Sustainable Finance Disclosure Regulation (SFDR)

Sustainable and Responsible Investment Framework

The European Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector, the so-called Sustainable Finance Disclosure Regulation (SFDR), require financial market participants and financial advisors in the EU, to disclose on the integration of sustainability risks and the consideration of adverse sustainability impacts in our processes.

SFDR is an important milestone in the EU Commission's action plan on sustainable finance. This regulation aims to provide greater transparency on the degree of sustainability of financial products in order to channel investment flows towards truly sustainable investments while preventing greenwashing.

The cornerstone of the SFDR is the principle of double materiality: financial as well as sustainability, making it easier for end-investors to understand how ESG and sustainability factors are considered and integrated into their investments.

This sustainable and responsible investment framework is applicable to investment and insurance products and services (advisory & discretionary contracts only) delivered in Luxembourg.

A responsible and sustainable investment framework and solid processes are essential or the journey towards sound investing. Our end-goal is to have our portfolio management services ESG-informed, adhering to a strong integration process and stewardship code.

Responsible investment practices are constantly developing and evolving. New risks may arise, public opinion may change and new market standards may be introduced. Our sustainable investment framework will, as such, be reviewed and, if necessary, adjusted or a recurring basis to incorporate these changes.

Sustainability is an integral part of BIL's Investment strategy and processes. Our policy ensures an SRI portfolio construction in three ways: exclusion, ESG integration and engagement.

Lionel De Broux

Chief Investment Officer

"It is our belief that responsible investment is simply the right way to go, making the world more resilient, without sacrificing financial returns."

Alessandra Simonelli

Head of Sustainable Development

"At BIL, we believe that sustainable and responsible investment is not hype, it's a prerequisite for the future."

Exclusion policy

In order to minimize ESG related risks arising from exposure to certain sectors or activities that run a high reputational risk and unsustainable business models, BIL investment services are using an exclusion list targeting individual companies (and their respective bonds and equities) and countries (sovereign debt). Excluded companies are defined as companies presenting unacceptable harm to our society and where engagement makes little sense (ineffective). Revisiting exclusion criteria in accordance to societal trends and priorities is part of our engagement. To avoid misunderstanding, this exclusion list only applies to the selection and analysis of direct investment in securities, constituents of ESG covered universe. Specifically, the use of external service providers could translate in non-eligible activities or norms being part of recommended instruments or constituents of invested portfolios. When it comes to investment or recommendation of UCIs, there is no look through analysis perform to check if UCIs are meeting BIL's exclusion policy/list. Such

UCIs may or may not have their own exclusion policy and if they do, it could differ from ours.

BIL exclusion list is based on the following oversight:

Thermal coal

Thermal coal represents the most carbon intensive and the least efficient way to produce power from fossil fuels. Furthermore it also generates a high level of other polluting emissions. As part of the transition towards a low carbon economy, we exclude companies that derive more than 10% of their revenues from coal extraction and/or power generation from coal.

Oil sand

Oil sand is a non-renewable energy source with strong impact on environment (one of the strongest emitter of greenhouse gas emissions), biodiversity and health. The development of this non-conventional energy is not consistent to the low carbon transition and good management of climate risks, reason for us to exclude all companies that derive more than 5% of their revenues from oil sands extraction.

Controversial weapons

When the companies are directly involved in the business of controversial weapons (development, testing, maintenance and sale) because of their indiscriminate effects and the disproportionate harm they cause (anti-personnel landmines, cluster bombs, depleted uranium weapons, chemical weapons, biological weapons and white phosphorous weapons). This principle is applicable for any involvement, regardless of the sales/revenues derived from it, with the exception of 5% sales/revenues threshold for white phosphorous weapons to acknowledge the fact that phosphorous is a dual use substance.

Controversial behavior

For the products and services managed directly by BIL, without third-party intervention, we also exclude companies that violate the United Nations Global Compact Principles covering human rights, labor rights, environment and corruption & bribery considerations

Serious violations

We do not invest in countries that have serious violations with regard to political stability or where the governance structure is deemed as unsustainable. In addition, BIL follows

applicable sanctions of the UN, EU or the Office of Foreign Assets Control (OFAC) to which it is subject and follows any mandatory restrictions deriving therefrom.
The exclusion policy is applied based on available information. The exclusion-list is prepared using information from external data providers on periodic review, and although a qualitative review is performed, BIL could not be responsible for the accuracy of this data.

The exclusion list is also implemented taking into account our investors' best interests, with a transition period following the initial implementation and following periodic revisions of the exclusion lists. If the application of this standard triggers divestments, portfolio managers shall disinvest within this transition period taking into account the portfolio impacts based on market conditions, liquidity and portfolio construction constraints.

