

Sustainable and Responsible Investment approach Fixed Income Assets

Document history

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3	September 2024	Modification of ESG monitoring and objectives based on ESG ratings	GRC Expert SRI	Head of SRI Strategy & Stewardship	Sustainable & Responsible Investment Committee

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1 Purpose of this document

This document summarizes the methodology applied by BLI - Banque de Luxembourg Investments ("**BLI**") with regard to sustainable and responsible investment in the context of investments in bonds of the products specified in section 2 (the "**Products**").

This document is part of the provisions specified in the contractual and/or pre-contractual documents governing the Products.

More specifically, it is intended to provide additional, non-contractual information to the provisions specified in the contractual and/or pre-contractual documents governing the Products. This document is intended for any person investing in a Product or interested in investing in a Product and interested in the methodology applied by BLI (the "**Methodology**").

Insofar as it may change over time due to various factors (e.g., changes in the regulatory framework, availability of relevant data, etc.), this document may be adapted without this necessarily resulting in changes to the contractual and/or pre-contractual documents governing the Products.

Any person investing in a Product, or interested in investing in a Product, is therefore invited to consult the BLI website for the current version of the Methodology applied by BLI if such knowledge is likely to influence a decision of the person in question concerning an investment in the Product.

The purpose of this document is not to advertise or promote one or more mutual fund-type financial products. However, insofar as this document refers to mutual fund financial products, it represents an advertising communication as specified in section 7.

2 Scope of application

The Methodology applies to the following Products as long as they are invested in the asset class specified in section 1:

- the sub-funds of SICAV BL;
- any other product (including also the notion of discretionary management) (i) for which all or part of the portfolio is managed by BLI and (ii) for which the contractual and/or pre-contractual documents indicate that all or part of the Methodology applies.

3 Organisation

The research and analysis process is carried out by BLI's bond management team, with the support of the SRI Strategy & Stewardship team and with reference to external information sources, including:

- publicly available sources (FAO, INFORM, UNDESA, World Bank) for quantitative data on sovereign issuers;
- MSCI ESG Research is the main source of companies' reported data for the analysis of corporate issuers;
- prospectuses and second party opinions concerning the impact analysis of impact bonds as described in section 5.5.2;
- the opinion of one or more external investment advisers specialising in alternative impact instruments.

4 Sustainability methodology

The SFDR (Sustainable Finance Disclosure Regulation) sets out the general framework for taking sustainability factors into account in investment strategies. In this context

- Article 6 of the regulation concerns the integration of sustainability risks into investment decisions;
- article 8 of the regulations concerns the promotion of sustainability factors; and
- Article 9 sets out the framework for financial products whose objective is sustainable investment.

Financial products are classified according to these three articles, which represent different levels of ambition with regard to the theme of sustainability, it being understood that every financial product must position itself with regard to the integration of sustainability risks (article 6 of the regulations).

4.1 Consideration of sustainability risks (Article 6 SFDR)

BLI's integration of sustainability risks into bond investments, other than investments in sovereign bonds or bonds of supranational issuers, is articulated through three dimensions:

1. controversy analysis, i.e., extra-financial information concerning the issuers of the securities;
2. sector and normative exclusions;
3. active dialogue with investee companies.

4.1.1 Controversy analysis

Companies that are candidates for investment within the Products, as well as companies already held by the Products, are subject to regular evaluation or monitoring, in order to identify ESG events that may affect the company's business model, reputation and therefore potentially BLI's investment thesis.

Initially, the assessment and monitoring approach is based on the controversy classifications ("green", "yellow", "orange" and "red") assigned by MSCI ESG Research. Companies classified as "red" are excluded from the BLI investment universe. Further information is available in the exclusion policy, which can be consulted [here](#).

Companies rated "orange" (a classification corresponding to severe controversy) are analyzed in depth using a variety of information sources, including internal research, external research providers, the media and company information. Based on this proprietary analysis, an opinion is formulated as to the materiality of the controversy for the company's long-term business model and BLI's investment thesis. This analysis also serves as a starting point for identifying opportunities for engagement, in order to focus efforts on opportunities offering significant potential for change.

New controversies are analyzed as they arise.

