Sustainable and Responsible Investment approach

Fixed Income Assets

February 2023

Contents

1 Purpose of this document

This document summarises the approach and methodology applied by BLI - Banque de Luxembourg Investments ("**BLI**")

i) to sustainable and responsible investment in the following class of instruments

- bonds; and

ii) concerning the products specified in section 2 (the “**Products**”).

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

In particular, this document 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 addressed to any person invested in a Product or interested in investing in a Product and interested in the methodology applied by BLI to sustainable and responsible investment in the context of the Product and the asset class specified above (the "**Methodology**").

As the Methodology may evolve over time due to various factors (e.g. changes in the regulatory framework, availability of relevant data, etc.), this document may be amended 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 BLI’s website to check the current version of the Methodology applied by BLI in case this should have a bearing on a decision by the person in question concerning an investment in the Product.

The purpose of this document is not the advertisement or promotion of any financial products of a collective investment undertaking nature. However, to the extent that this document refers to collective investment undertaking products, it represents an advertising communication as described in section 6.

2 Scope of application

The Methodology summarised in this document applies to the following products where they are invested in the asset class specified in section 1:

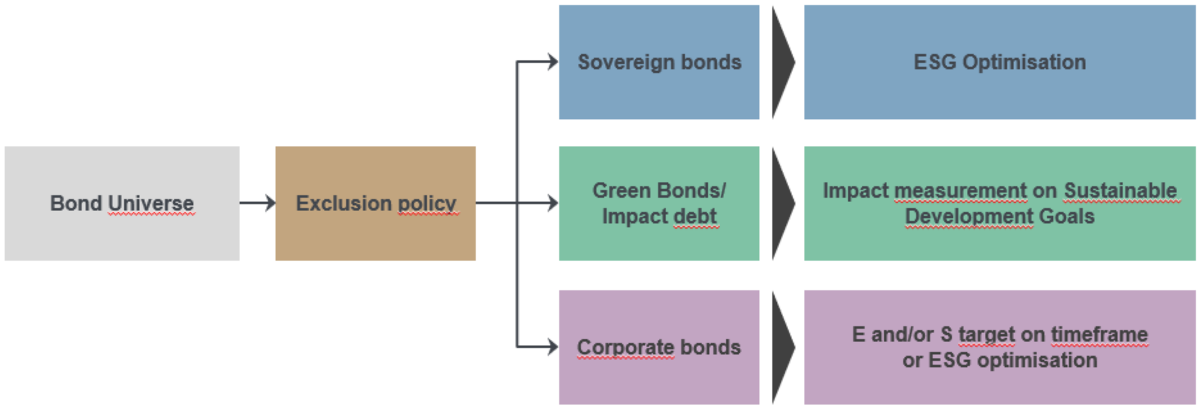
- the collective investment undertakings (and their sub-funds) specified in Appendix 4.1;
- any other product (including also the notion of discretionary management) (i) for which all or part of the portfolio is managed by BLI and (ii) for which the contractual and/or pre-contractual documents indicate 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 5.4.2;
- the opinion of one or more external investment advisers specialising in alternative impact instruments.

4 Diagram of the SRI approach



5 Methodology and promotion of ESG factors

5.1 Exclusion policy

The exclusion policy applicable to bonds is set out in the *BLI - Banque de Luxembourg Investments Exclusion Policy*. This policy can be accessed on BLI's website in the section on *Responsible Investing.*

5.2 Corporate bonds

ESG considerations are factored into the investment recommendations prepared[1] by the analysts in BLI's bond management team.

BLI's approach to analysing corporate bond issuers is based on operating, solvency and liquidity parameters enabling it to gauge whether or not a bond is attractive from a 'buy & 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;
- JPMorgan index 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 makes it impossible to be exhaustive in the ESG analysis. 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.

