Sustainable Assets

Methodology

Document history

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3	June 2025	Review of definition of sustainable assets from private issuers	GRC Expert SRI	Head of SRI Strategy & Stewardship	Sustainable & Responsible Investment Committee

BANQUE DE LUXEMBOURG INVESTMENTS

Contents

1 Introduction

1.1 BLI - Banque de Luxembourg Investments

BLI - Banque de Luxembourg Investments (‘BLI’ or ‘the Company’) is a management company and alternative investment fund manager authorised in accordance with Chapter 15 of the Luxembourg law of 17 December 2010 on undertakings for collective investment as amended, whose authorisation covers, in addition to the activity of collective management according to Article 101 (2), one or more services provided for by Article 101 (3) of the law of 17 December 2010 and pursuant to the Luxembourg law of 12 July 2013 on alternative investment fund managers.

BLI is a wholly owned subsidiary of Banque de Luxembourg, *société anonyme* (‘BDL’).

BLI offers its services to investment funds initiated by BDL and other Crédit Mutuel Alliance Fédérale entities, in which case it conducts the portfolio management itself, as well as to funds initiated by third parties, when it generally delegates the portfolio management function to external regulated portfolio managers as proposed by the third-party initiators.

1.2 Regulatory Framework

This methodology for sustainable assets (‘the Methodology’) adopted by BLI complies with the following provisions:

- The European Green Deal
- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (‘the Taxonomy Regulation’)
- The environmental objectives of the Paris Agreement and the United Nations Sustainable Development Goals (SDGs) as defined in 1.4. of this document
- The proposal for a directive of the European Parliament and of the Council amending Directives 2013/34/EU, 2004/109/EC and 2006/43/EC and Regulation (EU) No 537/2014 called the Corporate Sustainability Reporting Directive (‘CSRD’)
- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (‘MIFID II’)
- Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (‘Benchmark Regulation’)
- The Luxembourg law of 17 December 2010 on undertakings for collective investment
- The Luxembourg law of 12 July 2013 on alternative investment fund managers.

1.3 Purpose and scope of the Methodology

The purpose of the Methodology is to describe the methodology for identifying private equity and bond issuers that BLI considers as sustainable in the context of the SFDR.

The Methodology described in this document applies to any collective investment scheme or other product (including also the notion of discretionary management mandate, unless specifically requested otherwise by the client), for which all or part of the portfolio is managed by BLI and for which the contractual and/or pre-contractual documents indicate that all or part of the portfolio managed by BLI is invested in sustainable assets of private equity and bond issuers that BLI considers sustainable in the context of the SFDR regulation.

The Methodology does not apply to products where the portfolio is not managed by BLI (such as collective investment undertakings for which BLI acts as management company or alternative investment fund managers for which BLI has delegated the management of the portfolio to one or more third parties).

1.4 Definitions

Controversies	A controversy indicates a company's involvement in incidents relating to extra-financial and/or financial issues. In its analyses, BLI uses data supplied by MSCI ESG Manager (the “Provider”), which distinguishes between the following categories of controversy: - “red" corresponds to the most severe level; - “orange" corresponds to the severe level; and - “yellow" corresponds to the moderate level; - “green" indicates no controversy.
Sectoral or normative exclusion	An exclusion is the act of prohibiting a portfolio from holding the securities of a company due to business activities deemed unethical, harmful to society or in violation of laws or regulations.[1]
Corporate governance	The set of rules, practices and processes by which a company is managed (governed), the management of which is supervised.
UN Sustainable Development Goals (SDGs)	The 17 Sustainable Development Goals provide a roadmap to a better and more sustainable future. They address global challenges including poverty, inequality, climate, environmental degradation, prosperity, peace and justice.
UN Global Compact	A United Nations initiative aimed at encouraging companies around the world to adopt a socially responsible attitude by committing to integrate and promote a number of principles relating to human rights, international labour standards, the environment and the fight against corruption.
UN Principles for Responsible Investment (UN PRI)	The six Principles provide a range of possible actions to incorporate ESG concerns into investment practices.

1.5 ESG framework established at BLI

In keeping with its historical investment philosophy of conviction-based management geared to the long term, BLI has established the following policies which are published in the Responsible Investment section of its www.bli.lu website.