ESG Integration

ESG stands for **Environmental**, **Social**, and **Governance**. ESG integration at BIL, means that our investment services apply ESG non-financial factors as part of their analysis to identify material risks and growth opportunities. There is not a single exhaustive list of ESG factors. Those are often interlinked, and it can be challenging to classify an ESG issue as only an environmental, social, or governance issue.

On a broad and generic basis ESG factors are split as such:

- Environmental considerations related to the conservation of the natural world: carbon emission, energy efficiency, waste management, pollution, biodiversity, water scarcity, ...
- Social considerations related to the consideration of people, relationships and social cohesion: labor standards, relations with workforce and the community, gender & diversity, education, child care, ...
- Governance considerations related for best-practices and standards for running a company: board composition and independence, management and audit structure, remuneration, compliance policy related to bribery & corruption, whistleblower schemes, fiscal practices, ...

ESG factors represent important information to assess investment risks and opportunities. Environmental, social and governance issues have an impact on the financial outlook of a company and therefore its value. Integrating environmental, social and governance factors results in better-informed investment decisions which could result in higher risk-adjusted returns. The consistent fundamental analysis of environmental, social and governance issues is a key ingredient that enables us to adjust forecasts about significant security price drivers and potential liabilities. Only ESG factors deemed financially material are included in the ESG assessment in accordance to a materiality and risk calibration.

ESG data source

In 2020, BIL decided to contract with Candriam , an established sustainable and responsible asset manager and founding member of UN Principles for Responsible Investment since 2006. Candriam's proprietary ESG evaluation process includes a dedicated ESG research team, which reviews companies on environmental, social and governance considerations, either in absolute terms or relative to their peers in each sector, focusing on the most material ESG factors. This research is supported by a team that engages with companies as part of collective initiatives or individually, with the aim to improve corporate disclosure on ESG topics or foster better corporate practices on ESG matters.

By using Candriam's proprietary ESG database, BIL obtains access to Candriam's in-house methodologies output that incorporate multiple providers and dedicated expert judgments, providing a framework from which a unified outcome can be drawn.

ESG factors and scores

They are derived from the assessment of what companies produce, which services they deliver and how their business activities contribute to sustainability, as well as how companies are positioned towards their stakeholders. Only ESG factors deemed financially material are included in the ESG assessment.

Companies are exposed to major long-term ESG trends which can strongly influence the environment in which they operate and which can shape their future market challenges and long-term growth potential.

Business activity analysis is measured against 5 key sustainability challenges and opportunities:

Climate change

How effective is the company's adaptation and mitigation roadmap to decarbonize business activities, to deploy renewable energy and to transition towards a climate neutra economy.

Resource depletion & waste management

How effective is the company in scaling up waste recuperation and recycling capabilities, to mitigate the impact of its business activities on ecosystems, to preserve biodiversity and to transition towards a circular economy.

Digitalization & innovation

How successful is the company in harnessing the opportunity to drive higher industrial and resource efficiency via innovation and digital technology, while protecting data privacy and supporting strong and resilient digital networks, supporting an inclusive economy.

Healthy living & wellbeing

To what extent is the company actively investing in human capital (job creation, gender equality and working conditions), R&D and universal access to healthcare.

Demographic shifts

To what extent is the company prepared for the requirements arising from an ageing population or the demographic boom in some emerging countries (infrastructure investments, food supply chain,..) fostering an inclusive economy and quality of life.

Companies are grouped according to the industry or sector, their location and their business model specificities. The degree of exposure to the five key sustainable themes is then assessed and rated.

Stakeholder analysis

It evaluates to which extent a company incorporates stakeholder interests in its long-term strategy. It is based on 6 different categories (investors, human capital, suppliers, the environment, clients, and society). The relevance of each category is determined on the basis of qualitative and quantitative data, weighted in accordance with its relevance by sectors. The materiality framework of stakeholder analysis is built around predefined stakeholder weights by sector, as well as around chosen sets of ESG data and impact analysis by sector.

The stakeholder analysis assesses the strategies implemented by the company (relevance of the strategy developed, human and material resources allocated, pro-activity and monitoring) as well as the company's performance in each category by comparison to its competitors and major trends in the sector.

Access to sustainability information is crucial. Our analysts and fund/portfolio managers have access to Candriam proprietary ESG data and are provided with ESG training where required.

The ESG rating methodology is based on the definition of sectoral ESG models by Candriam ESG analysts.

The limits applicable to those are largely linked to the nature, scope and consistency of the ESG data currently available:

Nature

Certain ESG dimensions are better suited to qualitative narrative information. This information is subject to interpretation and therefore introduces a degree of uncertainty into the models.

