BANQUE
INTERNATIONALE
À LUXEMBOURG

Principal Adverse Impact Statement

This statement describes how we consider Principal Adverse Impacts (PAI) of our investment decisions and investment advice on sustainability factors, as per article 4 of the Sustainable Finance Disclosure Regulation (SFDR) and summarizes our investment due diligence policies in respect of the associated processes. BIL qualifies as a Financial Advisor (FA) under its advisory services and its activities of insurance broker as well as a Financial Market Participant (FMP) when managing underlying investments. This statement excludes assets and products that are issued or held at the explicit request of our clients ("execution only" business, custody assets, external asset managers, etc.).

1. Description of principal adverse sustainability impacts

The concept of "double materiality" is a core element of the EU Action Plan on Sustainable Finance.

- Sustainability risks are environmental, social, or governance (ESG) events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment. Investors may want to take into account sustainability risks because these are likely to influence the financial performance of their investments ("financial materiality"). Our sustainability risk policy can be found here.

- On the other hand, investors increasingly also want to assess the impacts their investments have on people and planet ("sustainable or impact materiality"). In that prospect, Principal Adverse Impact (PAI) is generally understood to mean the negative effects on sustainability factors (environmental, and/or social and employee matters, and/or governance aspects such as respect for human rights, anti-corruption and anti-bribery matters) caused by an investment decision or investment advice.

To ensure transparency, the SFDR requires mandatory reporting of PAI indicators and metrics, which are divided into a core set of mandatory and additional opt-in indicators. Furthermore, the SFDR requires to make a "comply or explain" decision as to whether a financial actor considers the PAIs of investment decisions on sustainability factors.

At BIL we recognize the importance of taking into account sustainability risks and opportunities in the portfolios we manage as well as in the advice we give to our clients and of carefully considering principal adverse sustainability indicators for our products that promote ESG characteristics.

Banque Internationale à Luxembourg
société anonyme fondée en 1856
69, route d'Esch • L-2953 Luxembourg • RCS Luxembourg B-6307
T (+352) 4590-1 • F (+352) 4590-2010
contact@bil.com • www.bil.com

Acknowledging this “double materiality”, and associated mitigation and adaptation priorities, BIL, as an entity, not only evaluates the financial impact of ESG criteria, it also seeks to measure the impact of the assets in which it invests on key sustainability factors. As such, BIL decided to “comply” and considers the PAI on sustainability factors at the entity level (SFDR Art 4), and at the level of specific in-house investment products (SFDR Art 7 for our products classified as Art 8 of the SFDR). BIL products and services that are neither Art 8 (promoting environmental or social, or a combination of both, characteristics) nor Art 9 (having a sustainable investment objective) do not consider PAI in their respective investment decision processes.

Our investment teams have always played an integral role in guiding the incorporation of sustainability risks and opportunities when investing in different sectors and geographies, all of which face distinct challenges. However, many of the world’s most fundamental challenges are global in nature, and thus require global effort and global accountability. We understand our responsibility to bring our ESG investment processes under the scope of standardised frameworks, such as the SFDR. We are committed to increased transparency and measures induced by the SFDR, which will lead to enhanced disclosure and reporting and allow investors to see the contribution of sustainability risks and opportunities to the success of investment products and services.

1.1 Principal Adverse Impacts (PAI) indicators:

As mentioned, the SFDR requires mandatory reporting of PAI indicators, which are divided into a “core set of universal mandatory indicators” and “additional opt-in indicators”. The applicability of PAIs differ between investments for investee companies, sovereigns and supranationals, and real estate assets.

