SRI Methodology

Equity

September 2023

BANQUE DE LUXEMBOURG INVESTMENTS

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1 Purpose of this document

This document summarizes the methodology applied by BLI - Banque de Luxembourg Investments ("BLI") with regard to sustainable and responsible investment in the context of the equity investments specified in section 2 (the "Products").

The methodology summarized in this document (the "Methodology") is part of the provisions specified in the contractual and/or pre-contractual documents governing the Products. More specifically, it is intended to provide additional, non-contractual information to the provisions specified in the contractual and/or pre-contractual documents governing the Products. This document is intended for any person investing in a Product or interested in investing in a Product and interested in the Methodology applied by BLI.

Insofar as the Methodology may evolve over time due to various factors (for example: changes in the regulatory framework, availability of relevant data, etc.), this document may evolve without this necessarily resulting in changes to the contractual and/or pre-contractual documents governing the Products.

Any person investing in a Product, or interested in investing in a Product, is therefore invited to consult the BLI website for the current version of the Methodology.

This document is not intended to advertise or promote one or more mutual fund-type financial products. However, insofar as this document refers to mutual fund financial products, it represents an advertising communication as specified in section 4.

2 Scope of application

The Methodology described in this document applies to the following Products:

- Each sub-fund of SICAV BL and SICAV BLB;

- Any other product (including discretionary management mandates) (i) for which all or part of the portfolio is managed by BLI and (ii) whose contractual and/or pre-contractual documents specifically indicate that all or part of the Methodology applies.

3 “Business-Like Investing” Principles

BLI's equity investment philosophy - known as "Business-Like Investing" - implies that managers do not simply trade securities, but adopt an entrepreneurial mindset when investing in a company. This long-term approach, which aims to understand the different aspects of a company before investing, in order to measure all the risks associated with it, is highly complementary to an ESG approach.

The key investment principles of Business-Like Investing are as follows:

- **Thinking & investing with a long-term horizon**

Equity markets only reflect the fundamentals of the underlying companies over the long term.

- **A conviction-based approach**

The benchmark is only used to measure and compare the performance.

➔ In line with BLI's active investment style approach, the structure of the portfolio deviates significantly from the composition of the market index.

- **Keeping it simple**

The risks of an investment increase when its parameters are not properly understood. In order to reduce investment risks and increase returns, the manager focuses on his area of expertise.

➔ Through the application of a disciplined methodology based on an in-depth internal fundamental analysis, the manager seeks to better understand the company's fundamentals in order to reduce risk.

- **Valuation**

« The price paid determines the return »

➔ The manager calculates the intrinsic value of the potential investment candidate. Positions are only initiated if the stock price offers a discount to the company's fair value (margin of safety). The objective is to reduce the risk of incurring significant losses while increasing the potential for capital appreciation (upside potential).

4 Sustainability methodology

The SFDR (Sustainable Finance Disclosure Regulation) sets out the general framework for taking sustainability into account in investment strategies. Three articles of this regulation are particularly important:

- Article 6 concerns the consideration of sustainability risks within portfolios

- Article 8 concerns the promotion of sustainability factors, and

- Article 9 sets out the framework for management strategies that have sustainability as their management objective.

Producers of financial products classify their investment strategies according to these three articles, which represent three levels of ambition with regard to the theme of sustainability. In addition, all investment strategies must take a position on the consideration of sustainability risks (Article 6). Classification under Article 8 or 9 depends on the additional level of ambition that the manager wishes to confer on his investment strategy with regard to sustainability.

4.1 Taking sustainability risks into account (Article 6 SFDR)

BLI's framework for taking sustainability risks into account is based on four dimensions:

1. Controversy analyses, i.e. extra-financial information concerning the issuers of securities;
2. Sectoral and normative exclusions;
3. Voting at general meetings of investee companies;
4. Active dialogue with investee companies.

4.1.1 Controversy analysis

Investment candidates and portfolio companies are constantly monitored to identify significant ESG events that could affect the company's business model, reputation and therefore potentially BLI's investment case. Through MSCI ESG Manager, BLI's SRI team receives daily alerts concerning any notable controversies affecting the companies in which the portfolios are invested.

The filter is initially based on MSCI's controversy flag classifications (green, yellow, orange and red). Companies subject to a red flag (very severe controversies) are excluded from the BLI investment universe.