4.1.2 Normative and sectoral exclusions

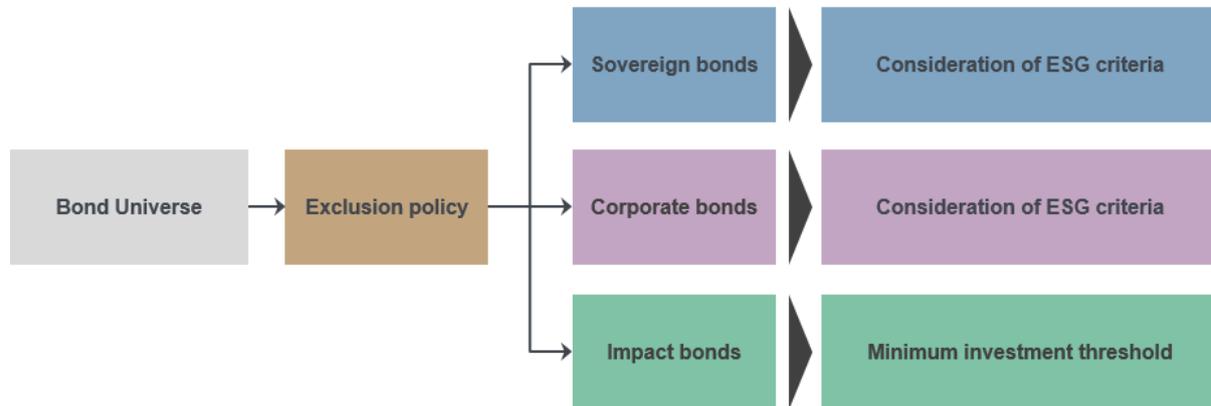
BLI has adopted various formal exclusions. Further information is available in the exclusion policy, which can be consulted [here](#).

4.1.3 Active dialogue

Engaging in active dialogue with investee companies is described in a specific policy and published on the BLI website. BLI's corporate engagement policy can be consulted [here](#).

5 Promoting sustainability factors (Article 8 SFDR)

5.1 Diagram of the SRI approach



5.2 Exclusion policy

The exclusion policy applicable to bonds is set out in the BLI - Banque de Luxembourg Investments Exclusion Policy. It is available on the BLI website under Sustainable and Responsible Investment.

5.3 Corporate bonds

ESG considerations are factored into the investment recommendations prepared¹ by the analysts in BLI's bond management team.

BLI's approach to analysing corporate bond issuers is based on the integration of operational, solvency and liquidity parameters to assess the attractiveness of an issue from a buy-and-hold perspective. An issuer is therefore appraised from two distinct angles (financial and non-financial) in order to arrive at an investment recommendation.

In practice, a range of indicators are taken into account such as:

- MSCI ESG Research ratings;
- carbon emission intensity per unit of turnover (scope 1 & 2);
- MSCI's Controversies Indicator (red, orange, yellow, green);
- exposure to certain sensitive sectors (tobacco, alcohol or fossil fuels);
- ESG momentum and MSCI's ESG opinion.

This qualitative analysis of an issuer's ESG profile is taken into account in the analysis of an issuer's risk/return ratio. If an issuer is deemed too risky from an ESG perspective, it will not be considered an investment candidate.

As data collection on the ESG aspects of companies is relatively recent, there are disparities in the data provided, which means that ESG analysis cannot always be exhaustive. Accordingly, for each portfolio, a maximum tolerance threshold is defined in terms of invested issues that do not provide ESG data.

The maximum tolerance threshold applies per portfolio and is currently set at 10% of the portfolio's assets.

¹ Where standardised ESG data are not available, an ESG risk check is carried out for the issuer on a public search engine, in company reports or with data providers to verify that the issuer does not have a significant ESG risk (e.g., on controversies).

5.4 Sovereign bonds

Issuers are subject to a non-financial analysis, which results in an ESG rating that is taken into account by the management team when analyzing and selecting individual issuers.

To this end, a proprietary approach has been developed to track sustainability-related risks and promote an issuer's ESG characteristics. The purpose of the ESG sovereign rating is to assess the level of sustainability factors in a government, its economy and the reforms it has implemented.

By comparing the proprietary rating of financial data with the ESG rating, the management team identifies quality issuers from both a financial and ESG point of view. For similar fundamental characteristics and yields, the management team will favor the issuer with the highest ESG rating.

5.5 Impact investing

5.5.1 Investment process

Within the bond universe, BLI distinguishes between:

- **liquid impact bonds** which help to promote awareness of social, climate and environmental issues;
- **alternative impact instruments** such as investments in microfinance bonds or in bonds issued by micro, small and medium-sized enterprises (MSME) in developing countries.



