Sustainability Risk Policy

Background and scope

European Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, otherwise known as the Sustainable Finance Disclosure Regulation (SFDR), requires financial market participants and financial advisors in the EU to make disclosures regarding the integration of sustainability risks and on their consideration of adverse sustainability impacts in their investment processes.

“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 broken down into three categories:

- Environmental: environmental events may give rise to physical risks and transition risks for companies. Physical risks include the tangible effects of climate change for a company (direct damage to assets from floods, wildfires or storms, for example, and the indirect impact on the company’s supply chain), whereas transition risks include 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, diversity, compensation policies, health & safety, working conditions) can impact a company’s operational effectiveness and resilience, as well as its public image, and social license to operate.
- Governance: these aspects are linked to the governance structure and may include, but are not limited to, risks relating to board independence, ownership & control, audits, compliance and tax practices. A business that overlooks these risks could potentially incur large financial penalties and lose investors, customers, and stakeholder support.

In accordance with Article 3 of the SFDR, this Sustainability Risk Policy applies to Banque Internationale à Luxembourg, Banque Internationale à Luxembourg (Suisse) SA, and BIL Wealth Management Limited (referred to collectively as “the Group” or “BIL”) in the following contexts:

(i) for discretionary portfolio management and in-house fund management investment decision making process,
(ii) for the provision of investment advice and
(iii) for the provision of insurance advice.

A Sustainability Risk Policy and well-defined procedures are essential for responsible investing. At BIL, sustainability is an integral part of our investment strategy and processes.

BIL addresses sustainability risk within the investment process and advisory services through a comprehensive approach:

- For indirect investments, BIL conducts thorough due diligence and verifies the investment strategies.

It's important to note that as of today, BIL does not engage with invested companies on sustainability-related matters.

BIL manages sustainability risk by integrating the aforementioned approach into its risk/return assessment during the security selection process. This selection process applies to our discretionary portfolio management and in-house BIL Invest funds. In advisory services, our advisors rely on BIL's carefully selected investment universe, which undergoes the selection process described in this document, and enables advisors to provide clients with information about potential sustainability risks.

For insurance brokerage, BIL's policy on the integration of sustainability risks is 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 and on the way sustainability risk is integrated into the investment decision process, 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.

The approach described in this document means that financial instruments and issuers with high sustainability risks might not be systematically disregarded as BIL may consider that a higher sustainability risk might result in higher returns, or might be acceptable when regarding other factors and risks.

Disclaimer: In the context of the recently growing implementation of EU regulatory requirements on sustainable finance – and given the reasonable expectation that requirements will continue to evolve over the next years – as well as of rapidly evolving practices, it is possible that new risks may arise, public opinion may change, and new market standards may be introduced. As such, the approach presented in this policy is subject to being reviewed and, if necessary, may be adjusted without notice.

BIL Exclusion Policy

BIL's Exclusion Policy commits to reducing ESG factors related risks exposure to controversial activities by excluding certain sectors or activities that run 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 identified as those presenting unacceptable harm to society and are ineligible for investment. Regularly revisiting exclusion criteria in accordance with societal trends and priorities is part of our engagement.

The exclusion list is based on available information supplied by a third-party provider. For further information, please refer to the "ESG data source" section. It should be noted that this exclusion list only applies to the process of selecting and analysing direct investments in securities that are part of the BIL

Group Investment Universe. This process does not apply to indirect investments or BIL products managed by a third party.

BIL takes clients' best interests into account when applying the Exclusion Policy. If a company is added to the exclusion list, portfolio managers will seek to disinvest as soon as possible, while considering portfolio impacts based on market conditions, liquidity, and portfolio construction constraints. For Advisory services, the advisor should contact clients, inform them about the excluded securities and recommend an alternative investment.

BIL excludes companies based on the following principles:

Our approach towards fossil fuels:

- **Thermal coal:** exclusion of companies that generate more than 10% of their revenues from coal extraction and/or power generation from coal. BIL has implemented a thermal coal restriction, with the objective of de-risking portfolios in the long term by reducing exposure to thermal coal, while supporting the UN Principles of Responsible Banking (UNPRB) and the transition to a low-carbon economy.

  Oil sand: restriction of companies that generate more than 5% of their revenues from oil sand extraction. BIL believes that the development of oil sand is not consistent with the fight against global warming and the effort to limit the rise in temperatures within the limits of the Paris Agreement targets.

