and this will be a future focus area. As well as the goal to bring down the labour management controversies – both the index and the fund have a significant number of labour-related controversies which we follow closely and act upon if deemed necessary.





The BL-Equities America showed a robust performance in the Governance dimension: its lead in the Corporate Governance Theme Score compared to the index held over the whole year. In September, the fund had a score of 5.91 compared to 5.85 of the index.

In terms of UN Global Compact, 36% (left-hand scale) of the fund's companies signed the pact compared to 26% of the index. Compared to the European fund, this is less than half – the UN Global Compact has not yet advanced to the standard it has in Europe and in the US. This is another reason why we will continue our engagement efforts in that area. In terms of compliance with the underlying principles, 26% (right-hand scale) of the index's companies figure on MSCI's watchlist compared to 14% of the fund. And while the fund detains no companies failing the principles, 0.16% (2 companies) of the index do.



BL-Equities Europe and BL-Equities America

Luc Bauler **– Fund Manager of the BL-Equities America:**

"As manager of the BL Equities America fund, I am convinced that there is a strong link between sustainability, innovation, competitive advantage and shareholder value creation.

Our investment framework has always been – and will continue to be – based on sound financial considerations in terms of a company's profitability, return on invested capital and free cash flow generation. To meet this challenge, a company's management must more than ever take into account the interests of all stakeholders. The inclusion of considerations and reflections on the positive impacts on the environment and society become key factors for success.

The quality of the impact is now more readily measured via several indicators across all three dimensions of ESG. As with any measure, they do pose challenges and provide opportunities all the while adding a layer of depth to our analysis.

In this context, the integration of ESG factors into our investment process is a guarantee for our investors to benefit from a stable and regular performance while better controlling the risks linked to an investment in equities."

As stated in the beginning, the funds' ESG performances were stable over the year. Minor weakness and room for improvement exist, but nothing which we deem unachievable. We will continue to apply BLI's quality-based approach which usually renders a strong ESG performance – combined with a continued focus on the impact factors in the selection and our engagement efforts, the funds will remain part of our ESG figureheads.

BL-Sustainable Horizon

Label ISR

LUXFLAG
Supporting Sustainable Finance

Changes over the last year

Nothing fundamental has changed in the investment strategy of the fund over the last 12 months. This is not to say that no progress has been made. On the contrary we are pleased with the evolutions that have taken place, and albeit less visible to an outsider, they have put the fund on the desired trajectory. Indeed, the strategy is well thought through and sound as was once again demonstrated by the 2 sustainability labels the fund has been re-awarded over the year as well as being classified as Article 9 under the SFDR regulation that came into effect in March 2021.

In terms of organization several positive changes have been made. The SRI team continues to strengthen the in-house expertise, and the investment team of the fund has grown with the addition of one co-manager, specifically for the identification of pure ESG investments. This has contributed to the growing importance of the thematic pocket of the fund which now accounts for 20% of the invested assets (up from 4% at the beginning of 2020). The team has expanded the investment universe and generated promising new ideas. For some time, we have witnessed that markets (and share prices) are in part driven by an amplified sustainability focus, whether it is grounded in climate change, access to healthcare or diversity. This led to the realisation that despite our sound idea generation, we refrained from investing in what we consider overvalued companies when applying our long-standing Business-Like Investing principles. Nonetheless, opportunities were found in niche sectors, such as the Swedish sustainable infrastructure consultancy firm Sweco, as well as in established global companies, like Japanese Komatsu.

Lastly, we have focused some of our attention on enhancing our communication. On the fund level we have published an article specifically treating the thematic pocket of the fund and emphasised the related SDG impact in our monthly reporting.

The dual approach

The BL-Sustainable Horizon fund has made investment decisions with a sustainability lens since 2008, and from 2018 onwards it has applied the dual approach that is still applied today. The latter comprises a **quantitative and a thematic pocket.** The quantitative side is what would traditionally be considered as a **best-in-class** approach whereby investments have to **respect minimum ESG scores** for inclusion. On the other hand, the thematic pocket invests in **companies whose business models are at their core best aligned with the UN SDGs.**

The choice of splitting the fund between these two complementary pockets has been deliberate. It allows the fund to invest in best practice ESG firms while also preserving a conservative approach in regard to our investors' money. The reason being that more narrowly focused impact investments can potentially be more volatile and less liquid. By having exposure to companies of both worlds, we estimate that we can more optimally control the risk-return profile of the fund – benefit from small-mid caps in niche impact areas and have the stability of established companies that nonetheless showcase consistent positive sustainability behavior. **The dual approach is rather unique in the market and at BLI and constitutes a distinguishing feature of the fund.**

As mentioned in the introduction, we have naturally made several changes to the fund's holdings and expanded the investable universe. In terms of divestments, none were motivated by purely financial or valuation reasons and only one was due to a non-financial rating change – Beiersdorf, whose environmental score fell below the hurdle rate of 4.

New additions were solely made to the thematic pocket (LKQ, Novozymes, Chr.Hansen, Sweco, Komatsu and Nordic Waterproofing). The latter is now comprised of 11 companies targeting 8 unique SDGs according to our in-house analysis. The candidate list for this pocket in particular holds promising and exciting opportunities in the renewable energy sector as well as various medical and industrial applications.

Quantitative Pocket

The quantitative pocket applies a more traditional best-in class approach whereby investments need to comply with 2 conditions: **Average ESG score ≥ 5 and E,S and G pillar scores > 4.**

E/S/G Pillar score	> 4
Average ESG Score	≥ 5

Eligible for investment

This portion of the fund is mainly comprised of well-known European and American large caps in the consumer staples and information technology sectors, such as Unilever, Kimberly-Clark, SAP or Microsoft. It is important to note that we do not blindly follow the ratings of our ESG research provider but apply a thorough internal due diligence and invest only if the company in question has solid ESG credentials and a sound sustainability strategy in place.

In our article we mentioned the grey area for investments that fit the thematic pocket and why despite a shortcoming in one area, a company may still integrate the pocket. The same holds true for companies that are part of the quant pocket yet that would present a strong enough ESG thesis to integrate the thematic pocket.

This goes to show that while the line between the two pockets may not always be perfect, we are eager to minimize ambiguity by using data but cannot avoid decisions being in part influenced by subjectivity.

Energy efficiency

Schneider Electric (SE)

AAA – ESG Scores: 8.7 / 4.4 / 5.7 [9]

The French energy specialist provides energy management (75%) and industrial automation services (25%) globally. The energy management segment evolves around low and medium voltage solutions for residential to advanced grid solutions. The automation arm offers software solutions enabling a better control of energy consumption in buildings, manufacturing plants and industrial sites. Moreover, SE is increasingly involved in electro-mobility, smart grid and renewable energy integration.

SE's purpose is "to empower all to make the most of our energy and resources, bridging progress and sustainability for all". Since 2018, SE helped their customers save 134 million tons of CO2 emissions and gave 30 million people access to green energy. Their aim is to reach 80 million by 2030, especially in lower income populations via training and financial support initiatives for entrepreneurs. The 2025 sustainability strategy also covers renewable energy use, waste reduction and employee diversity goals.

| 9 MSCI ESG Research au 22/10/2021.

Nutrition & Health

Danone

AAA – ESG Scores: 5.6 / 5.9 / 5.8 [9]

The French global food and beverage company became the first listed **Entreprise à mission**[10] in 2020 – *"bringing health through food to as many people as possible"*.

Danone, inspired by its founder & then CEO Antoine Riboud, has followed a dual approach of economic and social scale since 1972. Their current *"OnePlanet. OneHealth"* strategy reflects their essential thinking that human and environmental health are interconnected. Danone brands aspire to promote healthier products and habits, to preserve natural resources such as water and aid circular economy.

10 A company that has a social or environmental purpose in addition to being profitable.

Thematic Pocket

The thematic pocket is centered around key sustainability themes and their associated SDG. The latter can be grouped into the following 6 categories:

As the fund itself, the pocket is managed via a **bottom-up approach** and results from the addition of single opportunities. This is to say that no formal SDG targets have been set – one Goal may not be targeted by any of the investments while another may be the focus of multiple investments. The pocket now represents a little over 20% of the fund (11 companies), up from 4% in January 2020.

More information on the spirit and process of the thematic pocket can be found in a dedicated article available here.

Novozymes
Basic Needs

The Danish bioscience company Novozymes initially focused on enzymes that reduce chemical inputs in household products such as detergents. But Novozymes' business model is now more industrial and offers a wider range of products, including solutions in the field of bioenergy and biofuels (20% of turnover), which can provide an alternative to conventional thermochemical processes, as well as enzymes that reduce the amount of chemical inputs in wastewater treatment and sludge management.

Komatsu
Innovation and Infrastructure

The second-largest manufacturer of construction and mining equipment in the world began developing electric equipment as early as 1999, with the aim of 'producing a more environmentally friendly machine with lower operating costs than conventional machines'. At present, the machines mostly operate on a hybrid system. A hydrogen pilot program is also underway for 2030. Hybrid systems result in very low emissions and noise pollution is greatly reduced, making these excavators not only more environmentally friendly but also more people-friendly. Komatsu is actively contributing to *SDG 9: build resilient infrastructure and foster innovation* as it is contributing to the construction sector's automation and electrification through the solutions it offers.

Nordic Waterproofing
Sustainable Communities

Nordic Waterproofing is one of the leading providers in the waterproofing market in Northern Europe. The Group develops, manufactures and distributes a full range of products, including bitumen but increasingly **green roofs** as well as integrated solar panel solutions. Its products are made from an increasing share of recycled or sustainable materials, with a longer life span to boost building efficiency, having a positive impact on the global reduction of CO_2 emissions. The outer shell such as roofs and facades are a crucial part of any building may it be for the structural integrity, efficiency, but also health.

Active Ownership

In addition to BLI's overarching engagement efforts, the concrete long term dialogue with L'Occitane highlights the fund's commitment to the continuous accompaniment of its investees.

L'Occitane was the first company to integrate the thematic pocket of the fund. As such it holds a special place in the portfolio and we benefit from a close relationship with the team at L'Occitane. Despite having no ESG rating in MSCI, we consider the company to be a pure sustainability player as it was founded with nature and a respectful procurement in mind. We had the pleasure to interview the Team to share their journey and the evolving focus on sustainability within the Group.

