Environmental and/or social characteristics of the Fund Management Mandate

Product name	Discretionary Fund Management Mandate
Legal entity identifier	PSZXLEV07O5MHRRFCW56

1. Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?	
☐ **Yes**	☑ **No**
☐ It will make a minimum of **sustainable investments**[1] **with an environmental objective: _____%**	☐ It **promotes Environmental/Social (E/S)** characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ____% of sustainable investments
☐ In economic activities that qualify as environmentally sustainable under the EU Taxonomy[2] ☐ In economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☐ With an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy ☐ With an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy ☐ With a social objective
☐ It will make a minimum of **sustainable investments with a social objective: _____%**	☑ It promotes E/S characteristics, but **will not make any sustainable investments**

2. What environmental and/or social characteristics are promoted by this financial product?

The Fund Management Mandate ("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 the following characteristics:

1. Monitoring of environmental and social controversies
2. Respect for the sector exclusion policies of Banque de Luxembourg (the Bank).
3. Respect for the United Nations Global Compact

The Mandate also ensures that the companies in which investments are made apply good governance practices. The Fund Management Mandate's objective is to make investments in a fund that is fully aligned (excluding cash and gold) with environmental and social characteristics.

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.

1. **Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

2. The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

What sustainability indicators[3] are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?

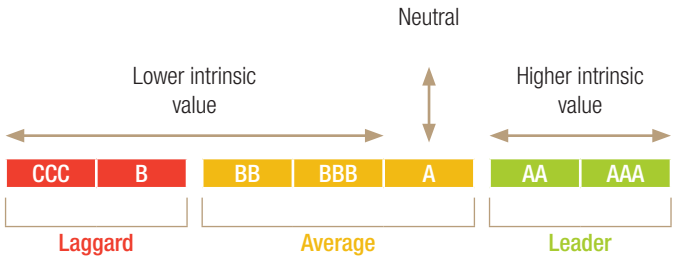
The Bank invests in assets whose data is covered by MSCI ESG Manager[4].

As such, the Mandate's objective is to invest only in a fund aligned with the sustainability characteristics promoted by the Mandate.

The Bank has selected several sustainability indicators to measure these characteristics:

1. The exclusion of the environmental and/or social controversies deemed the most severe;
2. The restriction or exclusion of assets linked to certain industries such as coal;
3. Alignment with the UN Sustainable Development Goals (SDGs).

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 additional indicators:

– Coverage of Environmental, Social and Governance (ESG) data of the fund by MSCI;

– A rating for the fund from MSCI ESG Manager of at least A;

– The implementation of limits for the principal adverse impacts of investments, which are set by the Bank based on data provided by MSCI ESG Manager. These limits are determined for each adverse impact based on an average of the adverse impacts of comparable assets. The Mandate's approach aims for at least 50% of the invested portfolio to be aligned with these limits, i.e. to have a lower adverse impact than the average for its peers[5];

The investment decisions of this mandate consider all of these indicators, measured using a proprietary calculation methodology of the Bank based principally on an analysis of the data provided by MSCI ESG Manager.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities.

The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

3. Does this financial product consider principal adverse impacts[6] on sustainability factors?

☑ **Yes**, in addition to the ESG approach followed in the management of this product, the principal adverse impacts on sustainability factors are also taken into account.

For each asset class, and for each of the principal adverse impacts that must be considered, the Bank has set a threshold that is either fixed (according to EU recommendations or the Bank's sector exclusion policies), or variable, according to a regional average of adverse impacts from comparable assets, provided by MSCI ESG Manager.

3. **Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

4. MSCI is a financial data provider selected by the Bank.

5. In light of the proportion of sovereign bonds which are included in the defensive profiles of this Mandate and for which there is little coverage by MSCI ESG Manager regarding principal adverse impacts, this indicator represents a long-term objective rather than an undertaking by Bank.