- Sustainable and Responsible Investment Policy - Overview
- SRI policies (Equities, Bonds, Multi-management)
- Engagement Policy
- Voting Policy
- Exclusion Policy
- PAI Policy

2 Definition of Sustainable Assets

Article 2 (17) of the SFDR defines a general framework for sustainable investments. The investment must be:

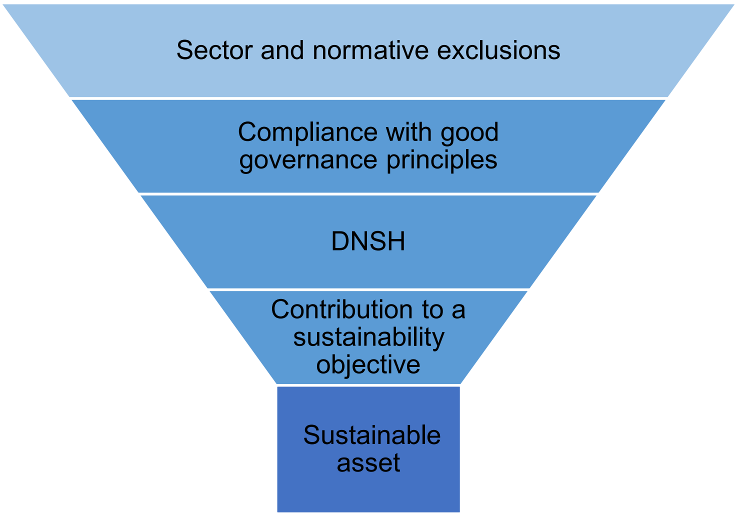
- in an economic activity that contributes to an environmental or social objective, thereby achieving a sustainability objective, provided that

[1] Cf. BLI’s exclusion policy

- the investment does not cause significant harm to any other sustainability objective ('does no significant harm' or 'DNSH') and that
- the companies in which the investments are made apply good governance practices[2].

Accordingly, in addition to the sustainability objective, compliance with good governance principles and the absence of negative effects on other sustainability objectives are essential elements in the definition of sustainable assets.

The methodology implemented by BLI aligns with this framework and implements it in practical terms through the objective of understanding the economic, financial, social and environmental issues of companies qualified as sustainable. Upstream of the steps stipulated in Article 2 (17) of the SFDR, BLI applies normative filters excluding activities generally considered to be controversial.



3 Private issuers

3.1 Technical criteria

3.1.1 Sector and normative exclusions[3]

In addition to its general exclusion policy, BLI has decided to reduce the universe of sustainable assets by applying additional sector and normative exclusions.

Companies whose activities derive more than 10% of their revenues in sectors commonly considered controversial are excluded from the universe of sustainable assets:

- The hydrocarbon production chain (extraction, refining, energy production...)[4]
- Thermal coal (extraction, energy production)
- Weapons
- Gambling
- Alcohol
- Tobacco
- Gold mining

[2] The requirement to apply good governance practices is not limited to companies classified as sustainable. Every private issuer in Article 8 or 9 funds must apply good governance practices. The definition given by the SFDR and the approach chosen by BLI are detailed in section 2.2 Compliance with good governance principles.

[3] Sovereign, parastatal and supranational issuers as well as third-party funds selected in the context of multi-management are not concerned by this component.

[4] The natural gas production chain is not included in these exclusions.

To facilitate analysis, information on exclusions is made available to the analysis and management teams via an IT tool ("Company ESG Dashboard" by BLI), which is updated on an ongoing basis.

3.1.2 Compliance with good governance principles[3]

Article 2 (17) of the SFDR defines the respect of good governance principles as a prerequisite for a company's activity to be considered sustainable. The concept is based on four pillars:

- Sound corporate management structures
- Employee relations
- Employee compensation and
- Tax compliance.

BLI has decided to apply the MSCI ESG Controversies methodology to identify companies involved in the most severe and widespread controversies that may indicate non-compliance as regards good governance.

Companies involved in controversies rated as 'red'[5] by MSCI in the Governance pillar as well as in the Labour Management sub-pillar are considered to be non-compliant with the Good Governance requirement and are therefore excluded from BLI's sustainable asset universe[6].

The Provider provides daily alerts on any notable controversies concerning the companies in which the portfolios are invested.

3.1.3 DNSH

In order to identify and assess the main negative sustainability impacts ('Principal Adverse Impacts' or 'PAI'), the European Commission has determined 64 negative impact indicators classified by investment category: private issuers (equities and bonds), sovereign issuers and real estate.