Our approach towards weapons:

- **Controversial weapons**: no tolerance towards investing in companies involved in controversial weapons activities or provisions to such companies. This principle is applicable to any involvement in the development, testing, maintenance, and sale of anti-personnel landmines, cluster bombs, depleted uranium weapons, chemical weapons, biological weapons, and white phosphorous weapons**.**

Our approach towards controversial behaviour:

- **Controversial behaviour**: BIL excludes companies that are not compliant with the United Nations Global Compact (UNGC) Principles. BIL assesses companies on the extent to which they cause, contribute to or are linked to violations of the below UNGC Principles:

  Human Rights

  Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
  Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Our approach towards countries exclusions:

- **Countries:** BIL excludes 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.

Exclusions for investment products with LuxFLAG Label

BIL investment products labelled by LuxFLAG are aligned with the exclusions set out by the LuxFLAG Exclusion Policy. For more information, please refer to https://luxflag.org/

BIL Manage Invest S.A. ("BMI")

Regarding BIL Funds / Sub-Funds for which BIL performs the function of Portfolio Manager, BMI Exclusion Policy applies. For more information, please refer to https://www.bilmanageinvest.lu/offer.php

ESG Integration

Integrating environmental, social and governance (ESG) factors results in better-informed investment decisions and/or recommendations, with the objective of achieving higher risk-adjusted returns.

ESG factors can broadly be broken down as follows:

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

Although there isn't a single exhaustive list of ESG factors, they are often interlinked, and it can be difficult to classify ESG factors as solely environmental, social, or governance related.

ESG factors have an impact on a company's financial outlook, and therefore its value. The consistent fundamental analysis of ESG factors is a key component that enables us to adjust forecasts about significant security price drivers and potential liabilities.

As part of ESG integration at BIL, our investment-decision processes apply ESG factors as part of the analysis to identify and assess material risks and growth opportunities.

In the case of direct investments, ESG scores are integrated into our investment decision-making processes. This integration helps us identify companies that are better equipped to address ESG factors related challenges and leverage opportunities related to sustainability and responsible business practices. ESG scores are supplied by third-party providers and are converted into an equivalent BIL ESG Scores applying an internal methodology. BIL ESG Scores are updated on a quarterly basis and are used to identify companies in terms of ESG factors risk. A Company with a "A" score is perceived as being less risky in terms of ESG factors than a Company with a "E" Score. ESG scores are considered through a "Best-in-class" approach to facilitate company comparisons within industries. "Best-in-class" approach selects the best companies by ESG score within each sector of the investment universe. To apply an objective assessment of the importance of each ESG factor to different industries, ESG scores apply different weights for Environment, Social and Governance to determine the relative materiality of each theme to each individual industry.

For indirect investments, our approach involves a comprehensive due diligence procedure. During this process, BIL considers SFDR categorisation, assesses how sustainability risks are integrated into investment decisions, which ESG methodologies are used (if any), reviews exclusion policies, and examines active ownership strategies. This information is analysed and documented in order to produce a comprehensive overview. BIL does not perform a look-through analysis for indirect investments.

For in-house products, which are classified as Article 8 under SFDR, the minimum ESG scoring is C based on BIL's proprietary methodology.

ESG data source

BIL sources ESG data from two contracted third-party data provider, namely Refinitiv and Sustainalytics with which the institution has established partnerships in recent years. When essential ESG information is not accessible through our contracted third-party data providers, BIL resorts to ESG data publicly available at the time of investment from other external providers, including but not limited to Morningstar or MSCI. As such, BIL does not guarantee the accuracy, adequacy, completeness, fairness or reasonableness of such information, and no representation, warranty or undertaking, whether express or implied, is made, nor responsibility or liability accepted, as to the aforementioned qualities of such information.

The information sought by BIL from these data providers primarily includes:

i. For direct investments: ESG scores, exposure to exclusions as defined by BIL, and comprehensive ESG factors analysis.
ii. For indirect investments: SFDR classification of Article 6, Article 8 and Article 9, Principal Adverse Impacts consideration and other information in relation to the due-diligence analysis

The ESG factors information obtained from third-party data providers is used for the implementation of our exclusion policy and the integration of ESG factors at BIL.

Access to sustainability information is crucial. All relevant BIL employees have access to ESG information and are provided with regular ESG training, where required.