In the table below we have listed the entity mandatory PAIs, including a short description of what they entail. For a full description of the PAI indicators, please refer to the Annex 1 of the SFDR

Adverse sustainability indicator		Metric
INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES		
CLIMATE & ENVIRONMENT		
Climate change & Greenhouse gas emissions	1.1 GHG scope 1, scope 2, scope 3[1] and total	Tonnes of CO2, calculations based on the size of the investment in the company (vs. enterprise value)
	2.Carbon footprint	The GHG emissions of investee companies (relative to the size investment), divided by the value of all investments.
	3.GHG Intensity	GHG weight of investment x emission/revenues

[1] Scope 1 refers to direct emissions from company-owned or controlled sources, Scope 2 emissions include indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 emissions represent all other indirect carbon emissions that may occur in the value chain of a given company, including both upstream and downstream activities.

	4.Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
	5. Share of non-renewable energy consumption and production	Share of on-renewable energy consumption and share of new-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as percentage
	6.Energy consumption intensity per high impact climate sector	Energy consumption intensity (GWh per million EUR of revenue of investee companies), per high impact climate sector
Natural environment and ecosystems	7.Activities negatively affecting biodiversity sensitive areas	share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
	8.Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
	9.Hazardous waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average
SOCIAL & EMPLOYEE, HUMAN RIGHTS, ANTI-CORRUPTION & ANTI-BRIBERY		
Controversial or illegal practices	10.Violations of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD guidelines for Multinational Enterprises	Share of investments in investee companies
Gender diversity	12.Gender pay gap	average unadjusted gender pay gap of investee companies
	13. Board gender diversity	average ratio of female to male board members in investee companies, expressed as a percentage of all board members
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions,	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

	chemical weapons and biological weapons)	
INDICATORS APPLICABLE TO SOVEREIGNS AND SUPRA-NATIONALS		
Environmental	15.GHG intensity	GHG intensity of investee countries. This is based on CO_2 emissions of a country in divided by its GDP, multiplied by the percentage of these investments
Social	16.Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries
INDICATORS APPLICABLE TO DIRECT REAL ESTATE INVESTMENTS		
Environmental	17.Exposure to fossil fuels through real estate assets	Share of investment in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels
	18.Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets

2. Description of policies to identify and prioritise principal adverse impacts of investment decisions on sustainability factors

In its investment decisions, BIL addresses key negative impacts through a wide range of methods from ESG scoring models, ESG analysis, norms offences diagnostic, and controversial activities exclusion.

The focus throughout our investment process is on understanding the materiality of sustainability factors across different time horizons and balancing risks with return expectations (the higher the sustainability risk of an investment, the higher the expected performance should be) alongside the investment preferences of our clients.

Our Sustainability Risk Policy ensures that companies that conduct business activities that are not in line with the Banks' expectations are excluded from being an eligible individual investment within our in-house products.

ESG integration processes are carried out in the pre-investment phase, as well as during the investment timeframe in order to identify sustainability impacts. The PAIs are integrated on the base of their materiality or likely materiality for each specific industry/sector to which the company belongs.

With regards to all BIL's discretionary management products, our due-diligence procedures are part of a broader investment process which considers environmental, social and governance ("ESG") risk management along with any positive impact of ESG decisions. Depending on the investment strategy, portfolio managers may choose to prioritise certain PAIs.

With regards to external third-party fund management, BIL has enhanced its existing third-party fund management due diligence procedures to include a focused PAI outreached process. This process involves asking third-party fund managers, on a periodic basis, a series of questions designed to identify the current and potential PAIs of funds/strategies approved for use in BIL's products and whether and how the fund managers intend to prioritize and reduce those PAIs. Once BIL has a more complete picture of PAIs across its third-party funds and strategies, the information will be made available to the portfolio management team for consideration as part of their investment decision-making and external fund/fund manager selection process.

As regards to direct investments an investee company is analysed using the Candriam ESG scoring model Issuers are ranked according to individual indicators as well as across several combined indicators. The output of the total assessment and ranking results is a score indicating the ESG performance of each company.