L'OCCITANE EN PROVENCE

- Founded 1976
- Listed since 2010
- Business model Natural cosmetics
- Impact Maintain ecologically sound ecosystems & empower local communities
- Highlights & Patronages Burkina Faso & shea butter → 10 000 women supported
- SDG impact

When the company was founded in 1976, the focus on natural cosmetics was especially unique for that time. How have those beginnings shaped the company we know today?

Our core L'Occitane en Provence brand was inspired by the wonders of nature. Produced in the south of France, our beauty products are created with essential oils and natural fragrances, and developed according to phytotherapy and aromatherapy principles. The brand's mission is to reconcile humans with nature and themselves.

As a Group that relies on natural resources and on communities' wealth of knowledge for the processing of these resources, protecting and preserving nature has always been a part of our DNA.

This commitment to protecting nature, or more broadly speaking, our sustainability strategy, has evolved greatly over the years. Since 2008, our journey has been to integrate sustainability in every part of the business: in every team, brand and country. We have people dedicated to sustainable projects in R&D, packaging, sourcing and even in our finance and legal teams. It is at the centre of our business – from building long-term partnerships with our key raw material suppliers, to switching to renewable electricity sources at our production sites and stores, to launching eco-refills for customers.

Globally, our goal is to maximise through all of our actions, policies, developments and open coalitions our positive impact. We want to use our company as a Force for Good.

Could one say that the strong and long-standing sustainable identity procured a competitive edge to L'Occitane en Provence and as such contributed to the growth trajectory you have been on?

Our sustainability strategy has evolved greatly over the years. Our commitment to protecting nature or related initiatives did not create a real competitive edge until we organized our efforts into a conscious strategy. Since 2008, we have embarked upon the journey to integrate sustainability in every part of the business, with adapted resources and organization.

Under the current sustainability structure, we have put in place, we strongly believe it has become one of the Group's competitive advantages and differentiates us from other brands.

As customers around the world become more socially conscious, the demand for natural ingredients and for sustainable practices will continue to rise. Customers are also seeking brands that share similar values as themselves. We believe our commitment to sustainability has also attracted likeminded talent to join the Group, those who share similar values and are passionate about the Group's brands. This is also vital to the success of the company. Our sustainability efforts resonate well with customers. For example, we have launched several sustainability initiatives recently that have generated strong customer engagement:

- *The **Green Reaction Exhibition***

In May 2021, we launched "The Green Reaction" exhibition in Shanghai to demonstrate our brand commitments on reducing waste and respecting biodiversity. During the four days of the exhibition, 3,330 consumers engaged in the event and together with social platforms and media coverage, we generated 190 million impressions.

- ***MEGA sustainability concept store***

We opened a MEGA (Make Earth Green Again) pop-up store in Hong Kong to engage the public in environmental protection through a reward program. So far, 300kg of plastic, glass or metal have been collected and the store is #1 in terms of repurchase.

- ***Big Little Things***

We launched the "Big Little Things" program in Malaysia and Singapore in partnership with iCycle, to educate and encourage the habit of recycling by making recycling accessible to consumers. Launched since April 2019, we are proud to be the first and only beauty brand in the market to accept beauty empties from all brands.

In Singapore, we have recycled more than 85,000 empties, equivalent to 8,800 kg of waste.

Your work within the supply chain and communities is an inseparable part of the Group's activities. How do you prioritise impact areas and what has been the most poignant/greatest achievement?

Historically, the Group has always developed a partnership-based approach with all its suppliers and producers. We support their economic development and promote family farming to preserve territories and know-hows.

- *For almost ten years, we have favoured suppliers with practices that respected the planet and the people, and engage them into our environmental and social standards. In 2019, Group has launched a new ambitious program named #NotJustSuppliers to manage CSR risks within its supply chain and its suppliers' sustainability performance at a large scale which has been recognised by EcoVadis [11] early this year;*

- *One of the main historical community commitments in our supply chain has been with the shea butter from Burkina Faso, which has been used by L'OCCITANE since the 80's ensuring a biologically certified and equitable value chain. The Group has invested in resource protection, traceability and the development of low carbon technology used in the manufacture of the shea butter.*

- *At the same time, through the Foundation L'OCCITANE, the company has worked in close collaboration with women producing the shea butter in Burkina Faso, supporting projects aiming at empowering girls and women. In 2020, L'OCCITANE and its Foundation exceeded their objective of helping 33,000 women, as they supported more than 42,000 women since the beginning of the program.*

11 ESG data provider.

As the market has witnessed a rapidly increasing investor awareness for sustainability over the last years, would you say that this has and will continue to influence the business going forward or is it rather reinforcing the prevailing strategy?

We will continue to integrate sustainability in every part of the business: in every team, brand and country. We want to maximise our positive impact, to use our company as a Force for Good.

We have identified three priority areas:

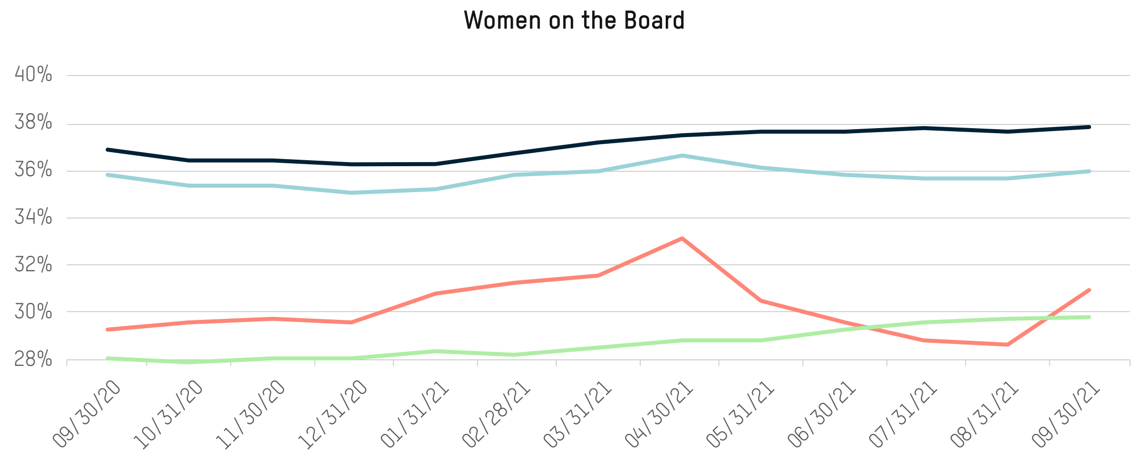
1. *deliver dramatic change to mitigate the climate crisis;*
2. *protect and restore cultivated and natural biodiversity; and*
3. *empower all people in our communities.*

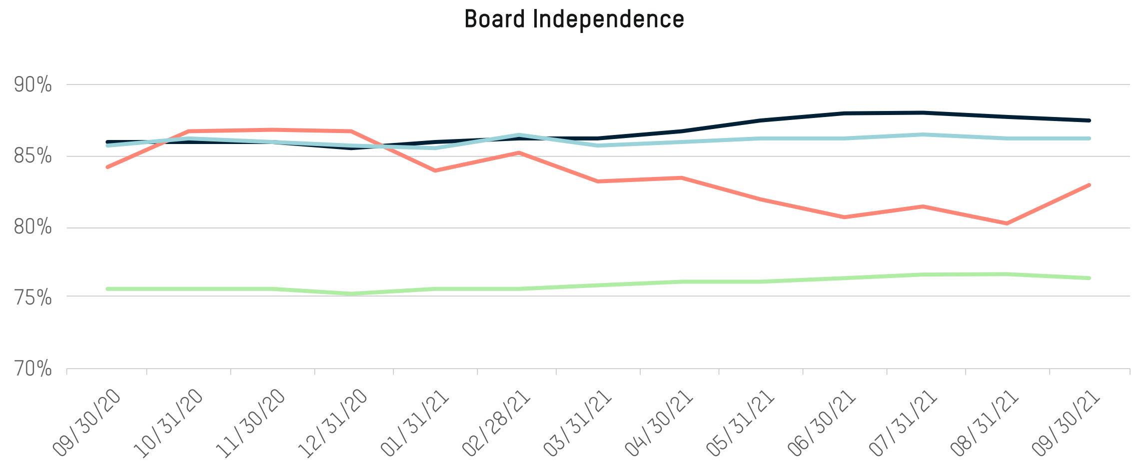
These topics are key and central in our strategy, yet we have a stronger ambition. We have set ourselves the objective of becoming a certified B Corporation by 2023. This ambitious label will help us to measure our performance, to introduce a dynamic of progress to reach our objectives and deploy our sustainability strategy across all of the Group's entities and regions.

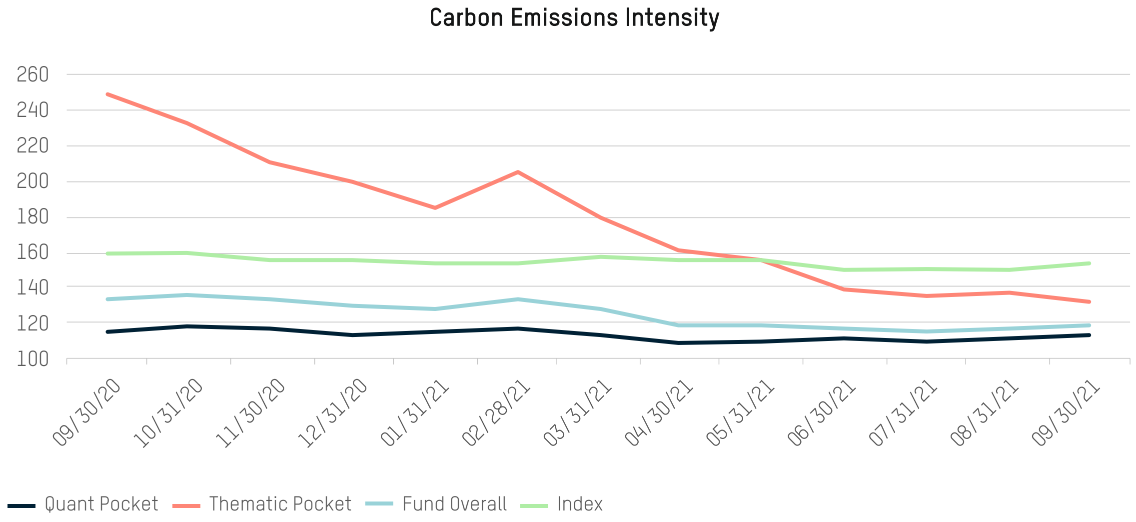
Importantly, the governance of our sustainability strategy has been constantly evolving and it has become more structured over the years.