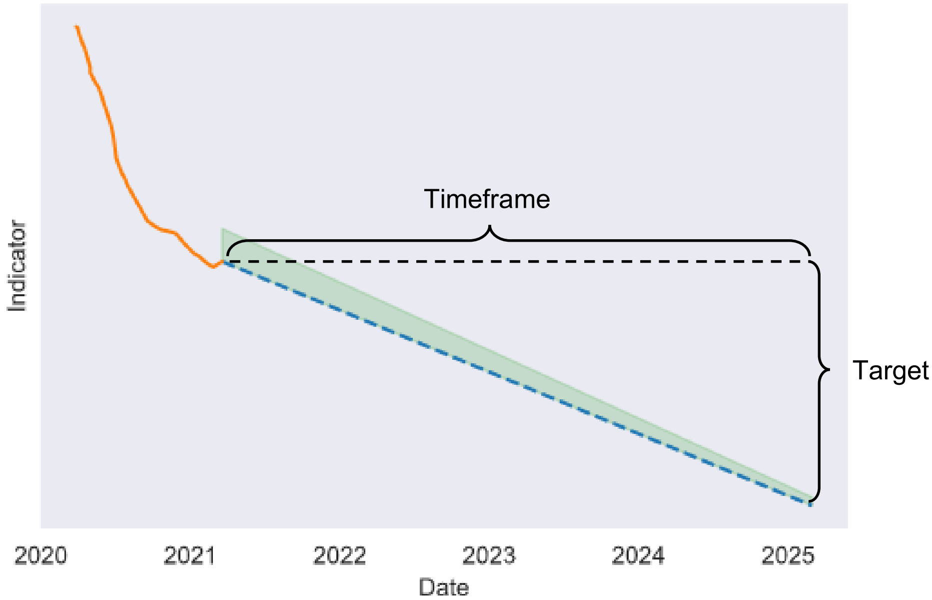
5.2.1 Improvement targets set for E and/or S factors

For the portion of the portfolio of a Product invested in corporate bonds not classified as impact bonds, the investment management team will set targets aimed at improving an indicator within a specific timeframe (e.g. a target to improve carbon intensity within a period of 5 years).

By setting a target and trajectory for one or more indicators, as shown in the graph below, BLI is able to ensure that the portfolio in question promotes environmental (E) and/or social (S) values in tangible terms. These targets are also applied to a universe that has already been filtered by the exclusion policy described in section 5.1.

The graph below shows an example of targets set for E/S indicators. The dotted line shows the targeted trajectory set for the weighted average value of a given indicator in a portfolio. A 10% degree of tolerance is accepted in efforts to achieve this target (shown by the shaded area on the graph). The different indicators and their target, timeframe, and the Product with which they are associated are described in section 7.2.

[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).



The indicator's actual value relative to the target is assessed half-yearly.
If a half-yearly intermediate target has not been achieved, the management team has a period of 3 months to align the indicator with the next target. The portfolio indicator is calculated using the following formula:

$$\frac{\sum_{i=1}^{n} w_i X_i}{\sum_{i=1}^{n} w_i}$$

where

w	represents the weight of the exposure of a security for which the indicator is available (if the indicator is not available, the weight is set to 0);
X	represents the value of the indicator for an issue.

5.2.2 Optimising an ESG rating against an investment universe

Issuers have an ESG rating which will be taken into account during the analysis and selection process of individual issuers. For the corporate bond segment of the portfolio, the management team will aim to achieve a higher ESG rating than that of its investment universe.

5.3 Sovereign bonds

5.3.1 Optimising the ESG rating

Issuers are subject to a non-financial analysis on the basis of which they will be assigned an ESG rating that the investment team will incorporate into its own analytical process and selection of individual issuers. The management team will aim to achieve a higher ESG rating for the investments in this segment than that of its investment universe.

5.3.2 Proprietary methodology for rating sovereign issuers

A proprietary approach aimed at monitoring an issuer's sustainability risks and promoting its ESG attributes has been developed for sovereign bonds.

The aim of the sovereign ESG rating system is to assess the sustainability factors of a country's government, its economy, and the reforms it introduces.

A framework has been established for this purpose and includes:
- A **fundamental rating** based on quantitative ESG data (level 1); and
- A **momentum rating** which is assigned based on the continuous analysis of each country's qualitative data (level 2).

The approach used to calculate the overall ESG rating thus involves combining a fundamental rating which remains relatively stable over time, with a momentum rating that is designed to reflect the trend within the countries analysed.

Comparing the proprietary rating assigned to the financial data with the ESG rating identifies the best quality issuers from both a financial and ESG perspective. If two issuers offer similar fundamentals and returns, the investment team will opt for the issuer with the higher ESG rating.

Level 1: fundamental ESG rating

Level 1 corresponds to a country's quantitative fundamental ESG rating. In other words, this refers to how well a country ranks in environmental, social and governance terms relative to comparable countries.