6. **Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

To reflect our clients' preferences more closely, the Bank has divided these indicators into the following four categories:

1. the climate and the environment (e.g. greenhouse gas emissions, the use of fossil fuels, etc.);
2. waste production and the use of water resources (e.g. production of hazardous waste, etc.);
3. the United Nations Global Compact (e.g. human rights abuses, inefficient anti-corruption processes, etc.);
4. social themes and employee rights (e.g. a lack of diversity within businesses).

In its discretionary management, the Bank has implemented an approach that considers all of these categories. For assets in this mandate covered by MSCI ESG Manager (excluding cash and gold), an objective of at least 50% of investments must respect the criteria set by the Bank. This approach aims to ensure that the positions held have lower adverse impacts than the average for market assets and that the portfolio as a whole has a limited adverse impact on environmental and social issues.

More information on this consideration will be disclosed in the periodic reports of the Mandate. Information on consideration of the principal adverse impacts on sustainability factors will be published and disclosed in the section entitled "How does this financial product consider principal adverse impacts?" included in the periodic reports of the Mandate.

☐ **No**.

The Mandate's objective is for the fund in the Mandate (100% of the investments excluding cash and gold) to be 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 supplier, but which – after qualitative analysis by the Bank – respect the restrictive characteristics and features specified for the Mandate.

4. What investment strategy[7] does this financial product follow?

The Mandate is unique in that all your assets are invested in a fund that complies with responsible investment principles and is managed by BLI[8].

The range thus offers a diversified portfolio that matches your investor profile.

Various long-term growth themes addressing ESG issues are included in the fund's equity component. The fund's fixed income component may be fully invested in the bond market, and corporate bonds in particular. This component can also include different ESG themes, such as green bonds.

Assessment of investee companies' good governance practices involves:

– Monitoring and analysing controversies, especially social. The Bank has introduced a policy for excluding assets exposed to controversies that our data supplier classes as "very serious". This monitoring may be supplemented by the Bank's qualitative analysis;

– A quantitative approach based on companies' ESG ratings, as provided by our data supplier, and the exclusion of companies having an MSCI rating of CCC. These ratings are designed to measure companies' ability to manage risks, and the ESG opportunities presented by their business and operations. They give an overview of companies' ability to manage resources, including human capital, sustainably, to guarantee operational integrity on the basis of sound management practices, and to comply with relevant standards including tax legislation. An MSCI ESG rating of BB or higher illustrates a company's ability to manage its resources, mitigate the principal risk, seize opportunities, and meet basic corporate governance expectations. The use of MSCI ESG ratings as a basic measure of good governance encompasses four aspects of such practices.

What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?

To supplement the ESG approach specific to the fund that makes up the portfolio, a quantitative approach is also applied.

– The rating for the fund from MSCI ESG Manager must be at least A.

– Assets with a score of CCC may not be held in the Mandate.

– The Mandate invests in a fund whose Environmental, Social and Governance (ESG) data are covered by MSCI.

7. The **investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.
8. Banque de Luxembourg Investments

This strategy is supplemented by:

– Consideration of the principal adverse impacts based on a definition of restrictive and binding quantitative thresholds.

– The exclusion of assets affected by very severe controversies as defined by MSCI ESG Manager.

– The introduction of and compliance with sector policies (limiting or directly excluding the selection of products linked to certain industries such as coal).

What is the policy to assess good governance practices[9] of the investee companies?

Assessment of investee companies' good governance practices involves:

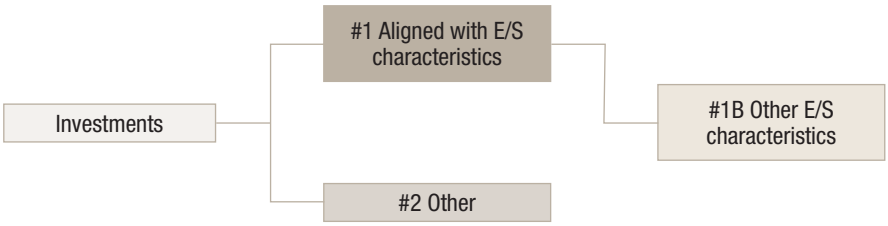
– Monitoring and analysing controversies, especially social. The Bank has introduced a policy for excluding assets exposed to controversies that our data supplier classes as "very serious". This monitoring may be supplemented by the Bank's qualitative analysis.