- *Twice a year the Group's Sustainability Officer, Adrien Geiger, participates in the Board meetings to provide updates on the sustainability strategy and performance of the Group;*
- *The Group also plans to launch a Sustainability Committee, comprising of Board members, sustainability operational representatives and external advisors;*
- *We have also updated our staff's incentive plan, in order to remunerate employees not only based on business performance, but also on environmental and social performances.*

BL-Sustainable Horizon







ESG Quality

One important aspect of a sustainable fund is the measurement of the ESG quality of the underlying investments and transparent reporting of concrete impact outcomes. This is a huge feat as the impact metrics should be easily understood, comparable across companies/ sectors/ geographies and universally applicable. Once the theoretic choice of indicators is made, comes the practical challenge of data availability. Thus in the end we report on metrics such as carbon emissions or board composition. With ongoing regulatory requirements as well as our own ambition, we are continuously looking for pertinent measures to track and benchmark our performance going forward. The fund has AAA rating in MSCI ESG Research and a quality score of 10/10 [12].

Overall, on the metrics we have followed for well over a year now, the BL Sustainable Horizon has overall performed in line with our expectations. A surprise to investors in the fund may be the rather high emissions (compared to BLI funds), which can be explained by the sector tilt within the portfolio and the resulting overweight of industrial and material sectors, which tend to report higher scope 1 and scope 2 emissions. The trade-off between high direct emissions and necessary technology innovation is especially important for these 2 sectors. We are aware of this and are following the numbers closely. Yet, we continue to believe that companies such as CNR or Air Liquide are part of the solution for a carbon poorer future, deserving their place in the fund.

For the first time we report the impact metrics split between the two pockets. Here it becomes obvious that the thematic pocket needs monitoring and engagement with investees to raise awareness and improve performance especially relative to board parity as the score has dropped below the benchmark weighted average.

Overall, the fund shows a superior performance compared to its benchmark as well as a stable positive evolution of independent directors and carbon emissions reduction. The fund has only a minor exposure (2.9%) to severe human resources controversies. All companies are aligned with the UN GC principles and 22/31 investees have formally signed the charter. Lastly 55% of investments have set emission reduction targets in line with the Paris Agreement, defined by the Science-based target initiative (SBTi) [13].

| 12 Data as of 09/30/2021.

| 13 https://sciencebasedtargets.org/

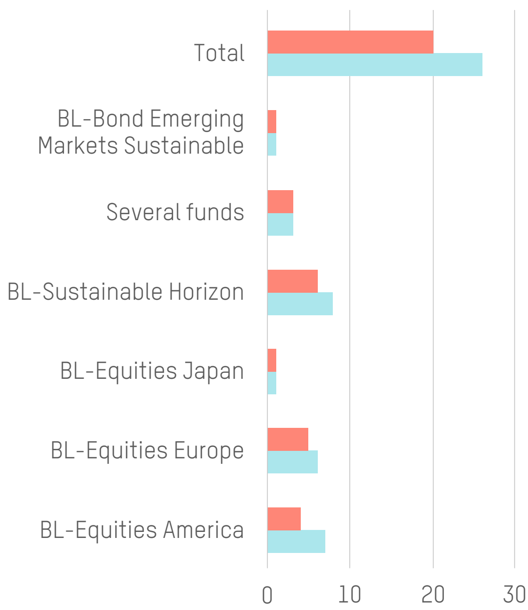
Engagement

There is no single right approach to engagement. The most appropriate way to engage with the companies we invest in depends on many factors and varies not only from company to company, but also over time. Engagement should not be a strategy disconnected from analysis, but an integral part of it.

The year 2021 marked the publication of BLI's new engagement policy that provides a more precise framework for the applied approach across different asset classes. The objectives of our engagement policy are based on four major axes:

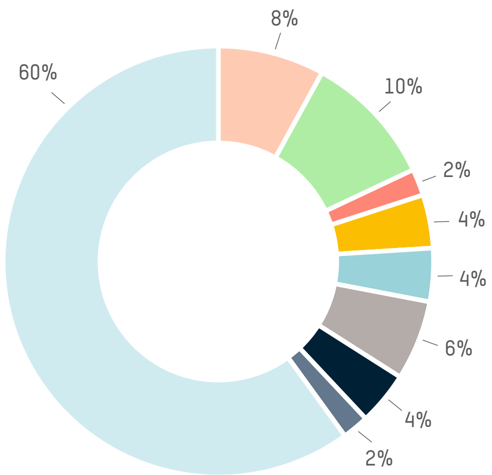
- Clarification of information;
- Transparency;
- Identification of inappropriate ESG behaviours or a specific theme via our controversy analysis;
- Updating our exclusion policy or according to the impact factors monitored in our SRI funds.

Engagements per fund



Number of satisfying answers
Number of companies

Engagement topics



Materials and Recyclability
SBTi approved targets
Water reduction targets
Supply chain
Female representation on board
Sustainability-linked external review
Human Capital
Palm Oil
UN Global Compact

Engagement

In June 2021, BLI launched two engagement campaigns covering SRI-labeled funds. These two campaigns involved 32 companies and generated a response rate of 50% and a satisfactory response rate of 74% for closed engagements. The graph above shows the number of companies contacted by fund, that responded to us and those with which the exchanges ended in a satisfactory engagement. The "several funds" category corresponds to companies that belong to more than one of our SRI-labeled funds.

During the first campaign, we focused on the signature and compliance with the United Nations Global Compact. This is an impact factor specific to the three SRI-labeled funds and an exclusion criterion in the event of non-compliance for all BL funds. Most of the companies contacted were American, which seems consistent with our general observation that Europe is ahead in terms of taking ESG criteria into account at a strategic level. The reasons given by companies that are not considering signing, for the moment, are a prioritization of other sustainability objectives and a greater interest in complying with the Global Compact principles than in formally signing.

For the second campaign, we reached out to companies in the BL Sustainable Horizon that do not have CO2 emission reduction targets approved by the Science-Based Target Initiative (SBTi), an impact factor of the fund. The validation of realistic carbon reduction targets through a detailed action plan is a necessity to be aligned with the Paris Agreement. Therefore, BL Sustainable Horizon is using the expertise of SBTi, a reference in helping companies set and assess carbon reduction targets aligned with the +1.5°C and +2°C scenarios. During this campaign, we had a dialogue with a Dutch information services company. It was clear from our discussions that the company understood the importance of setting carbon reduction targets and being transparent about its emissions data and KPIs. A follow-up is planned in 2022 to ensure that the company is walking the talk.

In parallel with these two campaigns, BLI has dialogued with various companies on the topics of women's representation on boards of directors, the use of recyclable materials, water management and transparency on ESG data. In addition, as described in the section on the BL-Sustainable Horizon, we continued our long-term dialogue with L'Occitane.

As mentioned last year, we are a small asset management company looking to deepen engagement with companies over the long term. This year, we have continued to make progress on this subject with the redesign of our policy. So, while we are aware that we do not have the same reach as some institutional investors, we are convinced that positive change can be brought about by a critical mass. That's why, among our goals for improving our engagement efforts, we want to further explore the collaborative engagement track by identifying consistent initiatives for BLI.

Voting

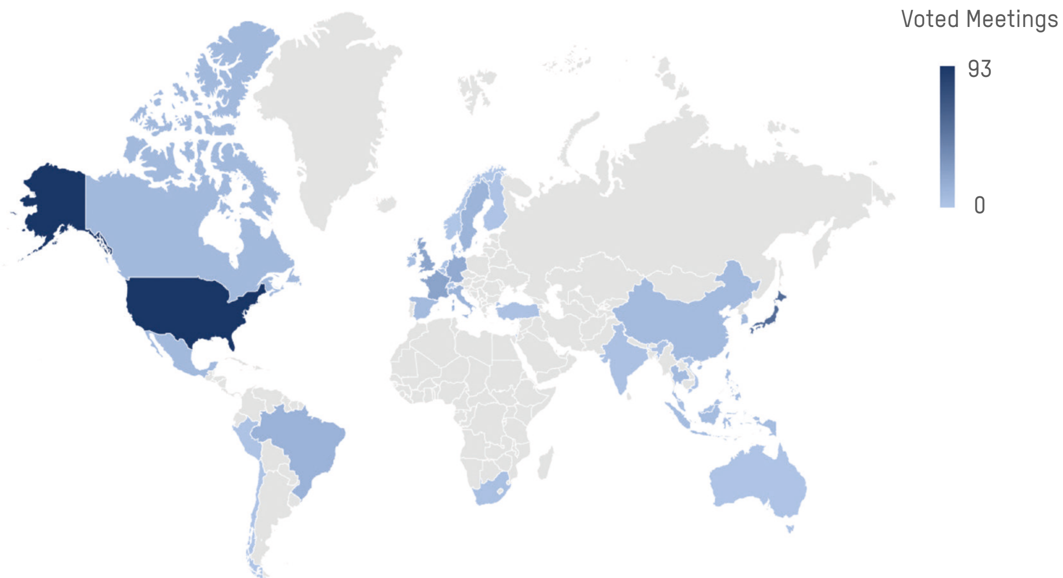
BLI's guiding principle is to serve the long-term interests of investors in its investment strategies. Accordingly, BLI exercises its voting rights based on what we consider to be in the best interest of our stakeholders. In case a proposal is inconsistent with these interests, we have in the past and will in the future vote against resolutions. As part of BLI's ESG investment policy, BLI adheres to a sustainable proxy voting policy offered by our proxy-voting service provider – Institutional Shareholders Services Europe S.A. (ISS). This translates to outcomes generally supporting shareholder proposals concerning social and environmental topics and voting regularly against management proposals.

In the last year (09.01.2020–09.01.2021), we have widened the scope of our proxy voting activities and tried to actively vote for all our equity funds and equity parts of our mixed funds, across the globe. This results in a 134% increase in voted meetings to a total of 384. The heatmap below shows the geographical distribution of votes.