The indicators are detailed in Annex 1 of the Delegated Regulation (EU) 2022/1288[7].

- Table 1 lists the indicators to be taken into account by producers of investment products (14 for private issuers, 2 for sovereign/parastatal issuers and 2 for real estate investments).
- Table 2 lists additional environmental indicators (16 for private issuers, 1 for sovereign/parastatal issuers and 5 for real estate investments).
- Table 3 lists additional social indicators (17 for private issuers, 7 for sovereign/parastatal issuers and 0 for real estate investments).

Producers of investment products are required to take a position on the indicators listed in Table 1 and to select one environmental and one social indicator per investment category from the 46 additional indicators proposed.

BLI has established a PAI Policy that describes:

- the analysis of the principal adverse impacts defined in the SFDR framework, which makes it possible to factor in the negative sustainability impacts of a company and its activity on its various stakeholders (the 'DNSH' principle); and

[5] These controversies correspond to the most severe controversies with the most damaging impacts in which a company may be involved and which have not yet been resolved.
[6] For companies not covered by MSCI, a case-by-case analysis is conducted.
[7] Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with technical regulatory standards detailing the content and presentation of the information relating to the principle of 'not causing material harm' and specifying the content, methods and presentation for information on sustainability indicators and negative sustainability impacts, as well as the content and presentation of information on the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

- its integration into BLI's methodology, which enables BLI to identify financial products defined as sustainable assets in the context of its activity as an asset management company in the regulatory context described above.

For funds selected in the multi-management segment, BLI refers to the DNSH definition implemented within the selected funds.

BLI's PAI Policy, which is defined for private issuers (equities and bonds), sovereign issuers and the funds selected in the multi-management segment, can be consulted on BLI's website.

3.2 Sustainability objective

In order to determine the sustainability objective of private issuers of equities and/or bonds that meet the minimum sustainability standards, BLI deploys a strategy that is based on the concept of dual materiality:

- 'Outside-in' materiality, which captures the impacts that relevant sustainability themes may have on the company under analysis
- 'Inside-out' materiality, which analyses the effects that the company might have on its stakeholders

as well as an analysis of material controversies.

Outside-in materiality:

The impacts of sustainability-related themes on issuers materialize through two distinct dimensions:

- Risks - such as climate risks, social and regulatory dimensions, disappearing markets, etc.; and
- Opportunities - such as the creation of new markets, regulatory compliance...

The indicators developed by the Provider systematically assess these risks and opportunities, as well as the positioning of issuers in relation to them.

In addition, BLI has developed a concept for highlighting transition risks for issuers linked to the price of CO2.

Inside-out materiality:

BLI understands this dimension through the alignment of issuers with the SDGs. An activity may be directly aligned with specific SDGs, demonstrate potential alignment or even misalignment.

Tools such as Matter, MSCI and internal research are used to structure the analysis and identify investment opportunities.

The target is for at least 30% of revenues to be aligned, and a maximum of 15% of revenues to be aligned with one or more of the SDGs. Exceptions that do not meet these limits will be assessed on a case-by-case basis.

For the companies retained in the investable universe following the analysis stages described above, BLI's analysts and managers carry out a qualitative, conviction-based analysis of the effect that the products and services have on the SDGs. This analysis enables companies to be classified in one of four categories - two environmental (E1, E2), two social (S1, S2) - according to the associated themes and impacts.

Environmental **Rational use of natural resources and reduction of emissions**	**Social** **A healthy, fair and innovative society**
Natural resources • Protection • Recycling/reuse/reduction in consumption • Efficient agriculture • Resilient/sustainable infrastructures	**Health and life expectancy** • Health services • Sanitation • Quality food • Physical activity • Safety
Climate change • Energy efficiency • Clean/renewable energy • Clean mobility	**Fair and innovative society** • Access to information, finance, education, housing, work • Social inclusion, reduction of inequalities • Safety at work • Business process improvement

Quantitative thresholds have also been set to frame the analysis: minimum 30% of revenues aligned or potentially aligned with the SDGs and maximum 15% of revenues misaligned with the SDGs (base case).

Based on the Company ESG Dashboard data, several complex cases may also arise:

a. Alignment threshold met (A>30%), but non-alignment threshold not met (MA>15%)
b. Alignment threshold not met (A<30%), or no alignment at all
c. Alignment threshold not met (A<30%) and non-alignment threshold not met (MA>15%)

These three types of complex cases have been retained, as it makes no sense to blindly base conviction analyses on quantitative data from a single supplier who analyzes thousands of companies according to a proprietary model. To make these decisions, which run counter to the alignment values proposed by Matter, more robust, they will have to be validated in Groupe de travail investissement ESG.

