Product disclosure regarding sustainability for the Discretionary External Funds mandate

Summary

The Discretionary External Funds mandate (hereinafter the "Mandate") aims to direct investments in such a way as to limit adverse impacts on the climate and environment, and encourage adherence to the principles of the UN Global Compact[1]. By choosing our External Funds mandate, you are opting for a meaningful investment that allocates your assets across various financial instruments that comply with environmental and social criteria.

The assets in the Mandate are carefully chosen by our teams from our investment universe, which is made up of funds targeting companies with transparent operations and clear business models.

We respect your decision to choose investments that will make a positive impact, by establishing demanding criteria based on data provided by MSCI ESG Manager[2]:

1. we ensure that the data properly reflects the impact of the portfolio by requiring Environmental, Social and Governance (ESG) **data for at least 75% of the assets**;
2. we guarantee the responsible nature of the portfolio by requiring at least 50% of the assets covered to have an **ESG rating of at least BBB, and the portfolio to have an average rating of at least A**;
3. we limit the principal adverse impacts of the Mandate by aiming to align **at least 50%** of the investments with the objectives of Banque de Luxembourg (the "Bank").

The Mandate's investment strategy of engagement is supported by the implementation of regular controls at the investment universe level. Candidates for investment and funds held in the portfolio are subject to constant monitoring to identify noteworthy environmental and social events that could affect the business model of the companies they hold, their reputations, and any resulting deterioration in certain criteria that could lead us to exclude them from our investment universe. The implementation of sector policies and the analysis and monitoring of controversies allows us to ensure that the investments made correspond to certain prerequisites to respond to the sustainability criteria defined by the Bank.

When you choose the Discretionary External Funds mandate, you choose to invest in funds that are primarily exposed to companies offering solutions to tomorrow's challenges, and to combine performance with meaningful investment.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment[3].

[1] The UN Global Compact is an initiative providing a universal and voluntary framework of commitments focused on ten principles relating to respect for human rights, international labour standards, the environment and anti-corruption measures.
[2] MSCI ESG Manager is a financial data provider selected by the Bank. ESG refers to Environmental, Social and Governance criteria.
[3] The Discretionary External Funds mandate does not have as its objective sustainable investment, but does take issues related to sustainability into account as part of its investment selection process.

Environmental or social characteristics of the financial product

The Mandate aims to direct investments in such a way as to limit adverse impacts on the climate and environment, and encourage adherence to the principles of the UN Global Compact. Furthermore, management of the Mandate is based on monitoring environmental and social controversies, respect for the UN Global Compact principles and the Bank's sector exclusion policies. Lastly, this Mandate ensures that the companies in which investments are made apply good governance practices.

The Mandate is therefore classified as an Article 8 product under Regulation (EU) 2019/2088 (the "SFDR"). A reference benchmark has not been designated for the attainment of this product's environmental and social characteristics.

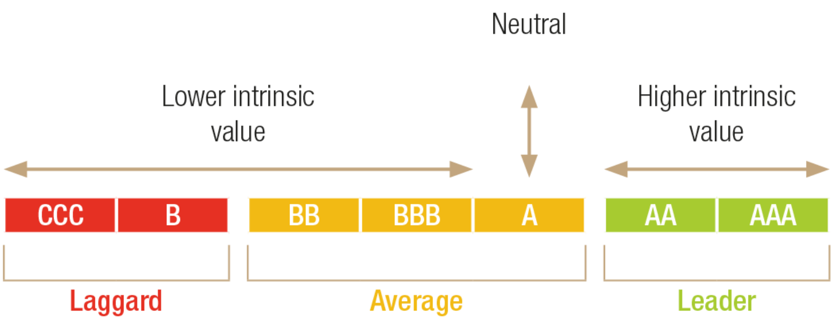
The Bank has selected a number of sustainability indicators to measure the limitation of adverse impacts on the climate and environment, and adherence to the UN Global Compact:

- Alignment with the UN SDGs;
- Limitation of the principal adverse impacts of investments made by the Mandate, with the aim of having at least 50% of the portfolio investments aligned with the limits set by the Bank;
- A quantitative approach based on ESG ratings established by our data provider MSCI ESG Manager.

MSCI ESG Manger's ESG ratings are aimed at measuring a company's management of financially relevant ESG risks and opportunities. This method is based on rules for identifying industry leaders and laggards according to their ESG risk exposure, and the way in which they manage these risks relative to their peers.

This approach uses the following criteria:

- To ensure that the data is properly representative of the portfolio, at least 75% of the assets under management must be covered by MSCI ESG Manager;
- At least 50% of the assets covered by MSCI ESG Manager (excluding cash and gold) must be rated at least BBB;
- The overall rating of the portfolio must average at least A.