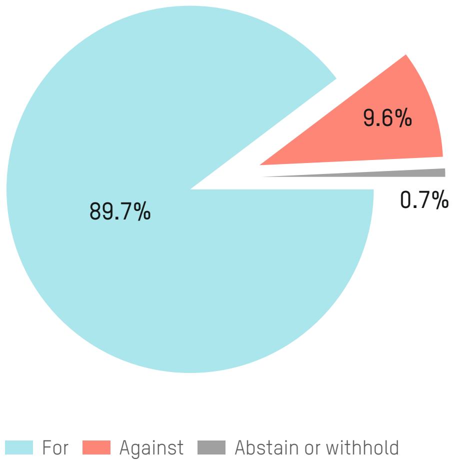
Region	Meetings
Europe	124
North America	101
Asia ex Japan	57
Japan	56
South America	41
Africa	4
Australia	1

Distributed across regions, the character of our different equity funds is reflected: the fact that BLI has three Europe-focused and two America-focused funds with varying capitalizations is the reason why those two regions dominate the statistics. Another thing to note is our intention to vote wherever we hold shares.

In consequence, we participated at nearly 98% of the votable meetings. The missing 2% can be explained by operational challenges, albeit only having a marginal impact and which have been solved since.



Vote distribution



In total, there were 4773 votable items, 4281 (89.7%) votes were in favour of the proposition, 457 (9.6%) were against and 35 (0.7%) votes were abstained or withheld. All of the votes were made in accordance with the set out sustainable voting policy.

494 votes (10.3%) were against the companies' management proposals. These votes against management were distributed over 180 different meetings. The votes concerned mostly a limited list of topics, such as the election of directors, approval of remuneration policies or motions around the capital-isation of the company. The majority of votes against management fall under the governance category, for instance, the election of directors was opposed frequently because they failed the independence criteria. A considerable number of votes dealt with environmental or social issues though; gender pay gap, climate change reports or usage of sugar in products are only a small selection of topics brought forward in those ballots.

Below a selection of ESG related votes (excluding director independence votes) where BLI voted in favour of the proposals:

Topic	Description
Environment	
Climate Change Action - Reporting	Company must apply the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) as the Framework for Climate-Related Disclosure in the Company's Annual Report.
Management Climate-Related Proposal	Approval of companies' climate action plans, their commitments and targets.
Annual Investor Advisory Vote on Climate Plan	Company provides an annual advisory vote for shareholders to approve or disapprove of its climate policies and strategies.
Report on Annual Climate Transition	Company must report annually on its climate transition plan. The reason for this is that the company does not set climate-related targets and it lacks a plan that demonstrates management is taking transition risks associated with climate change seriously.
Report on the Impacts of Plastic Packaging	Company must have an annual report on plastic packaging and its strategies or goals to reduce the use of plastic packaging.

Topic	Description
Social	
Prepare Report on Health Care Reform	Company shall disclose a report on the external public health costs created by its food and beverage business and how those costs impact the majority of its shareholders.
Report on Sugar and Public Health	Company reports on the use of sugar in its products and the connection between sugar and public health, as well as associated risks to the company's finances and reputation.
Discrimination, Diversity, Inclusion	› Company must disclose policies and data around its activities to promote racial justice. › Company must report on whether written policies or unwritten norms at the company reinforce racism in company culture. › Request of a third-party racial equity review of the company's policies and practices to help assess what the most effective actions would be to minimize disparate health outcomes based on race or ethnicity. › Company should publicly report rates of workers promotions for gender and racial categories. › Company shall oversee and report on a racial equity audit. › Publication of an EEO (US Equal Employment Opportunity Commission [14]) report which includes a comprehensive breakdown of its workforce by race, ethnicity and gender.
Report on Customers' Use of its Surveillance and Computer Vision or Cloud Products Capabilities Contribute to Human Rights Violations	Request of an independent report on the company's customer due diligence process, to evaluate the extent to which surveillance or computer vision technologies may contribute to human rights violations.
Governance	
Require Independent Director Nominee with Human and/or Civil Rights Experience	Company should nominate an independent director candidate with human and/or civil rights expertise to the board. A director with such expertise could help assess risks and develop a strategy to avoid causing or contributing to widespread violations of human or civil rights.
GRI Reporting	Instruct Board to Complete an Assessment of the Ability of the Company to publish Country-by-Country Tax Reporting in line with the Global Reporting Initiative's Standard [15].
Report on Lobbying and Political Contributions	Company must report on its lobbying expenses, policies, and procedures. In essence, shareholders want companies to disclose their political funding, the amounts, its goals and the related risks and procedures to manage the risks.

14 https://www.eeoc.gov/

15 https://www.globalreporting.org/standards

Topic	Description
Link Executive Pay to Social Criteria	Company must prepare a report assessing the feasibility of integrating sustainability metrics, such as diversity among senior executives, into performance measures or vesting conditions that may apply to senior executives under the company's compensation plans or arrangements.
Report on Gender/Racial Pay Gap	Company is requested to produce a report on median pay gaps across race and gender, including information on its policy and goals to reduce compensation disparities.
Report on Whistleblower Policies and Practices	Board of Directors is urged to oversee a third-party review analyzing the effectiveness of its whistleblower policies in protecting human rights. A report on the review, should be publicly disclosed on the company's website.

This short list of cherrypicked votes nevertheless shows an increase in ESG motions being on the agenda at general meetings. Most of these can be found on the American market in form of shareholder proposals. In our opinion, companies not taking a serious step towards more sustainable ways of doing business will be more and more confronted and even attacked by these targeted proposals. This shareholder activism could lead other companies to change and adapt proactively in order to evade this kind of activism. With BLI's sustainable voting policy implemented at BLI, these proposals are ordinarily supported. These can be taken as a shot across the bow for companies and trigger a shift in thinking.

During the period, BLI encountered no cases deemed to represent potential conflicts of interest with respect to exercising our voting rights or our engagement activities.

Fixed Income

Experience and applied methodologies

BLI has over 10 years of experience in sustainable and responsible investing through impact investing and more specifically, microfinance. Since becoming a signatory of the UN PRI in 2017, the fixed income team has worked to define an investment strategy that takes ESG factors into account and targets impact investing in its open-ended investment funds.

In 2021, the SRI bond policy was reviewed in order to formalize the methodology and processes and to implement carbon intensity reduction targets for the "corporate issuers" pocket.

The bond methodology first applies BLI's general exclusion policy to its universe and then differentiates its approach between ESG optimisation for traditional sovereign and corporate bonds and impact investments such as green bonds [16] and alternative strategies such as microfinance. Traditional corporate bonds are also subject to a time-based target, in this case carbon intensity reduction (scope 1 + scope 2). Other targets may be added as the fixed income team refines its methodology.

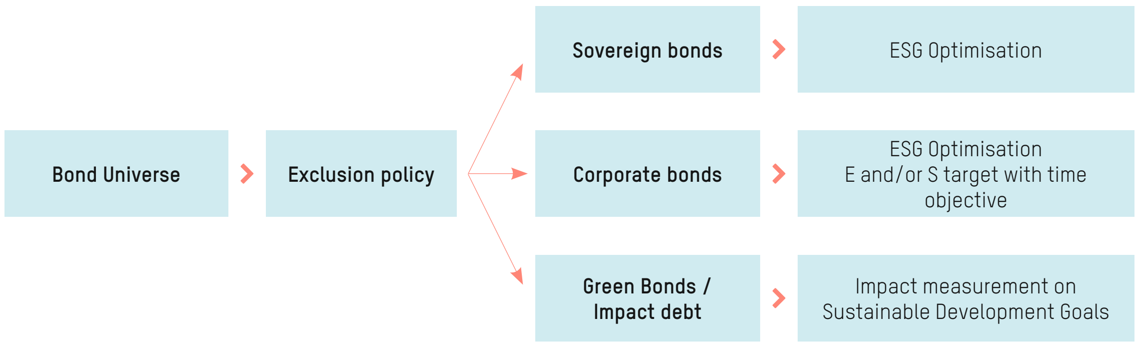
ESG Optimisation

Issuers are subject to an extra-financial analysis resulting in an ESG score. The objective is to obtain an average ESG score for each pocket, sovereign bonds and corporate bonds, that is higher than the one of the reference index.

As an asset manager, our primary responsibility remains our fiduciary responsibility to our clients. Therefore, we aim first and foremost to invest in issuers whose economic fundamentals are solid and/or improving.

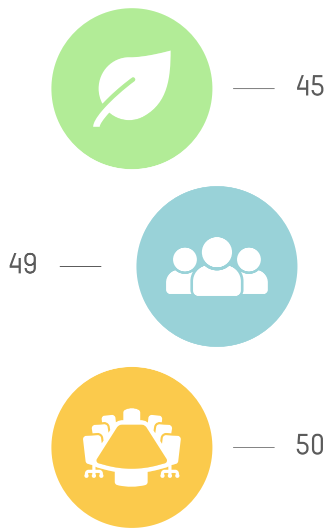
Sovereign Issuers

The proprietary approach developed within BLI aims to integrate, in addition to the analysis of available quantitative data, a study of the ESG dynamics at work in the various countries. In order to streamline our work, and above all to be able to objectively compare current events data, reforms and local population sentiment, we rely on the progress made in the field of artificial intelligence and language processing. We implemented a universal language model refined for each ESG criteria. **Ultimately, we can assess the relative risk profile of each analysed country.**

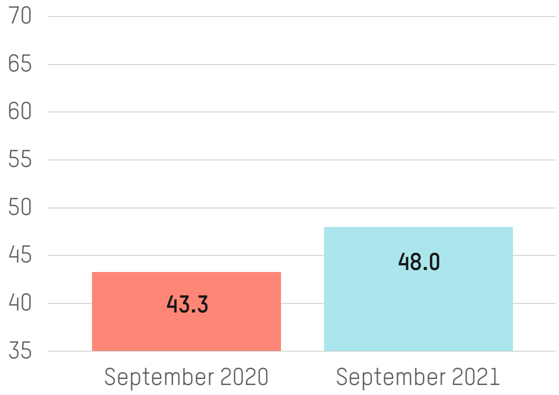


16 BLI only owns one sustainability-linked bond, therefore in this report it falls under the „green bonds" category.

Currently, the ESG profile of the portfolios is monitored on a weekly basis. The final E, S, and G scores (0-100 from worst to best) for all bond portfolios combined at the end of September 2021 were [17]:



Sovereign issuers – Average ESG score



Evolution of the approach

Since September 2020, the fixed income team has decided to overweight the governance factor when calculating its aggregate ESG rating for emerging countries, as these countries first need political stability and adequate infrastructure in order to implement sustainable social and environmental reforms. Thus, the increased weight of the governance factor has resulted in portfolio rotations, improving the G rating of the sovereign pocket.