The management team uses various databases to identify the most relevant indicators (aggregated or raw). These indicators are selected based on the reliability of their sources and their relevance in terms of ESG analysis.

Level 2: ESG momentum rating

To obtain the most comprehensive overview possible of a country's ESG profile (and associated risks) it is essential to be able to factor in all the ongoing trends, whether favourable or unfavourable. As there is often a considerable delay in obtaining the quantitative data required for the analysis. The management team has decided to supplement its analysis with the continuous and systematic monitoring of qualitative information (recent events, articles, etc.) for each country, ensuring this is obtained from specific sources that are deemed reliable.

This level 2 analysis makes it possible to continually monitor a country's relative sustainability and to see if a lasting trend – positive or negative – in a given country might lead to an improvement or deterioration in its fundamentals in the medium term.

This method assists with understanding why a given country's ESG rating has improved or deteriorated. This framework allows the management team to construct its own interpretation of a country's situation and to make a medium-term investment or divestment decision.

Establishing an aggregate ESG rating by country

Each country's final rating for each of the pillars analysed (Environmental, Social and Governance) is calculated as the weighted sum[2] of the two ratings (fundamental and qualitative/momentum) obtained for each pillar.

Once the ratings have been aggregated for each pillar (E, S and G), a final rating is then calculated for each country. The sovereign ESG rating must also reflect any risks that may arise in the future. So, when aggregating the three ratings (E, S and G), the management team assigns a higher weighting to the Governance pillar while the Environmental and Social pillars will be weighted equally.

5.3.3 Supranational issuers

A supranational organisation is a multinational union or association in which member countries or even financial institutions (in some cases shareholders) cede their authority and sovereignty over at least some matters internal to the group, whose decisions are binding on its members. Supranationals, in this case international financial institutions, demonstrate high standards in their governance practice and the conduct of their operations. They generally observe a solid framework of business ethics and are geared to social development and/or environmental preservation by virtue of their purpose and mission. As a multilateral entity, they generally aim to promote sustainable growth at a regional level.

Based on the ESG data observed for these different institutions and unless otherwise indicated by an analysis carried out by the management team, the supranational entities in our portfolios have been attributed a rating of 80 (on a scale of 0 to 100).

5.4 Impact investing

5.4.1 Investment process

Within the bond universe, we distinguish 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.

To measure a portfolio's impact, each impact investment is mapped to one or more SDGs.

[2] The weighting of the qualitative dimension in the aggregate rating can vary between 0 and 15% depending on the availability of qualitative data.

5.4.2 'Liquid impact': impact bonds

The notion of impact bonds[3], 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 they meet SDG impact investing criteria and are consistent with the portfolio's targeted positioning.

5.4.3 '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.

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 constructed according to an investment process that focuses on the quality of the issues in terms of the quality of the projects financed and the credit quality of the issuers selected.

[3] 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.

6 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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7 Appendices

7.1 Summary of ESG criteria by Product

An 'X' indicates that the criteria (benchmark) is applicable to the combination of Instrument type and Product.

Instrument type	Criteria (benchmark)	Product name					
		BL Bond Dollar	BL Bond Euro	BL Bond Emerging Markets Euro	BL Bond Emerging Markets Sustainable	BL Corporate Bond Opportunities	BL Global Bond Opportunities
Corporate bonds	Improvement in E/S indicator over time (section 5.2.1)					X	X
Corporate bonds	Optimisation of ESG rating in relation to the investment universe (section 5.2.2)		X	X	X		
Sovereign Issuers	Optimisation of ESG rating in relation to the investment universe (section 5.3.1)		X	X	X		X
Impact investing	(section 5.5)		X	X	X	X	X

7.2 Environmental and/or Social objectives

The different indicators and their target, timeframe, and the Product with which they are associated are described in the following table.

Product	*Indicator*	*Starting value*	*Start date*	*Target*	*Target value*	*Target date*	*Next value*	*Next date*
BL Global Bond Opportunities	Carbon Emissions - Scope 1+2 Intensity (t/USD million sales)	160	30/06/2021	-20%	128.00	30/06/2025	144.01	30/06/2023
BL Corporate Bond Opportunities	Carbon Emissions - Scope 1+2 Intensity (t/USD million sales)	85	30/06/2021	-15%	72.25	30/06/2025	78.63	30/06/2023