Source: MSCI ESG Manager

Investment strategy

The Discretionary External Funds mandate is invested in a selection of high-quality international funds recommended by our analysts after carrying out rigorous research. Initially, we carry out quantitative analysis to refine the investment universe and identify the funds that offer a good risk/return balance. We then apply qualitative analysis to understand how the funds work with respect to different factors such as the promoter, their management team, their investment style and investment philosophy. The funds retained are therefore promoted by financially sound specialists in a particular asset class, with a sound financial basis, and a stable management team and approach; they offer an optimal balance between the expected return and the level of risk accepted.

The portfolio is managed on an opportunistic basis by specialists, who adjust its structure based on economic developments.

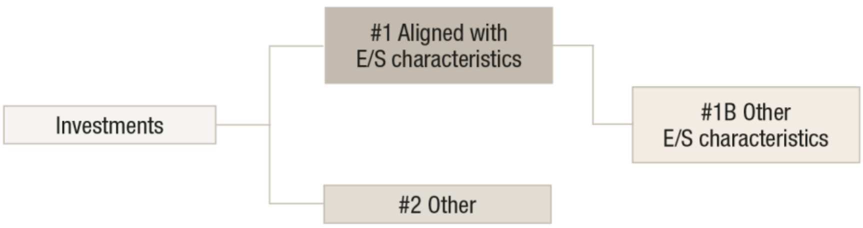
In addition to these strict selection criteria for the funds, the Discretionary External Funds mandate is also based on the underlying fundamental principle of diversification (across asset classes, sectors and geographical regions). The portfolio construction process entails combining decorrelated asset classes, so that the total portfolio risk is lower than the sum of the risks of the various assets (or instruments) within it. This serves to minimise the risk per unit of return or maximise the return per unit of risk. We also focus on the relative valuation levels of the various asset classes.

Accordingly, this Mandate is classified as an Article 8 product under the SFDR, which means that it specifically promotes environmental or social characteristics, or a combination thereof, providing that the companies in which investments are made apply good governance practices.

Proportion of investments

The Mandate's objective is to have at least 50% of investments aligned with the environmental and social characteristics promoted by the Mandate (#1).

The Mandate's remaining assets (#2) include any cash and gold reserves, as well as investments made for diversification and/or hedging purposes, which may not be considered to promote environmental or social characteristics due to a lack of data from our data provider, but which – after qualitative analysis by the Bank – respect the restrictive characteristics and features specified for the Mandate.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

Monitoring of environmental or social characteristics

To supplement the ESG approach specific to each of the assets that make up the managed portfolio, the Bank also conducts quantitative analysis at portfolio level:

- Our aim is for the average rating of the portfolio to be A or higher. This average rating reflects the weighted sum of MSCI ESG Manager scores for the different external funds, which is then converted into a rating between AAA and B. Assets with a score of CCC may not be held in the Mandate.
- To ensure that the data is properly representative of the portfolio, we aim for coverage of at least 75% of the assets (excluding cash and gold) by MSCI ESG Manager.
- We also aim for at least 50% of assets to be defined as “responsible” by the Bank, i.e. rated at least BBB on the MSCI ESG Manager scale, this proportion (50%) being determined after excluding out-of-scope assets (cash and gold).

This approach is supplemented by:

- Consideration of the principal adverse impacts based on a definition of restrictive thresholds;
- Consideration of controversies (based on information provided by MSCI ESG Manager and exclusion of controversies deemed to be the most severe);
- The introduction of and compliance with sector policies (limiting or directly excluding the selection of products linked to certain industries such as coal).

Methodologies

In-depth qualitative analysis is carried out to assess the solidity of the management process, and the environmental, social and governance (ESG) approach of the assets in our universe in particular. To that end, various approaches may co-exist:

- **The best-in-class approach**, which seeks to select companies with the best environmental, social and governance practices in their sector or industry;
- **The ESG integration approach**, which places equal emphasis on financial and non-financial criteria;
- **The thematic approach**, which targets a specific area, such as the environment, water management or gender parity;
- **Impact investing**, which aims to generate a positive environmental or social impact. The key features of impact investing are its intentionality and the measurability of the impact.

In addition to **qualitative analysis** of asset management processes, our selection team tries to determine whether the management company itself also behaves in a thoughtful, sustainable way. To that end, our analysts have put together a questionnaire that allows them to understand the extent to which the management company under review has weighed up sustainability risks and opportunities. This questionnaire serves as a point of reference when identifying the target management company’s positioning on sustainable investment, its philosophy and the concrete measures it has implemented.

Our system also includes a **quantitative element**, which means that it relies on external ratings of the various vehicles. To do so, we use MSCI ESG Manager scores, which rate the various assets according to ESG risk on a scale of 1 to 10.