Corporate Issuers

The ESG analysis of corporate issuers is based on:

- MSCI ESG Research ESG scores and trend;
- Carbon emissions intensity per million sales (scope 1 & 2);
- MSCI's controversy flag (red, orange, yellow, green);
- Exposure to sensitive sectors (tobacco, alcohol or fossil fuels).

Since September 2020, we observed an improvement in the average ESG rating of corporate issuers within our portfolios.

This is justified by the absence of companies subject to red controversies, a substantial decrease of companies subject to orange controversies (8% in 2020 versus 4% in 2021), and a 5% increase in companies with little or no controversies.

17 BLI's proprietary rating.

Fixed Income

Evolution of the approach

During the past months, to ensure that portfolios investing in corporate bonds promote sustainable development values in a tangible way, the team has defined carbon intensity reduction targets for corporate bonds that are not classified as green or positive impact bonds. The targets are set for each portfolio and include semi-annual milestones to be reached by 2025.

Portfolio	BL-Global Bond Opportunities	BL-Corporate Bond Opportunities	BL-Bond Emerging Markets Euro
Indicator	Carbon Emissions – Scope 1+2 Intensity (t/USD million sales)	Carbon Emissions – Scope 1+2 Intensity (t/USD million sales)	Carbon Emissions – Scope 1+2 Intensity (t/USD million sales)
Starting value	160	85	463
Start date	06.30.2021	06.30.2021	06.30.2021
Target objective	-20%	-15%	-20%
Target value	128	72.25	370.4
Target date	06.30.2025	06.30.2025	06.30.2025
Next value	156	83.39	451.34
Next date	12.31.2021	12.31.2021	12.31.2021

We also reduced the carbon intensity of our corporate issuers pocket by a factor of three, from an average of $450t/million in revenue to $147t/million in revenue, which explains the slight improvement in our E score.

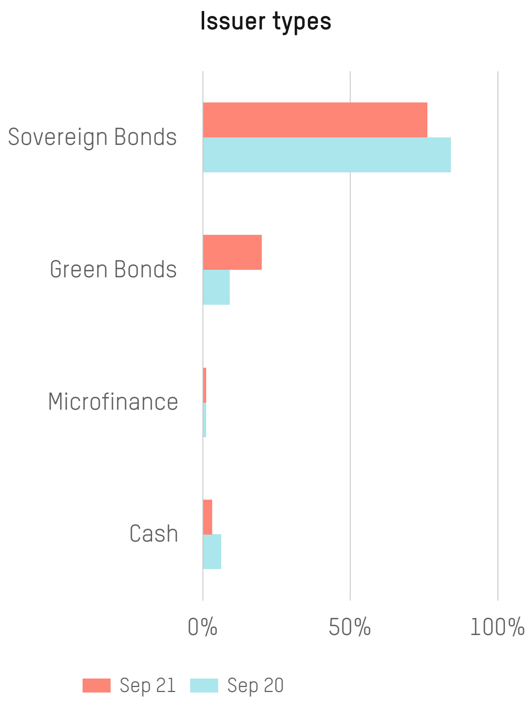
Overview by Fund

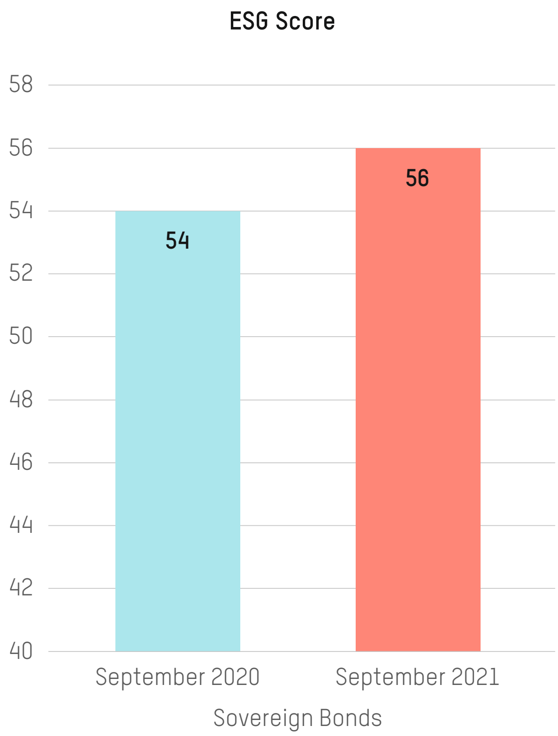
In addition to the changes in the ESG methodology described above, the team has, where possible, divested from traditional sovereign and corporate bonds to invest in the issuer's green bonds instead.

BL-Bond Emerging Markets Sustainable

Formerly called BL-Bond Emerging Markets Dollar, this fund was renamed BL Bond Emerging Markets Sustainable following its classification as an Article 9 under SFDR regulation in order to formally include sustainability at its core.

The sustainability analysis focuses on the sovereign issuers, complemented by an impact investing pocket. The latter was strengthened during the year, mainly through the addition of green bonds.

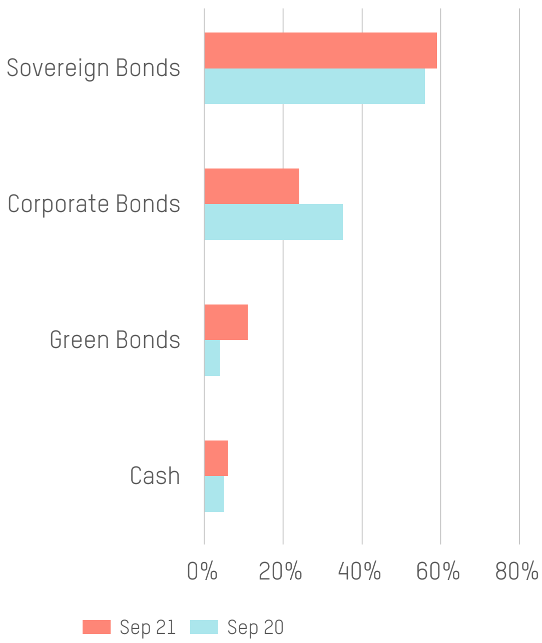




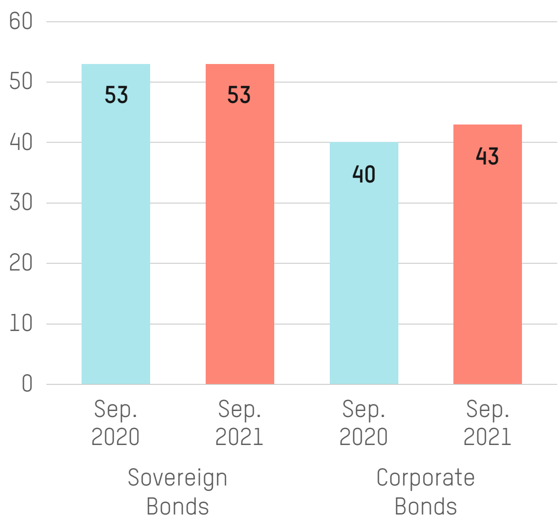
BL-Bond Emerging Markets Euro

The BL-Bond Emerging Markets Euro fund invests in sovereign, corporate and green bonds in emerging countries mostly denominated in euros. In line with the strategy described above, the share of green bonds has increased by 6% at the expense of traditional corporate bonds over the last few months. In addition, the fund aims to reduce the carbon intensity of the corporate pocket by 20% by 2025 (base year: 2021).

Issuer types



ESG Score

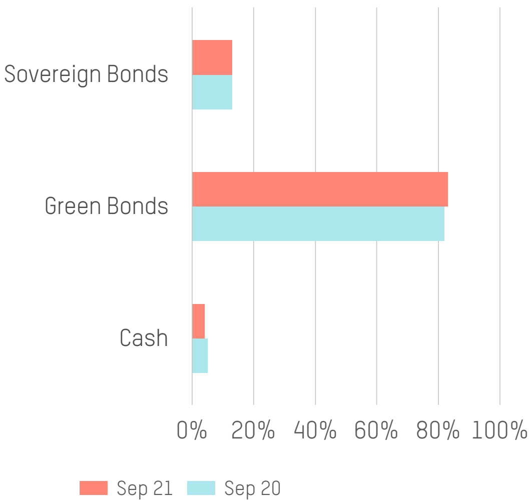


SRI ACTIVITY REPORT 2021

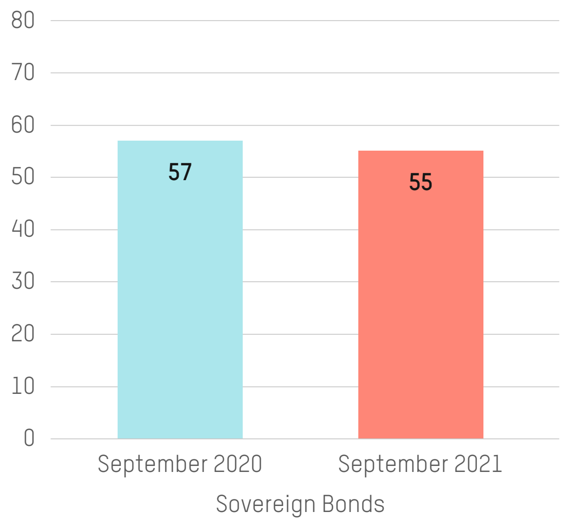
BL-Bond Euro

BL-Bond Euro is a fund that invests mostly in green bonds denominated in euro.