These instruments uphold the United Nations Sustainable Development Goals (**SDGs**) and are thus geared towards supporting the energy transition, limiting climate change and/or promoting other SDGs; they are not therefore subject to any other environmental or social optimisation measures applied in the portfolios.

5.5.2 'Liquid impact': impact bonds

The notion of impact bonds², as used in this document, refers to issues intended to finance one or more environmental and/or social projects and have a framework that meets the principles established by the International Capital Markets Association (ICMA) such as the "Green Bond Principles", "Social Bond Principles", "Sustainability-linked Bond Principles" or "Sustainable Bond Principles".

The issuers are mainly governments and supranational entities which issue this type of bond to fund large-scale projects, but some companies also issue them to fund specific projects (such as energy transition projects).

In line with a formal decision-making framework, the management team carries out a thorough analysis of these issues to ensure that they meet environmental and/or social impact objectives.

5.5.3 'Alternative impact': impact instruments

It is beneficial to include alternative impact issues (financial inclusion, access to housing, access to clean energy, agriculture etc.) in a portfolio as the asset class offers the combination of a steady return with a social and environmental impact. Alternative impact sectors represent a source of diversification and improve the risk-return profile of a portfolio because:

- impact issues tend to be less volatile than the market (decorrelation effect);
- the micro-entrepreneur business model is generally more resilient (lower default rate).

Before investing in microfinance, it is essential to analyse the issuers, beneficiaries and underlying projects involved. In this regard, BLI works alongside specialised external advisers who factor in a set of criteria for investment (e.g., minimum issuance amount, rating, impact targets, type of project, region, risk/return profile etc.), and then present the management team with a list of eligible issues and continually monitor the selected investments.

² In view of market practices and the absence of a common nomenclature, the term "green bond" encompasses the different types of issues: green bond, social bond, sustainability-linked bond and sustainable bond.

The issues presented by an external adviser are analysed by BLI to assess their quality in terms of credit risk and to gauge whether they are suited to the current macroeconomic and regulatory environment.

The final portfolio is built through an investment process that places issue quality at the heart of its approach, whether in terms of the quality of the projects financed or the credit quality of the issuers selected.

6 Review and update of the Methodology

The Methodology will be amended to reflect any developments in the approach, organisational changes and legislative and regulatory developments. In all cases, it will be reviewed at least once a year.

7 Legal information

This document has been drafted by BLI - Banque de Luxembourg Investments ("**BLI**"). It refers directly or indirectly to one or more financial products (the "**Financial Product**") and constitutes an advertising communication within the meaning of Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014. The economic, financial and non-financial information contained in this publication is provided for information purposes only based on data known at the date of publication. This information does not constitute investment advice or a recommendation or inducement to invest, nor should it be construed under any circumstances as legal or tax advice. No guarantee is given as to the accuracy, reliability, recency or completeness of this information.

BLI draws the attention of the recipient of this document to the need to apply the utmost caution when using any information relating to a Financial Product, in particular data relating to the performance of the Financial Product:

- where applicable, any scenarios relating to future performance presented in this document are an **estimate of future performance** based on past data relating to the stocks held by the Financial Product and/or current conditions. They are not an **exact indicator** and other factors relating to market developments and the length of time the Financial Product is held should be considered.
- Furthermore, the **past performance of the Financial Product is no guarantee of the future results of the Financial Product**.

Generally, BLI does not assume any responsibility for the future returns of these Financial Products and shall not be liable for any decision that an investor may or may not make on the basis of this information. Interested parties should ensure that they understand all the risks inherent in their investment decisions and should refrain from investing until they have carefully assessed, in collaboration with their own advisers, the suitability of their investments for their specific financial situation, especially with regard to legal, tax and accounting aspects.

They must also take into account all the characteristics and objectives of the Financial Product, in particular those referring to sustainability aspects in accordance with Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services.

Subscriptions to a Financial Product representing units in a collective investment undertaking are only permitted on the basis of the current prospectus, the latest annual or semi-annual report and the Key Investor Information Document (KIID) (the "**Documents**") of the Financial Product concerned. The Documents may be obtained free of charge from BLI. All the Documents, including the sustainability information, are available on BLI's website: www.bli.lu

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