2.1 Statement on principal adverse impacts of investment decisions on sustainability factors (as Financial Market Participant)

The way BIL can practically consider the PAIs as an entity, and in its SFDR article 8 financial products, depends on various aspects such as asset class, type of investment instruments, investment objectives, the type of services and the availability of reliable data, as significant gaps still exist between the level and type of information provided by companies on sustainability matters and the information required to comply with legal reporting obligations. We are and will be continuously seeking additional ways to mitigate adverse impacts in a robust and meaningful way.

For our products that are designed to promote certain environmental and/or social characteristics, selected PAI indicators are measured, monitored and assessed employing varying degrees/levels of materiality. Materiality is dependent on several factors, such as type of information, data quality and breadth, applicability, relevance and geographical coverage. As the exact application can differ between financial products and services, those are being documented in their specific pre-contractual disclosures in line with the requirements and timelines of the SFDR.

As from June 2023 BIL as an entity will publish data corresponding with the SFDR mandatory indicators and additional indicators on a yearly basis with the objective of tracking and addressing progresses. In case reliable data is not (yet) available for certain PAIs, we will disclose what these gaps are and will report on remediations to collect those.

Our target model for the integration of a full PAI framework will nevertheless also include further enhancements of our existing procedures and processes, focusing on expanding PAI data sources, the prioritisation and reduction of PAIs in accordance to BIL's firm-wide sustainable development priorities and the dissemination of PAI data and PAI reduction targets to portfolio managers for consideration in their investment decision-making processes, as well as technology infrastructure development for the collection and analysis of PAI data.

3. Description of actions 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 Sustainability Risk policy into our policies and processes. While we also frequently reach out to ESG experts (BIL Sustainable Development team, Candriam ESG analysts, ..) 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 a 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.

As stated, the SFDR will require BIL to collect data on adverse impact indicators for the purpose of reporting those impacts annually in this statement. The first reference period for this data collection will be January 1st to December 31st 2022 with the results for that reference period to be published by June 30th 2023. Historical data will then be reported year on year. Any actions planned or taken with respect to PAI and indicators will also be included.

4. Governance

As for the principal adverse impact indicators provided in the context of SFDR, starting from 2023 BIL will screen the principal adverse impacts of investment decisions across investment strategies complying with Article 8 from SFDR regulation.

As a first line of defence, the Portfolio Manager is responsible to assess the ESG risks of any security added into portfolios and/or funds he/she is responsible for. He/she will therefore control the ESG characteristics of the securities as well as its impact on portfolio/fund global ESG characteristics, as well as Principal Adverse Impacts. He/she will also monitor on an-ongoing basis the evolution of respective ESG and Principal Adverse Impact's matrix.

The ESG Officer has as central role in the overview of BIL's responsible investment processes. He/she reports to the Chief Investment Officer and is responsible to make an ex-post control of ESG characteristics, for any securities added into the BIL Group Universe, as well as monitoring the evolution of portfolio/fund exposure to Principal Adverse Impact.

The ESG Officer interacts with respective portfolio managers, contributing to a holistic view of the ESG framework of the respective portfolios. Should a change of portfolio's securities trigger a significant negative impact on the ESG framework of the fund, portfolio manager and ESG officer will respectively document the impact of the investment decisions.

The Portfolio Manager has the final say to add or not the position. In case of disagreement, the ESG Officer can make an escalation to the Chief Investment Officer who has a veto right on any investment decision.

In any case, decisions are made in accordance with BIL's "Sustainability Risk Policy", respecting BIL's Exclusion Policy. All maintained and excluded companies are documented to ensure transparency and reporting.

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 behavior 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 inclusion requirements, the presentation of the case to the Executive Committee or Internal Control Committee and in the future to the ESG Strategy Committee, who ratifies final decision.

The ESG Officer also reports on a regular basis to the Chief Investment Officer and to the respective fund/portfolio manager about respective securities, funds and portfolio's ESG characteristics and Principal Adverse Impact, when relevant. The ESG Officer also presents on a quarterly basis the ESG status to the Head of Sustainable development department and to the ESG Strategy Committee.