Issuer types



ESG Score



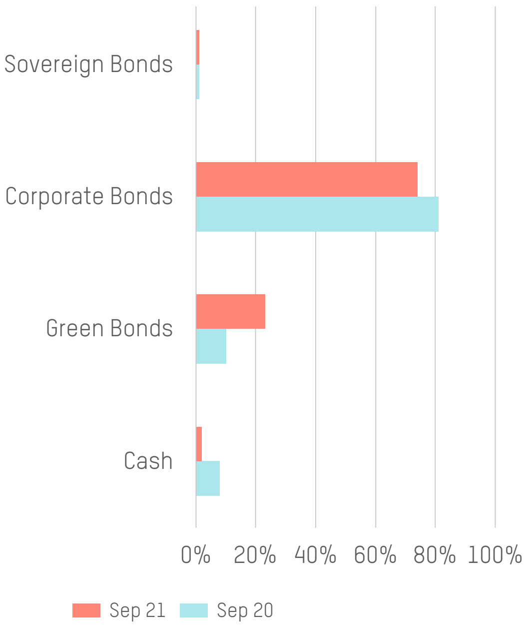
Fixed Income

BL-Corporate Bond Opportunities

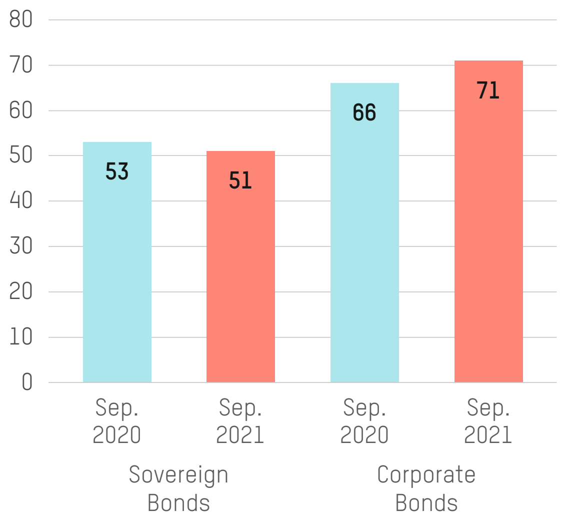
The BL-Corporate Bonds Opportunities fund invests mainly in traditional corporate bonds, as well as in green bonds and, secondarily, in sovereign bonds. In line with the strategy described below, over the last few months the green bond portfolio has increased by 13% at the expense of traditional corporate bonds.

BL-Corporate Bonds Opportunities aims to reduce the carbon intensity of its corporate issuers pocket by 15% by 2025 (base year: 2021).

Issuer types



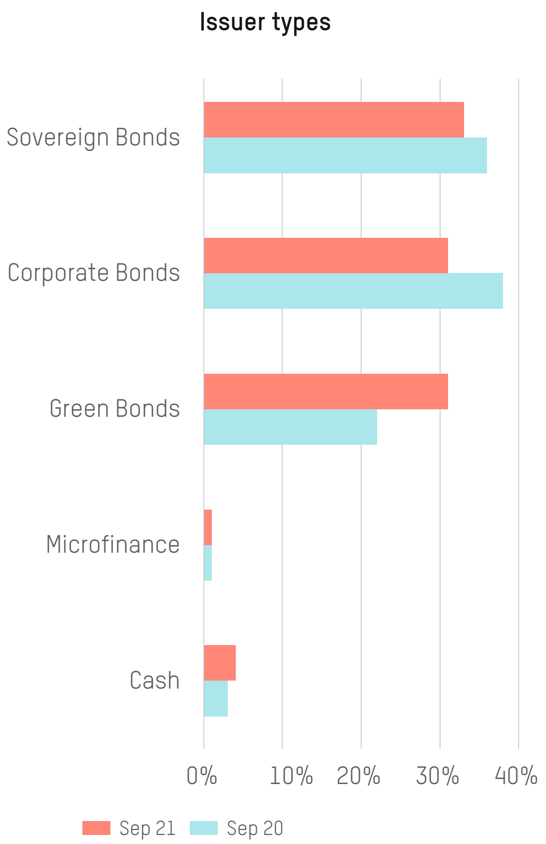
ESG Score

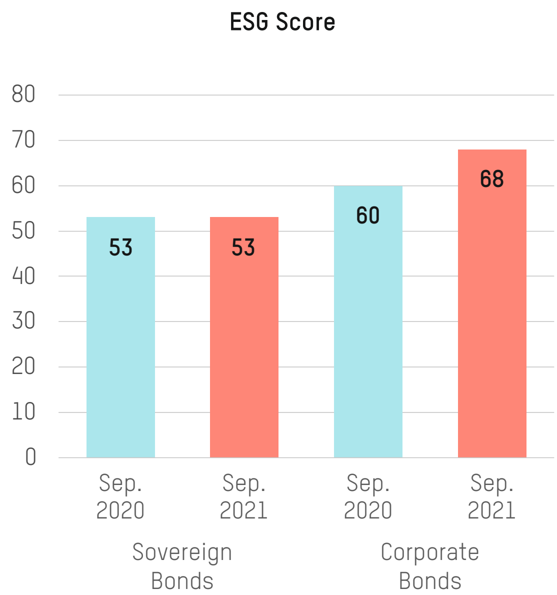


BL-Global Bond Opportunities

BL-Global Bonds Opportunities is a global fund investing in all bond asset classes. In line with the strategy described below, over the last few months, the green bond pocket has increased by 9% at the expense of traditional corporate bonds.

BL-Global Bonds Opportunities aims to reduce the carbon intensity of its corporate issuers pocket by 20% by 2025 (base year: 2021).





Impact Investing

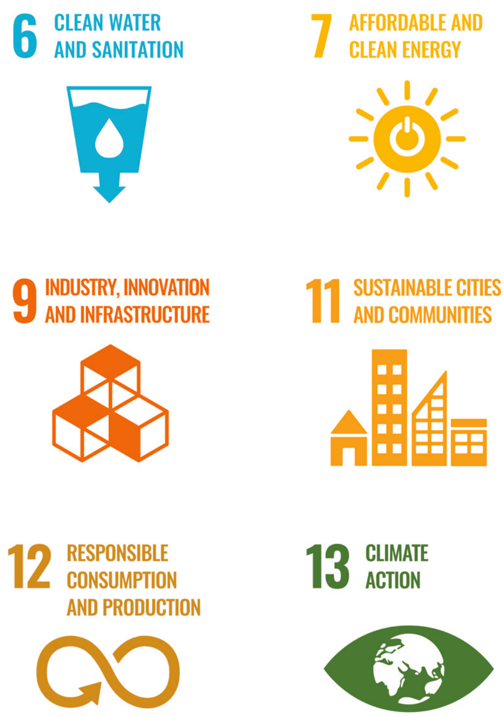
Bonds are the ideal asset class to directly target the SDGs. Out of €1 billion in assets under management across six funds, 22% (or €237 million) are invested in impact strategies. Of these, 98% are invested in green bonds and 2% in alternative impact strategies. Since September 2020, we saw a net increase in the share of impact investments from €146.7 million to €232.9 million, an increase of 59.3% over last year, and an increase of 7.8% across all fixed income assets.

Green Bonds

The green bond market has seen continued strong growth in 2020 and 2021. This is due to the increasing issuance of sustainability-linked bonds as environmental and risk resilience factors emerged in the wake of the Covid-19 crisis, alongside the strengthening of carbon neutrality commitments, mostly by sovereigns but also by some large corporations. Thus, the investable universe has grown from 300 issuers in our previous report to nearly 400 issuers, which is equivalent to 1,200 issues and 530 billion euros of debt issued.

More than a quarter of the issuers in our funds are financial institutions such as development banks or investment banks, another quarter stems from utilities, and finally to a lesser extent, governments.

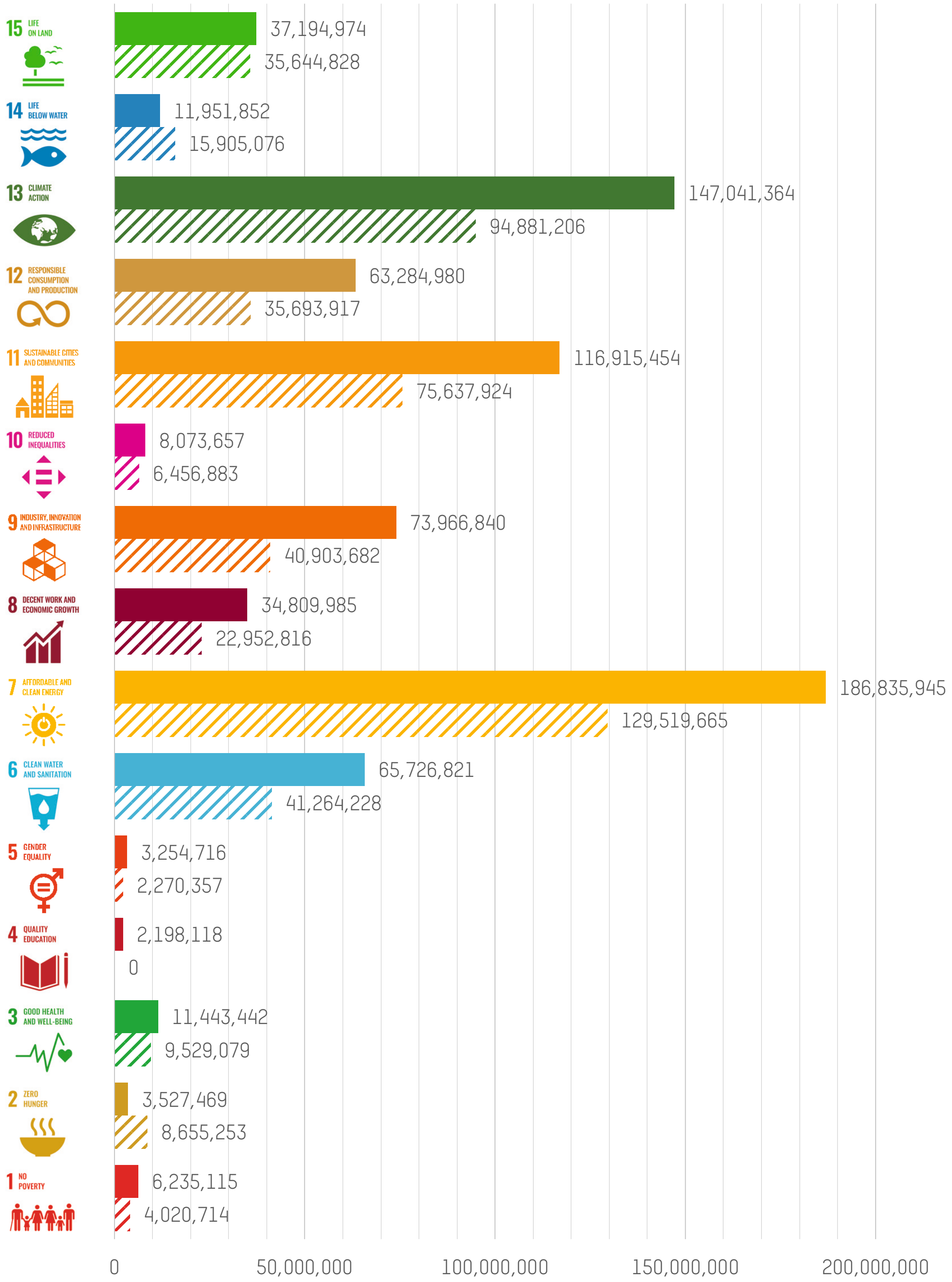
Green bonds generally target several SDGs. Thus, compared to last year, we can note a significant increase in our impact on the following SDGs:



These SDGs are also the ones where we have the greatest impact. Our numbers are consistent with the goals generally targeted by the green bonds which represent a large majority of our impact investments.