Data sources and processing

The assets that make up our recommended investment universe are classified using a sustainability scale with a view to achieving complete coverage of our universe. For this, we rely on the analysis and on the data provided by the MSCI ESG Manager module.

MSCI ESG Manager carries out its analysis of assets based on data:

- published directly by companies (e.g. sustainability reports, annual reports, regulatory reports, websites, etc.); or

- published indirectly via governmental agencies, professional associations and financial data providers; or
- obtained by contacting the relevant companies directly.

In some instances, in order to compensate for missing data, MSCI ESG Manager may make estimates based on a proprietary methodology using various external data sources (from a variety of media, non-governmental associations and other market participants).

In order to guarantee the quality of the data used, we analyse the coverage of this data and define the minimum coverage thresholds required for the principal adverse impacts to be included in the Bank's investment decisions. In our view, an asset reporting indicators on a low proportion of its investments does not guarantee sufficient data quality to impact the investment decisions of the product.

In order to assess the ESG risks of a company, MSCI ESG Manager determines the main risks for the sector to which it belongs, then assesses its ability to manage the various ESG risks identified in comparison to its direct competitors. Companies which manage these risks best will be given a high score within their sector (best-in-class approach). This extra-financial approach compares companies within their individual business sector to determine those that are best positioned with regards to their understanding of the risks and opportunities related to sustainable development.

Furthermore, the implementation of sector policies and the analysis and monitoring of controversies allows us to ensure that the investments made comply with certain prerequisites that have been set to respond to the sustainability criteria defined by the Bank.

Limitations to methodologies and data

MSCI ESG Manager bases its research on data provided directly or indirectly by companies. The Bank is aware that this approach presents three primary limitations:

1. It is difficult to control the transparency, correctness and precision of the data provided directly by all companies covered by MSCI ESG Manager;
2. Analysis of data calculated on the basis of estimates may not be an adequate reflection of reality;
3. Furthermore, the standards and regulations relating to the disclosure of such data are not globally harmonised. This lack of harmonisation may result in regional disparities and, potentially, penalise some geographical regions with less strict standards than the European Union.

To minimise the impact of these limitations on assessing the environmental and social characteristics promoted by this Mandate, the Bank has established various filters:

For the Mandate, if data is not reported by the company and cannot be estimated by MSCI ESG Manager, the Bank will not consider this asset as part of its sustainability analysis.

The Bank ensures that at least 75% of assets (excluding cash and gold) included in the Mandate have an ESG rating provided by MSCI ESG Manager. This ensures that the data is properly representative of the portfolio and at least 50% of assets qualify as responsible assets, i.e. with a rating of at least BBB on the MSCI ESG Manager rating scale, this proportion (50%) being determined after excluding out-of-scope assets (cash and gold).

Due diligence

In addition to the exclusion of assets for which ESG data is either not available or insufficiently meaningful, the Bank has established a system of controls to ensure the quality of data used as part of its sustainability integration.

The Bank uses a "best-in-class" approach based on a set of geographically grouped assets provided by MSCI ESG Manager. This approach enables the Bank to compare the data attributed to an asset with a cohort of comparable peers.

This approach enables us to identify any anomalies in the data provided by companies.

In addition, if an asset included in this Mandate is subject to an environmental and/or social controversy, the Bank's SRI committee[4] may carry out additional qualitative research to decide whether to exclude this asset from the Mandate and the Bank's investment universe.

Engagement policies

This Mandate only invests in the funds of external managers. These external managers are therefore responsible for and decide upon their respective engagement policies. However, this criteria also forms an integral part of the qualitative analysis of management companies carried out during fund selection.

Candidates for investment and funds held in the portfolio are subject to constant monitoring to identify noteworthy environmental and social events that could affect the business model of the companies they hold, their reputations, and any resulting deterioration in certain criteria that could lead us to exclude them from our investment universe. The implementation of sector policies and the analysis and monitoring of controversies allows us to ensure that the investments made correspond to certain prerequisites to respond to the sustainability criteria defined by the Bank.

Our team thus receives daily alerts via the MSCI ESG Manager platform for all notable controversies to which portfolio companies of the funds held are subject.

The filter is initially based on the classification of controversies allocated by MSCI ESG Manager based on the degree of severity (minor moderate, severe and very severe).

Funds exceeding our tolerance thresholds for investment in companies exposed to a very severe controversy must be withdrawn from the Bank's investment universe within three months of their change in status. Any asset classified as subject to a very severe controversy may no longer be proposed to our clients for investment. Any assets held will be sold within three months. In certain exceptional cases, the relevant asset may be held after in-depth qualitative analysis by the Bank and approval by the SRI committee.

Designated reference benchmark

A reference benchmark has not been designated for the attainment of the environmental or social characteristics promoted by the financial product.

[4] Socially responsible investment.