The ESG Strategy committee will oversee BIL's consideration of Principal Adverse Impact and will evaluate and approve the Principal Adverse Impact Statement at least once a year.

The ESG Strategy Committee is a strategic cross-functional committee, including the Head of Strategy and Financial Markets*, the Chief Risk Officer*, BIL Group Chief Investment Officer as well as the Head of Sustainable Development. It steers and monitors the ESG Journey of the bank.

*Members of the Executive Committee

5. Engagement policy roadmap

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

Being committed to combine financial performance with environmental and social responsibility, as well as sound governance practices, our broad priorities are to enhance our competence and knowledge regarding ESG aspects relevant for investment in relation to our products. We are also committed to improving our products to enable our customers to make informed decisions on ESG, in accordance with their preferences, and to be transparent of such aspects and impacts.

PAIs reporting will guide us to define our engagement policy, both directly and through collaborative initiatives. Our objective is to select engagement themes as well as to identify investee companies in which proxy voting could alleviate insufficient progress in reduction of the principal adverse impacts.

Expecting investee companies to pay due care and attention to social and environmental factors that could incur a material financial cost at some point down the line, we believe that collaborative engagement and proxy voting are both parts of the toolbox to roadmap alignment and productive discourse on the issues at hand.

As such, while being aware that some of the goals we have set ourselves are necessarily aspirational, part of our sustainable roadmap is to publicize our engagement priorities and corporate stewardship beliefs.

6. Adherence to international standards

As a signatory to the UNEP FI (UN Environment Programme Finance Initiative) Principles for Responsible Banking and to the UN Global Compact principles, BIL is committed to working towards the goals of the United Nations 2030 Agenda for Sustainable Development and the Paris Agreement

BIL is a founding member of LuxFLAG, an independent and international non-profit association created in 2006 by private and public founding partners to support sustainable finance. BIL is also a founding member of IMS. IMS, Inspiring More Sustainability, has been the leading network of Luxembourg companies involved in Corporate Social Responsibility (CSR) for more than 10 years.

BIL's corporate social responsibility is independently assessed every three years by the Institut National pour le Développement durable et la Responsabilité sociale des entreprises (INDR – National Institute for Sustainable Development and Corporate Social Responsibility). A label is thus awarded following a two-day audit carried out by a specialized consultancy commissioned by the INDR. On 18 November 2021, BIL was again awarded this label.

BIL also believes in the value of collaborating with other investors. Therefore, BIL actively works in industry associations in order to advance sustainable investing practices. BIL is an active participant for instance on initiatives from the ABBL (the Luxembourg Bankers' Association) related to ESG Financial Markets, ESG Risks, Taxonomy and Labels, CSR, Financial Education, and Diversity). BIL is also a signatory to the most stringent charters in terms of corporate social responsibility, the Luxembourg Diversity Charter.

Our sustainability roadmap will continue to include 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.

In addition, BIL adheres to voluntary due diligence and reporting standards, including UN Global Compact and GRI's sustainability reporting framework. As such, in 2022 BIL has published its first report according to GRI standards in order to increase the transparency of its impact on the economy, environment and people.

7. Statement on principal adverse impacts of insurance advice on sustainability factors

For its insurance broker activities, BIL policy on the integration of sustainability risks and consideration around principal adverse impacts are based on due diligence processes when selecting insurance companies and the associated product types. In line with the SFDR, our due diligence process includes information on product disclosures, on the way sustainability risk is integrated in the investment decision process and if PAIs are taken into consideration, as well as how each product is classified as promoting environmental or social characteristics, as a sustainable investment objective, or is a mainstream product doing neither of the above.

8. Statement on principal adverse impacts of investment advice on sustainability factors

For our advisory services, we do not take the PAIs into consideration when doing an advice. However, the respective ESG information is made available to our client advisors through recommendation lists, allowing them to take those into account when providing investment advice. When information on PAIs is available, our advisors can provide this information to the clients.

Date of initial publication: September 2021

Date of revision: December 2022