Fixed Income

The chart below shows the amounts (in dollars) allocated to each SDG, in 2020 (hatched bars) and 2021, for all the impact investments we fund.



Microfinance

BLI collaborates with specialised external advisors in charge of establishing a list of eligible issuances in line with our main investment criteria (minimum bond value, rating, project type, region) and ensuring permanent monitoring of the selected investments as this is a crucial step in the investment process.

Quelques exemples

CFPA Microfinance Management Company (Chine)	This microfinance institution offers accessible loans to low-income micro-entrepreneurs, mainly on rural areas and areas hit by natural disasters. It gives priority to women (82.9% of clients) by providing the means to create microenterprises or expand existing production.
Mitra Bisis Keluarga (Indonésie)	Its mission is to improve the standard of living of a significant number of the poorest 25% of households in Indonesia. MBL's main clients are poor women who are usually farmers or run small commercial enterprises.
LOLC PLC (Cambodge)	A microfinance institution with a social vision and a business orientation that provides entrepreneurs and families at the base of the socio-economic pyramid with the economic opportunities to transform the quality of their loves and their communities through the provision of effective and sustainable client empowering financial services.

This year, the fixed income team launched the Impulsum Reserved Alternative Investment Fund SICAV S.A.. Thus, the microfinance pocket within our funds remained stable this year, but the amount financed increased significantly with the launch of the new fund. Nevertheless, the growth of the microfinance pocket within our funds remains one of our objectives. [18]

Focus on the Impulsum Reserved Alternative Investment Fund SICAV S.A.

At BLI, we believe that generating impact and creating value for the investor are compatible. That's why in 2010, we launched our first closed-end fund investing in microfinance with the goal of reducing poverty. Other funds followed in subsequent years.

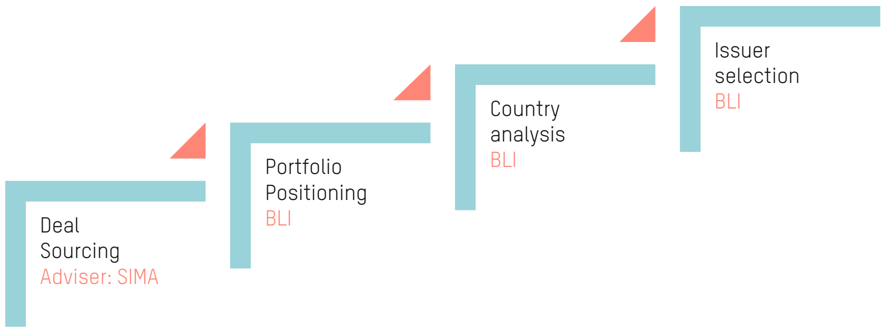
Building on these past experiences in microfinance, BLI has partnered with SIMA (Social Investment Managers & Advisors) in a groundbreaking partnership to launch the fund Impulsum. It is a sub-fund of a RAIF (Reserved Alternative Investment Fund) under Luxembourg law, which invests mainly in bonds of private issuers (loan agreements and promissory bills) with the possibility to invest in traditional bonds on an ancillary basis.

Labelled in dollars, Impulsum is a closed-end fund launched for an initial term of three years with a possible extension of two years.

18 Commercialisation started in October 2021.

Fixed Income

Thus, the collaboration between BLI and SIMA is based on the expertise of each entity: the identification of impact projects and monitoring is carried out by SIMA and the portfolio management by BLI.

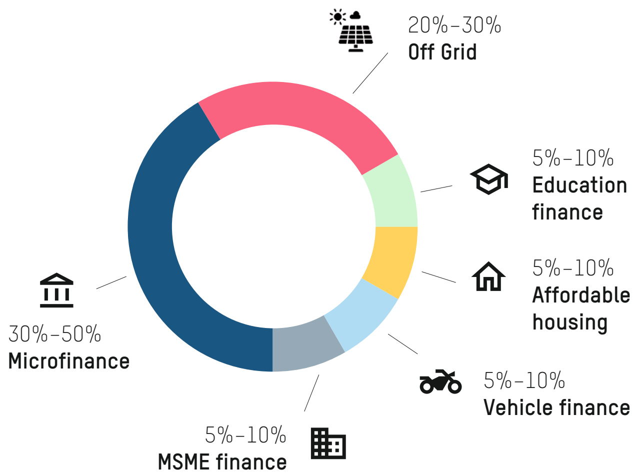


We believe that the most direct and effective impact can be generated by directing investments to the base of the economic pyramid – the world's most disenfranchised populations who are not only excluded from the traditional financial system, but also generally lack basic access to energy and education.

Our goal with this fund is to make a difference by not only addressing the challenge of financial inclusion, but more importantly, by addressing relatively complex issues that are only marginally addressed by the traditional microfinance industry.

In terms of geographic allocation of funding, the team focuses on countries generally less covered by traditional microfinance initiatives, with a primary concentration in Asia (India, Pakistan, Bangladesh, Cambodia, Thailand and Sri Lanka) and Sub-Saharan Africa (Kenya, Uganda and Nigeria). Investments in Latin America will also be considered.

The fund aims to focus its investments on viable economic sectors through which it is possible to generate a significant impact on the targeted populations: microfinance, solar energy, support for micro-, small and medium-sized enterprises, access to education, affordable housing and work vehicles.



Fixed Income

These projects directly target the SDGs and impact measures have been planned for each of them. After an initial selection of investment candidates, a portfolio simulation was generated to establish the following objectives:

Measure: Number of microcredits granted to low-income population
Target: 147,000 disbursements to micro-entrepreneurs

Measure: Number of schools targeted for loans
Target: 45,000 schools financed

Measure: Number of women clients of funded entities
Target: 0.8 million women supported through microfinance, energy, education or housing

Measure: Number of new solar connections
Target: 1.2 million new solar connections

Measure: Number of vehicles financed through loans to entrepreneurs who use them to generate income
Target: 26,000 cars and two-wheelers financed

Measure: Number of affordable housing units funded
Target: 1,000 affordable homes financed

Measure: tons of greenhouse gases avoided
Target: 1.6 million tonnes of annual greenhouse gas emissions avoided

Partnering with public institutions can be done at different levels:

- Investments by public institutions in a junior tranche of the fund that absorbs any losses;
- Co-investment(s) by the fund and a public institution in a specific project;
- Provision of a guarantee that would be activated in case of a default event

Jean-Philippe Donge **– Head of Fixed income and Fund Manager:**

"We want to target the base of the pyramid directly and act at a broader level than just financial inclusion. Clean and affordable energy, gender equality, health care for micro-entrepreneurs, and schooling for children freed from backbreaking rural work as their mothers have access to better tools, etc., are all changes we want to bring about through our investments and involvement in the world's poorest communities."

Multimanagement

Analysis

This year, BLI's Multigestion team continued and expanded the ESG analysis of management companies and their respective underlying funds.

The ESG analysis within BLI's Multigestion team was formalised in 2019 through two proprietary questionnaires, one covering the SRI strategy and sustainable and responsible initiatives at the management company level and the other covering ESG integration in the funds' investment processes. Thanks to these annual questionnaires, the fund analyst team is thus able to follow the ESG evolution of the 68 funds covered and their respective management companies.

These questionnaires are not static and evolve according to experience, the development of best practices and current events. This year, for instance, we have included information related to SFDR. Hence, we have added questions on the practical application of exclusions, on the percentage of assets under management classified as Article 8 or Article 9 and on impact objectives and their reporting.

Regarding the analysis of management companies, we note a general positive trend compared to last year. As an indication, their average absolute score has increased from 56/100 to 64/100, including some new companies in the analysis.

This evolution is explained by the generalization of the signature of the United Nations Principles for Responsible Investment (UN PRI) and a growing support for several sustainability initiatives. Corporate social responsibility, sustainable investment, voting and engagement policies have also expanded, with more communication, tools and monitoring indicators available.

In general, the first stage of the SFDR regulation introduced in March 2021 appears to have accelerated thinking about ESG strategies, the implementation of ESG data integration systems and reporting. Annual and quarterly reports are more frequent and more detailed, a trend that is expected to continue with the second phase of the SFDR regulation scheduled for 2022.

In terms of human and material resources, the teams have often welcomed new ESG specialists for management needs, but also for compliance, reporting and project coordination. Several asset management companies have extended the integration of ESG data to their entire range. They have adopted existing strategies as best-in-class with an Article 8 classification or with a new SRI label. They have also created new strategies to adapt to the growing demand for ESG or impact-oriented products. Thus, we have seen a widespread increase in the percentage of assets managed based on SRI and/or impact strategies.

Within funds, the scope of exclusions is gradually widening. Controversial weapons remain excluded, while other themes such as coal, tobacco and alcohol are increasingly being added to the exclusion lists. SRI policies are more comprehensive and communicated transparently, particularly among some specialist players.

With the multiplication of communications and classifications, and in order to correctly assess the progress of the various funds in these ESG areas, it is essential to implement a disciplined method of analysis based on a combination of quantitative and qualitative indicators. As an indication, the funds reviewed have seen a slight increase in their average rating from 40/100 to 45/100, including new funds in the analysis.

Management

At the end of 2020, BLI launched its first ESG-oriented fund of funds, BL Fund Selection Smart Evolution.

Since its launch, we have developed several quantitative and qualitative monitoring tools while encouraging regular exchanges with the managers in order to understand their financial and extra-financial approach.

