BIL 1856 BANQUE INTERNATIONALE À LUXEMBOURG

Sustainability Risk Policy

The European Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector, the so-called Sustainable Finance Disclosure Regulation (SFDR), requires 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 their investment 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 Sustainability Risk Policy is applicable (i) to the discretionary portfolio management and in-house fund management investment decision making process, (ii) to the provision of investment advice and (iii) to the provision of insurance advice. A Sustainability Risk Policy and solid processes are essential on the journey towards sound investing. Our end-goal is to have our products and 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 Sustainability Risk Policy will, as such, be reviewed and, if necessary, adjusted on a recurring basis to incorporate these changes.

Sustainability is an integral part of BIL's Investment strategy and processes. Our policy ensures that we consider sustainability risk in our investment process and investment advice in three ways: exclusion, ESG integration and engagement.

Sustainability risk is defined as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

Sustainability risks can be subdivided into 3 categories:

- Environmental: environmental events may create physical risks and transition risks for companies. Physical risks are for instance the tangible effects that climate change have on a company (direct damages on assets from e.g., floods, wildfires, or storms and indirect impact on the company supply chain) whereas transition risks are business-related risks that follow societal and economic shifts towards a low-carbon and more climate-friendly future. These risks can include policy and regulatory risks, technological risks, market risks, reputational risks, and legal risks.
- Social: refers to risk factors related to the human capital supply chain and how

businesses manage the impact of these factors on society. A broad range of factors (e.g., gender equality, compensation policies, health & safety, working conditions) that can impact a company's operational effectiveness and resilience, as well as its public perception, and social license to operate.

- Governance: these aspects are linked to the governance structure and could include, but are not limited to, risks around board-independence, ownership & control, audit, compliance & tax practices. A business that overlooks these risks could potentially incur large financial penalties and also lose investors, customers and stakeholder support.

In reference to Article 3 of the SFDR, sustainability risk management is an integral part of BIL's investment strategy and processes for all of our investment products (BIL Invest, BIL Serenio) and services (BIL Advisio). For our products, this is done via the strict implementation of our exclusion policy, the systematic integration of our ESG scores and analyses in the risk/return calibration during our security selection processes. For our advisory services, as some of our selection processes are hybrid (based on discretionary selection processes but also complimented by the use of external security screeners), the investment advisors rely on either in-house methodologies, or external fundamental analysis (cleaned from our exclusion list) enriched by our ESG scores and analysis. For our insurance broker activity, sustainability risk integration is handled via our due diligence process when contracting with external insurance companies.

BIL 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 our ESG covered universe.

When it comes to investment or recommendation of undertaking for collective investments (UCI), our process always starts by a detailed due diligence exercise in which we review how sustainability risks are integrated into investment decisions, what are the ESG methodologies used (if any), what is the exclusion policy, what is the active ownership policy, as well as what is the SFDR UCI categorization. There is no look through analysis performed to check if UCIs are meeting BIL's exclusion policy/list, as 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 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 is a non-renewable energy source with strong impact on environment (one of the strongest emitters 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.
- 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.
- 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.

Additional internal analyses are done on a regular basis on the controversial behaviour aspects. The results of these analysis are presented to the Asset Liability Committee on a quarterly basis or to the Investment Office's Portfolio Construction Committee, who recommends, in case of material changes of the company's ability to comply to our exclusion requirements, the presentation of the case to the Executive Committee or to the Internal Control Committee and in the future to the ESG Strategy Committee, who takes the final decision.

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 integration at BIL, means that our investment products and 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 matters as only an environmental, social, or governance one.

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, childcare, …
- 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, whistle-blower schemes, fiscal practices, ...

ESG factors represent important information to assess investment risks and opportunities. Environmental, social and governance matters 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 and/or recommendations which could result in higher risk-adjusted returns. The consistent fundamental analysis of environmental, social and governance matters is a key ingredient that enables us to adjust forecasts about significant security price drivers and potential liabilities.

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 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:

1. 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 neutral economy.
2. 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.
3. 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.
4. 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.
5. 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 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. all relevant stakeholdershave 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.

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