Refinitiv

In 2023, BIL decided to contract with Refinitiv, a leading third-party data provider of Environmental, Social, and Governance (ESG) data and solutions for financial markets and organisations worldwide. The company offers a comprehensive suite of ESG data, analytics, and insights to help investors, companies, and other stakeholders make informed decisions and assess the sustainability and ethical performance of companies and assets.

Refinitiv offers one of the most comprehensive ESG databases in the industry, covering over 85% of the global market cap, across more than 630 different ESG metrics, with records dating back to 2002.

The Refinitiv ESG scores are data-driven, accounting for the most material industry metrics, with minimal company size and transparency biases. The scores are based on relative performance of ESG factors with the company's sector (for environmental and social) and country of incorporation (for governance).

Refinitiv's ESG scoring methodology has several key calculation principles, as follows:

1. Unique ESG magnitude (materiality) weightings have been included – as the importance of ESG factors differs across industries, each metric's materiality has been mapped for each industry on a scale of 1 to 10.
2. Transparency stimulation – company disclosure is at the core of Refinitiv's methodology. With applied weighting, not reporting 'immaterial' data points doesn't greatly affect a company's score, whereas not reporting on 'highly material' data points will negatively affect a company's score.
3. ESG controversies overlay – companies' actions are verified against commitments, to magnify the impact of significant controversies on the overall ESG scoring. The scoring methodology aims to address the market cap bias from which large companies suffer by introducing severity weights, which ensure controversy scores are adjusted based on a company's size.
4. Industry and country benchmarks at the data point scoring level – to facilitate comparable analysis within peer groups.
5. Percentile rank scoring methodology – to eliminate hidden layers of calculations. This methodology enables Refinitiv to produce a score between 0 and 100, as well as easy-to-understand letter grades.

BIL uses Refinitiv ESG Scores as equivalent to BIL ESG Scores for BIL ESG Integration. Refinitiv data is also employed to identify companies not compliant with BIL ESG Exclusion Policy.

For further information on Refinitiv, we invite you to visit their website: https://www.refinitiv.com/en

Morningstar Sustainalytics

In 2024, BIL contracted with Morningstar Sustainalytics, a leading independent ESG and corporate governance research, rating, and analytics firm. The company offers support to investors worldwide with the development and implementation of responsible investment strategies. Morningstar aims to provide market-leading data, products, and services across investment processes to enable investors to make decisions in the ways they believe are best.

Sustainalytics' Global Standard Screening (GSS) qualitatively assesses companies' compliance with the United Nations' Global Compact Principles, identifying companies violating or at risk of violating these principles.

The non-compliant assessments are based on:

- Severity of the impact, which includes: the gravity of the impact, the extent and consequences of the impact, and the level of difficulty of restoring the situation of those impacted to their prior state;
- Company responsibility, considering: whether the company has caused, has contributed to, or is directly linked to the negative impact through its operation, to what degree the impact of the

incident stands out relative to other companies in the sector, the level of negligence, the existence of a pattern/recurrence of similar impacts and the duration of the incident;

- Company management, analysing: the steps taken by the company to address those affected or the concerns raised, the quality of a company policy and management systems on the relevant issue, and the policy implementation to prevent similar impacts from occurring in the future.

BIL makes use of the Sustainalytics GSS data for excluding companies that are not compliant with have serious violations with regards to the United Nations Global Compact (UNGC) Principles as per BIL ESG Exclusion Policy.

Further information on Sustainalytics Global Standards Screening can be found on their website https://www.sustainalytics.com/investor-solutions/esg-research/esg-screening/global-compact-norms-based-screening

Application of this policy

To conclude, BIL's sustainability risk policy comprises several key components: exclusion policy and ESG integration for direct investments, and due-diligence and investment strategy verification for indirect investments. This approach allows us to align investments with our values, while also considering the potential impact of ESG factors on risk management and financial performance.

To support discretionary portfolio management and in-house fund management, the ESG in-house methodology is integrated into the underlying asset selection process. To support advisory services, BIL provides its advisors with an investment universe that undergoes thorough screening via our ESG in-house methodology. Our advisors are sufficiently and regularly trained, enabling them to leverage the information at their disposal and, if required, effectively communicate relevant ESG-factors details to our clients.

This policy in updated on an annual basis by the Investment Office team and approved by the "New Product Committee" (NPC).

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