In October 2021, the management companies making up the BL Fund Selection Smart Evolution have an average score of 71/100 while the associated funds have an average score of 80/100.

The challenge remains to offer a diversified, high-performance portfolio with solid convictions that can make sustainable progress beyond market fads. In concrete terms, our challenge is to combine the evaluation of real ESG development efforts undertaken, considering the size and means of the companies, with the relevance of the various approaches developed.

Fanny Nosetti **– Head of Multimanagement and Fund Manager**

"Thematic funds are multiplying. There is now a wide range of climate funds, biodiversity, human development, circular economy, etc... And the range of more traditional regional funds with tangible ESG approaches is growing. Our challenge is to build a portfolio based on funds whose sustainable and responsible finance methodologies are relevant and consistent without losing sight of the fund's objective, which is to build a balanced portfolio in terms of sector, geographical and style allocation in order to keep its risk/return profile in line. The relevance of these methodologies, particularly for thematic funds, is not always reflected in the ratings assigned by ESG data providers. Sometimes we find funds that have a concrete impact but whose overall ESG ratings are disappointing, due to the fact that many criteria are taken into account. For example, even though thematic funds directly address some of the SDGs, the companies in these funds may also be energy intensive and generate high carbon emissions, which can lead to a deterioration in their overall ESG scores. Thus, the trade-off between rating, which is significant in the ESG fund market, and impact is not always clear."

Governance and Organisation

UN PRI

BLI became a signatory to the United Nations Principles for Responsible Investment (UN PRI) in July 2017. In line with our commitments to the UN PRI we seek to promote responsible investment practices focused on the longer term and centred around a variety of stakeholders both internally and externally. A heightened awareness and cooperation of different stakeholders is important if we as a society want to achieve targets set at international and national levels.

The last UN PRI assessment received by BLI was unfortunately in 2020 – the results of the report 2021 will only be published next year due to a technical problem at the UN PRI level.

Comité ISR

BLI has its own Sustainability Committee, the "Comité d'Investissement Socialement Responsable (CISR)". The council acts as a discussion forum and governing body for ESG issues within BLI. It is responsible for regular reviews of industry developments and for the sound implementation and cautious revision of the ensuing timeline and policy. The permanent committee members are representatives from all relevant BLI teams. In a bid to foster an open exchange on ESG issues, all BLI staff members are encouraged to attend the committee. SRI measures are being integrated into our portfolios by the fund managers, with the assistance of the CISR and the SRI team. All decisions are made in collaboration with every impacted team at BLI.

SRI Team

BLI has a team dedicated to ESG research that works with all fund managers, all universes combined. Initially, when the PRI were signed, the ESG policy was defined within the Product Management team, where one person was particularly dedicated to this aspect. It was decided in 2019 to create the position of SRI strategist and to attach him to the management team. In March 2020, the team expanded to include a second person.

The SRI team is furthermore supported by BLI's Comité ISR and uses extra-financial data from MSCI, Bloomberg ESG, broker research and data published by the companies themselves.

Corporate Social Responsibility (CSR)

BLI's developments are in line with and inspired by its parent bank's CSR policy which focuses on four major areas: the sustainability of the bank through good governance and ethical conduct, human and sustainable relations with employees, support for the ecological, social and societal transition and the reduction of our environmental footprint.

More on Banque de Luxembourg's CSR policy can be found in its non-financial report here.

Exclusion policy

BLI introduced its first formal exclusion policy in June 2021. While some areas (business involvement and behavioural) were already excluded through different investment policies focused on clear competitive advantages and financial stability, the newly released document had the ambition to serve as minimum threshold. In it, BLI identifies several types of exclusions:

- Controversy-based exclusions are intended to protect the reputation of investors and to avoid them becoming embroiled in controversies when scandals arise;
- Exclusions due to non-compliance with the United Nations Global Compact;
- Sector exclusions: Controversial weapons and companies involved in the coal value chain.

In case the SRI team and/or the Head of Risk Management discover that a company held in a portfolio is no longer in compliance with our exclusion policy, he notifies the relevant investment manager(s). They can either choose to exclude the security in question or defend the case before the SRI Committee based entirely on ESG arguments.

Following the case defense, the SRI Committee votes on the security's retention. For the decision to be taken, two-thirds of the SRI Committee must be present. A qualified majority of two-thirds of the participants is required for the vote to pass.

Overview

The sustainable investment strategies of the BLI funds are multidimensional and adapted to the specificities of each fund. A general overview is given below:

Fund	Exclusions	ESG Integration	Controversy monitoring	Engagement	Universe reduction	Impact or SDG focus	Micro-finance	Green Bonds
Equity								
BL-American Smaller Companies	✓	✓	✓	✓				
BL-Emerging Markets	✓	✓	✓	✓				
BL-Equities America	✓	✓	✓	✓	✓			
BL-Equities Asia	✓	✓	✓	✓				
BL-Equities Dividend	✓	✓	✓	✓				
BL-Equities Europe	✓	✓	✓	✓	✓			
BL-Equities Japan	✓	✓	✓	✓				
BL-European Family Businesses	✓	✓	✓	✓				
BL-European Smaller Companies	✓	✓	✓	✓				
BL-Global Equities	✓	✓	✓	✓				
BL-Sustainable Horizon	✓	✓	✓	✓	✓	✓		
Mixed								
BL-Global Flexible EUR	✓	✓	✓	✓				
BL-Global Flexible USD	✓	✓	✓	✓				
BL-Global 30 / 50 / 75	✓	✓	✓	✓				
Bonds								
BL-Bond Dollar	✓							
BL-Bond Euro	✓					✓		✓
BL-Bond Emerging Markets Sustainable	✓	✓				✓	✓	✓
BL-Bond Emerging Markets Euro	✓							
BL-Corporate Bonds Opportunities	✓	✓						✓
BL-Global Bond Opportunities	✓	✓				✓	✓	✓
Multimanagement								
BL-Fund Selection Smart Evolution	✓	✓				✓		

- The exclusions defined in BLI's exclusion policy are applied to all the above funds. As for BL-Fund Selection Smart Evolution, it considers the exclusions of the funds in which it invests.
- For equity and mixed funds, BLI integrates the company's ESG rating into the cost of equity in order to favor the most sustainable companies and penalize those that are lagging. ESG integration is always complemented by controversies monitoring, analysis of companies' ESG inappropriate behavior and inherent risks, and engagement, the act of contacting invested companies to influence their sustainability performance, as outlined in our engagement policy.
- Our ISR labelled equity funds also apply a 20% reduction in the investment universe, eliminating companies lagging on ESG issues.
- The impact or focus on the SDGs strategies target and measure (in the case of the bond funds) the impact of our investments on the financing of the SDGs. Impact is generated through various such as microfinance or green bonds.

What lies ahead?

A lot of time will be spent on unpacking the EU regulations – we are still working on SFDR and the taxonomy is right around the corner. Nevertheless, we welcome the relentless motivation of the European Union to go beyond and to make sustainability a key indicator and focus point in the finance world. It's now or never.

Further on the to-do list is the implementation (equities) and enhancement (bonds) of the way we measure our impact on either specified indicators or more general targets like the SDGs.

On the CSR level we will try to underline the direction taken by making one or the other commitment (for details on this you'll have to be patient until next year's report).

More generally speaking, sustainable and responsible investing will be in the center of BLI's developments in the next year. We were able to enhance our way of doing things by adding a sustainability dimension in a way that makes sense to us and this will also be our mantra going-forward.

Glossary

Active ownership	Actively exercise your rights as a shareholder. The two main ways to do this are to vote at annual general meetings (AGM) and to engage investee companies in an active dialogue.
Bottom-up	A method of portfolio management that prioritizes a company's characteristics over those of its sector or macroeconomic data. It is the opposite of top-down management.
Business-Like Investing	BLI's management strategy, developed by Guy Wagner in the 1980s, consists of not only buying and selling securities but adopting an entrepreneurial spirit when investing in a company. It is an active, long-term approach.
Controversies	Controversies arise when a company is involved in a scandal for which it is directly or indirectly responsible.
Corporate Social Responsibility	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.
Cost of equity (CoE)	The compensation asked by the market in exchange for the ownership of the asset and the bearing of the related risk.
Discounted cash flow model (DCF)	Discounted Cash Flow (DCF) is a valuation method used to estimate the value of an investment based on its expected future cash flows.
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.
Exclusions	An exclusion is 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.
Fair value	This is the real and effective value of the share.
Global Coal Exit List (GCEL)	The exclusion list developed by the NGO Urgewald which lists companies that are part of the coal value chain.
Governance	The set of rules, practices and processes by which a company is managed and its management supervised.
Green bond	Green bonds are debt securities whose sole purpose is to promote climate awareness and environmental sustainability.
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 pursuing a positive financial return.

Glossary

LuxFlag label	The LuxFlag label is a tool to promote sustainable investment sectors. Created by the 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.
Label ISR	The "Label ISR" is a tool for choosing responsible and sustainable investments. Created and supported by the Ministry of Finance, the label aims to promote sustainable and responsible investment (SRI) products more to savers in France and Europe.
Microfinance institution (MFI)	A microfinance institution is the gateway to access microcredit. The clients of an MFI are often micro-entrepreneurs who wish to have a first economic support in order to be able to launch their activity. This type of clientele is considered too risky by conventional banks because they cannot provide any real guarantee and because they tend to work in the informal sector of the economy.
MSCI ESG Manager	An ESG data provider that BLI has relied on since 2017.
Percentage point	A unit to designate the difference between two percentages.
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.
Sustainable and Responsible Investment (SRI)	Investment strategy that seeks to consider both financial return and social good by taking sustainable development priorities into account. These investments look to meet the needs of the current generation without compromising the ability of future generations to meet their own needs.
Sustainable Finance Disclosure Regulation (SFDR)	A regulation established by the European Commission was implemented in March 2021 and aims to put in place harmonized rules for financial markets in terms of transparency regarding the integration of risks related to sustainable development. European funds are classified between 3 articles: article 6, article 8 and article 9. Funds classified under article 6 do not integrate sustainability characteristics into their selection and management processes. Funds classified under article 8 promote through their investments sustainability characteristics such as environmental, social or a combination of both, 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.
Task Force on Climate-Related Financial Disclosures (TCFD)	A reporting system that provides a global view of an entity's impact on climate change.
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)	The 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.

BLI BANQUE DE LUXEMBOURG INVESTMENTS