Companies classified as "orange" (severe controversies) are analyzed in depth using various sources of information - internal research, external research providers, media, company information, etc. Based on this proprietary analysis by the SRI team, an opinion is formulated as to the materiality of the controversy for the company's long-term business model and BLI's investment thesis. This analysis also serves as a starting point for identifying opportunities for engagement, in order to focus efforts on opportunities offering significant potential for change.

BLI's equity managers receive updates on material developments in controversies affecting the companies in their portfolios, enabling them to take these into account in the decision-making process.

4.1.2 Normative and sector exclusions

BLI's management approach can best be described as cautious, conservative and highly selective. Given its focus on companies with strong competitive advantages and high-return characteristics that generate significant free cash flow, certain sectors are regularly under-represented or not included at all in the portfolios managed by BLI. These include financial institutions, commodity companies, airlines and other complex or capital-intensive industries.

However, the conviction-based approach of Business-Like Investing does not exclude sectors a priori, but targets investments based on strict quality criteria.

Nevertheless, BLI has adopted a number of formal exclusions. Further details can be found in the exclusion policy, which can be consulted here.

4.1.3 Voting at general meetings and active dialogue (engagement)

The execution of voting rights of invested companies and the engagement in active dialogue with invested companies are described in specific policies and published on the BLI website.

- BLI's policy on voting at general meetings can be consulted here.

- BLI's corporate engagement policy can be consulted here.

4.2 Promotion of sustainability factors (Article 8 SFDR)

Investment strategies classified under Article 8 SFDR "promote sustainability factors" within their investment strategies. BLI interprets this regulatory concept in the sense that issuers with superior sustainability characteristics are favored over issuers with inferior sustainability characteristics.

Fundamental analysis is an important step in identifying and quantifying the strength of a company's competitive advantage, as well as assessing its long-term potential.

Elements such as historical profitability levels, balance sheet strength, capital allocation or previous management decisions are taken into account when assessing the strength of the company's fundamentals. Determining the company's potential to generate free cash flow, as well as an in-depth analysis of its secular growth drivers, are also important steps in the analysis process.

In terms of valuation models, BLI uses a DCF (Discounted Cash-Flow) model to determine a company's intrinsic market value. Calculating this intrinsic value provides a reference point for avoiding overpaying for a company. It also serves as a reference point for the buying and selling discipline. Finally, the model also provides the manager with an indication of the company's value based on its current earnings, enabling him to better assess the growth component already factored into the share price. This is a differentiating factor in BLI's approach, which allows to better apprehend the risks associated with an investment.

BLI has decided to integrate ESG factors into the issuer valuation model, so that extra-financial dimensions are considered in the same way as financial dimensions in investment decisions, enabling SRI managers and analysts to obtain an even more accurate picture of all the risks and opportunities facing prospective investors, and thus make more informed investment decisions.

In practice, BLI teams consider the ESG ratings (AAA-CCC) established by supplier MSCI ESG Research. Ranges have been defined to determine the adjusted discount rate to be applied in the valuation model.

Starting assumption: A company with a strong ESG profile will be assigned a lower cost of equity, resulting in a higher intrinsic value, while a company lagging behind in ESG terms will be penalized by a proportionally higher cost of equity and therefore a lower intrinsic value. Through this approach, issuers with a strong ESG profile will be "promoted" over issuers with a weaker ESG profile, without however excluding investment in the latter.

The Rating Scale

MSCI Rating	Step	Adjustment to the CoE
AAA	-0,15%	-0,30%
AA	-0,15%	-0,15%
A	0,00%	
BBB	0,15%	0,15%
BB	0,15%	0,30%
B	0,15%	0,45%
CCC	0,15%	0,60%

CoE adjustment due to ESG Rating

The rating issued by MSCI ESG Research is an appropriate indicator of the ESG risks and opportunities facing a company. Overall, a higher ESG rating is considered to be associated either with a company whose business model is less exposed to downside risks, or with a company that manages these risks more effectively.

If the ESG rating changes, the manager will adapt his valuation model accordingly.

The rating ranges have been defined by mutual agreement between the management teams and the SRI team. Based on experience accumulated over the years, they are likely to be modified as the teams acquire more expertise.