Scope

After defining the ESG dimensions that Candriam analysts deem important for each sector, there is no guarantee that the data will be available for all companies in that sector. Whenever possible, missing data is supplemented with a Candriam ESG survey.

Homogeneity

The different ESG data providers have different methodologies. Even within a single supplier, similar ESG dimensions may be treated differently depending on the industry. This situation makes it more difficult to compare data from different providers.

If no scores are available from Candriam, we use publicly available ESG scores from different providers.

Engagement

Our first and foremost engagement is to embrace research and education on sustainable finance, in pursuit of continuous improvement in understanding the full-range of opportunities available to our clients, our investment strategies, our instruments selection and more broadly our business models in this field. Over the past years, BIL has been very active in promoting awareness, acceptance and implementation of the ESG principles within its community of investment professionals. At a later stage, BIL's greater ambition is to publicize our engagement priorities and corporate stewardship beliefs. This will include the publication of an annual review detailing our voting activity and engagement.

The appropriate approach is not the same for all investors. There is no one-size-fits-all set of beliefs. Specific forms of ESG investing can be requested for particular preferences, beliefs and circumstances. As with any form of investing, investors must establish their own personal goals and weigh the potential benefits of the various approaches against any risks and costs in order to give themselves the best chance of achieving their desired outcome.

BIL approaches the principal adverse impacts of investee companies on sustainability through the integration of ESG scoring when forming investment cases and following up of investment decisions. ESG integration is explicitly part of our investment decision-making processes and controls.

Description of the policies used to assess principal adverse sustainability impacts

The BIL sustainable and responsible framework is built on BIL values (create, care and collaborate). It seeks to ensure that the investment products and services we provide to our customers do not result in an unacceptable, adverse impact on people or the environment, while helping them understand and manage their environmental and socia impact.

Our remuneration charter's consistency with the integration of sustainability risks has recently been reinforced to ensure that our employees are sensitized and encouraged tc uphold BIL's sustainability initiatives, in particular by linking the remuneration framework of relevant staff to appropriate ESG criteria and metrics

Our advisory and discretionary teams integrate environmental and social due diligence as part of existing due diligence processes. The due diligence process is central to our sustainability risk assessment, allowing us to implement our principles, with a consistent integration of ESG considerations in the risk/reward analysis of investment case. This means that the higher the sustainability risk of an investment, the higher the expected performance should be.

Each portfolio manager/investment advisor is given access to an ESG database in order tc screen the sensitivity of potential investments for their impact on the environment, on social strengths and weaknesses and on governance standards. In turn, each individual is responsible for adjusting to respect key ESG parameters and to effectively integrate key ESG considerations. The database also helps them to screen the universe in order to abstain from investments for which there is no likely avenue for remediation, redress or improvement in larger and multiple activities and norms, thereby adding another layer or top of the existing BIL exclusion list.

The identification of principal adverse sustainability impacts is embedded in the ESG scoring methodology.

For all funds and mandates with an ESG approach (Article 9 or Article 8 of SFDR), BIL defines ESG characteristics which must be followed.

Description of actions taken to address principal adverse sustainability impacts

Risks related to sustainability factors cannot be treated in isolation to other risks as they can have a financial impact. The integration of ESG risks and mitigation actions into investment products and services has been implemented, via the integration of our sustainable investment policy into our policies and processes.

The prioritization of principal adverse impacts indicators is at the cornerstone of the materiality framework embedded in the ESG scoring methodology.

Actions taken to address principal adverse sustainability impacts are specific to each and every investment product and service BIL delivers to clients.

While we also frequently reach out to ESG experts for advice on issues that concern us, we ensure that, globally, our relationship and investment professionals are trained regarding our sustainability investment framework and their own responsibilities, to ensure consistent implementation, so that policies, procedures and standards are appropriately implemented.

Additionally, to strengthen our approach, we have set up an Sustainability Community of experts to provide permanent points of contact. Their responsibilities include raising awareness, organizing trainings, facilitating sustainability assessments and maintaining contact with all concerned stakeholders.

Engagement policies

We are aware that some of the goals we have set ourselves are necessarily aspirational.

As of today, BIL does not engage with investee companies on sustainability-related matters.

Adherence to international standards

Corporate social responsibility is at the core of BIL's identity. BIL is currently adhering to a number of responsible business conduct codes and standards, for instance; the International Capital Market Association Charter, the workplace and sexual harassment charter, the Inspiring More Sustainability Luxembourg and its diversity charter. Our sustainability roadmap includes the ambition to diagnostic and adhere to a selected number of international collaborative statements, dialogues and networks that focus on advancing the practice of responsible investment and sustainable development.

Previous versions

Sustainable Finance Disclosure Regulation (SFDR) previous versions

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