– A quantitative approach based on the ESG ratings for companies provided by our data provider and the exclusion of assets with an MSCI ESG rating of CCC. These ratings are designed to measure companies' ability to manage risks, and the ESG opportunities presented by their business and operations. They give an overview of companies' ability to manage resources, including human capital, sustainably, to guarantee operational integrity on the basis of sound management practices, and to comply with relevant standards including tax legislation. An MSCI ESG rating of BB or higher illustrates a company's ability to manage its resources, mitigate the principal risk, seize opportunities, and meet basic corporate governance expectations. The use of MSCI ESG ratings as a basic measure of good governance encompasses four aspects of such practices.

5. What is the asset allocation[10] planned for this financial product?

The Mandate's objective is for the fund in the Mandate (100% of the investments excluding cash and gold) to be 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 supplier, but which – after qualitative analysis by the Bank – respect the restrictive characteristics and features specified for the Mandate[11].



#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.

9. **Good governance practices** include sound management structures, employee relations, remuneration of staff and tax compliance.
10. **Asset allocation** describes the share of investments in specific assets.
11. Taxonomy-aligned activities are expressed as a share of:
  – **turnover** reflecting the share of revenue from green activities of investee companies.
  – **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
  – **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

6. To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

This product does not intend to make sustainable investments.

Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[12]?

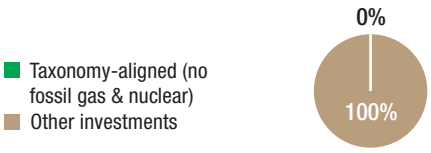
☐ **Yes**,

☐ In fossil gas ☐ In nuclear energy

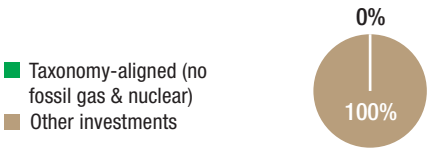
☑ **No**.

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.

1. Taxonomy-alignment of investments **including sovereign bonds***



2. Taxonomy alignment of investments, **excluding sovereign bonds***



* For the purpose of these graphs, "sovereign bonds" consist of all sovereign exposures.

What is the minimum share of investments in transitional[13] and enabling[14] activities?

No target for a minimum proportion of investment in transitional and enabling activities has been chosen for the Mandate. This position may change over time as the availability and quality of data relating to this alignment improve.

7. What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy[15]?

This product does not intend to make sustainable investments.

8. What investments are included under "#2 Other", what is their purpose and are there any minimum environmental or social safeguards?

Assets considered in "#2 Other" are assets that cannot be deemed to promote environmental or social characteristics. This category covers assets for which data supplied by MSCI ESG Manager is available and meaningful, and indicates a rating below BBB, or assets for which MSCI ESG Manager provides no data but which respect the binding characteristics and elements defined for the Mandate following specific quantitative analysis from an ESG perspective. This category includes any cash and gold reserves, as well as investments made for diversification and/or hedging purposes.

12. Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do no significant harm to any EU Taxonomy objective – see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

13. **Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

14. **Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

15. Are sustainable investments with an environmental objective that do not take into account the criteria for environmentally sustainable economic activities under the EU Taxonomy.

These assets may be included in the managed portfolio to meet performance or risk management targets that the Bank has set, in accordance with the investment strategy followed by the Mandate.

In all cases, these assets will comply with the following:

– Respect for limitations applicable in virtue of the sector policies implemented by the Bank;

– Exclusion of the environmental and/or social controversies deemed the most severe;

– Consideration of the principal adverse impacts;

– The Bank's qualitative asset selection process for building the managed portfolio.

9. Where can I find more product specific information online?

More product-specific information can be found on the website: www.bdl.lu/Mandat_FondsPatrimonial