Controversy analysis:

In addition to the controls and exclusion criteria defined in the chapter on compliance with good governance principles, candidates for sustainable asset status are subject to upstream analysis, and portfolio companies are constantly monitored to identify notable ESG events likely to affect the company's business model, reputation and therefore potentially BLI's investment thesis.

Companies classified as “red” are excluded from BLI's investment universe. Companies classified as “orange” are reviewed using a variety of information sources - internal research, external research providers, media, company information, etc. On the basis of this proprietary analysis carried out by the analysis and management teams, an opinion as to the materiality of the controversy for the company's long-term business model and BLI's investment thesis is formulated and materialized.

BLI's equity and bond fund managers receive updates on material developments in controversies affecting the companies in their portfolios, enabling them to take them into account in the decision-making process.

Controversy-related information is made available to the analysis and management teams via the Company ESG Dashboard.

Special case: Impact bonds from private issuers

Impact bonds are issues that aim 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 and Sustainable Bond Principles. In addition, we also include securities that finance financial inclusion for the poorest people (microfinance in particular).

BLI has developed a methodology to characterise impact bonds (green, social, sustainable bonds etc.) and to categorise the use of impact credits.

While the categorisation of these instruments generally follows the same rules as those implemented for traditional issues, BLI has refined the model to be able to take into account the specific features of impact bonds. As these financial instruments finance categories of projects that have a social or environmental character, it is necessary to differentiate between issue and issuer. The 'outside in' dimension that captures the sustainability risks of the issuer is not considered relevant for impact bonds. They can be classified as sustainable assets provided they meet all the following criteria:

1) The impact issue finances categories of environmental and/or social projects as defined in the impact bond methodology
2) Where the issuer is subject to a sector exclusion and the issue mitigates the reason for the exclusion, the exclusion is not applied to the issue in question[8]

This approach provides an incentive for companies that are considered 'unsustainable' to adopt environmentally or socially sustainable practices.

4 Sovereign Issuers

BLI has developed a proprietary model to capture the sustainability characteristics of sovereign issuers (see 'Sovereign Bonds' in the '[Sustainable and Responsible Investment Approach Fixed Income Assets]' document). This model allows BLI to establish a relative score for each sovereign issuer in relation to its universe of comparable issuers for environment, social and governance aspects.

A sovereign issuer is considered sustainable relative to its universe when:

- Its governance score is in the top 3 quintiles among its peers
  and
- Its social score and/or environmental score are in the top two quintiles of the same universe.

Special case: Quasi-sovereign bonds

Within quasi-sovereign issuers, BLI distinguishes 3 different cases:

- Supranational issuers are international institutions such as the European Investment Bank. Because of their status as development support institutions, BLI considers them to be sustainable assets by default.
- Government banks inherit the sustainability analysis of the country to which they relate.

[8] Exemption subject to confirmation by the ESG Investment Working Group

- Other government enterprises: these are state-owned enterprises that do not fit into the previous two categories. BLI adjusts the sector assigned to these companies to reflect their actual activity. The issuer's sustainability level is then analysed according to the guidelines applicable to that sector of activity.

5 Multi-management

For funds selected in the multi-management segment, BLI refers to the sustainability definition used within the selected funds. In order to ensure that the approaches implemented within the selected funds are well-founded, BLI has developed a fundamental analysis methodology that is systematically applied[9].

6 Review and update of the Methodology

The Methodology will be amended to reflect any organisational changes that may be made or legislative and regulatory developments. Irrespective of any such circumstances, the Methodology will be reviewed at least annually.

[9] For more information, please consult the "Sustainable and Responsible Investment Methodology for Funds of Funds" document (link).

Legal information

This document has been written by BLI and describes the sustainable asset methodology applied by BLI for the funds that fall within its scope. This document is not 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 fund, in particular the fact that **past performance is no guarantee of the future performance of that fund**.

Generally, BLI does not assume any responsibility for the future returns of these funds 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 fund, 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 fund 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 Information Document (KID) (the '**Documents**') of the fund concerned. The Documents may be obtained free of charge from BLI. All the Documents, including the sustainability information and the summary of investors' rights are available on BLI's website: www.bli.lu

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