Finally, the methodology is reviewed annually to ensure that it still meets BLI's requirements on the one hand, and market reality on the other. In exceptional cases where a company does not have an ESG rating, the manager will take the average rating of his portfolio as a benchmark. Consequently, an unrated company is devalued accordingly if the average rating of the portfolio in question is BBB or below. Otherwise, if the average rating of the portfolio is equal to or higher than A, the historical valuation model, which does not incorporate ESG factors, is used.

Stricter rules may be applied by certain funds - notably in the context of labelling.

4.2.1 Special case: Investments in precious metals / gold

Some BLI portfolios invest in gold equities or equities linked to other precious metals. The aim of these investments is to protect the portfolio against inflationary or geopolitical risks, or more generally against a loss of confidence in paper money.

While the added value of this strategy is undisputed from a financial point of view, the social and environmental impact, as well as efforts to reduce sustainability risks, must also be taken into account. Water use, chemical waste, CO2 emissions, labor practices and safety issues are all recurring sensitive topics in the mining sector.

To take these issues into account, BLI applies a best-in-class approach to its investments in gold stocks. This approach ensures a certain level of ESG performance, which implies a positive and progressive approach to sustainability issues on the part of the companies in question, and requires compliance with certain standards in this area.

In practice, for a company to be included in the portfolios managed by BLI, it must meet two minimum criteria:

1. Compliance with the UN Global Compact: companies must pass the Global Compact compliance check carried out by MSCI. An engagement will be carried out with the companies on the watch list in order to rule on the company's eligibility;
2. Only companies with a minimum MSCI ESG rating of BBB are eligible for investment.

4.2.2 Sustainable investments (Article 8 SFDR)

Funds classified under Article 8 SFDR may commit to investing a certain minimum proportion in assets classified as sustainable.

BLI has developed a comprehensive methodology for identifying sustainable assets for equity investments, which can be consulted here.

4.3 Sustainability as an investment objective (Article 9 SFDR)

Funds classified under Article 9 SFDR have sustainability as their investment objective. This is the highest level of commitment to sustainability. Indeed, for these funds, sustainability is treated on an equal footing with financial considerations.

BLI is in the process of formalizing a detailed methodology describing the approach applied to equity strategies classified under Article 9.

5 Review and update of the Methodology

The Methodology will be amended to reflect any evolutions in the approach, organizational changes and legislative and regulatory developments. In all cases, it will be reviewed at least once a year.

6 Legal information

This document has been drafted by BLI - Banque de Luxembourg Investments ("BLI"). It refers directly or indirectly to one or more financial products (the "Financial Product") and constitutes an advertising communication within the meaning of Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014. The economic, financial and non-financial information contained in this publication is provided for information purposes only based on data known at the date of publication. This information does not constitute investment advice or a recommendation or inducement to invest, nor should it be construed under any circumstances as legal or tax advice. No guarantee is given as to the accuracy, reliability, recency or completeness of this information.

BLI draws the attention of the recipient of this document to the need to apply the utmost caution when using any information relating to a Financial Product, in particular data relating to the performance of the Financial Product:

- where applicable, any scenarios relating to future performance presented in this document are an estimate of future performance based on past data relating to the stocks held by the Financial Product and/or current conditions. They are not an exact indicator and other factors relating to market developments and the length of time the Financial Product is held should be considered.
- Furthermore, the past performance of the Financial Product is no guarantee of the future results of the Financial Product.

Generally, BLI does not assume any responsibility for the future returns of these Financial Products and shall not be liable for any decision that an investor may or may not make on the basis of this information. Interested parties should ensure that they understand all the risks inherent in their investment decisions and should refrain from investing until they have carefully assessed, in collaboration with their own advisers, the suitability of their investments for their specific financial situation, especially with regard to legal, tax and accounting aspects.

They must also take into account all the characteristics and objectives of the Financial Product, in particular those referring to sustainability aspects in accordance with Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services.

Subscriptions to a Financial Product representing units in a collective investment undertaking are only permitted on the basis of the current prospectus, the latest annual or semi-annual report and the Key Investor Information Document (KIID) (the “Documents”) of the Financial Product concerned. The Documents may be obtained free of charge from BLI. All the Documents, including the sustainability information, are available on BLI's website: www.bli.lu