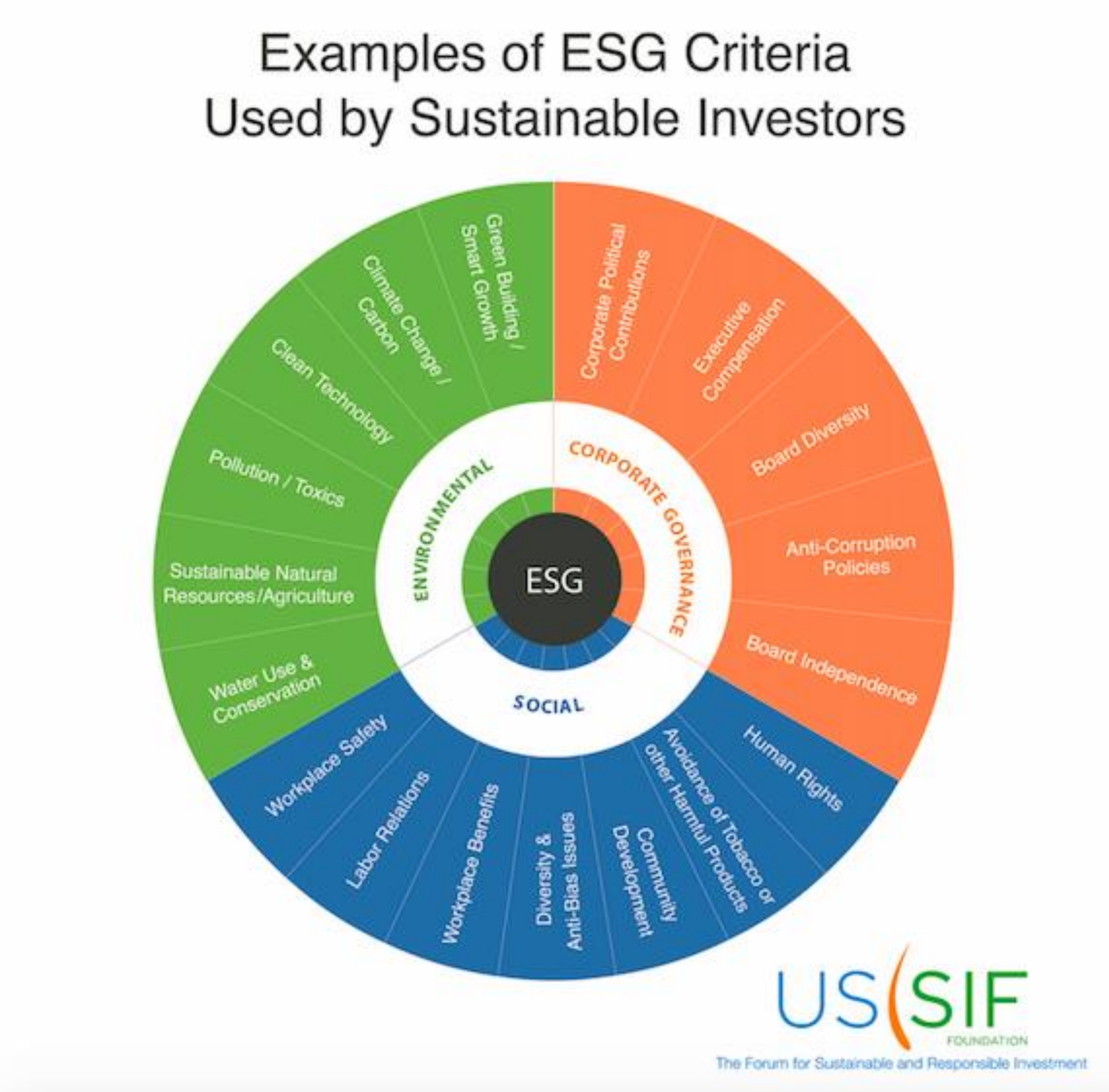
Glossary key terms relating to ESG

<u>ESG = Environmental, Social and Governance:</u>

non-financial indicators/norms used by investors to evaluate corporate behavior and the **performance of investment and fund portfolios on environmental, social and governance criteria**.

<u>Ex:</u> The European Federation of Financial Analysts Societies (EFFAS)'s Key Performance Indicators (KPIs) for ESG: Energy efficiency; Greenhouse gas (GHG) emissions; Staff turnover; Training & qualification; Maturity of workforce; Absenteeism rate; Litigation risks; Corruption; Revenues from new products.



Ex:

Environmental

- climate change
- greenhouse gas (GHG) emissions
- resource depletion, including water
- waste and pollution
- deforestation

Social

- working conditions, including slavery and child labour
- local communities, including indigenous communities
- conflict
- health and safety
- employee relations and diversity

Governance

- executive pay
- bribery and corruption
- political lobbying and donations
- board diversity and structure
- tax strategy

LEARN ABOUT THE SIX PRINCIPLES

SDGs = Sustainable Development Goals:

2030 Agenda for sustainable development (UN initiative)-> The 17 Sustainable Development Goals and 169 targets (in each SDG, a number of specific targets to achieve), a new universal Agenda to build on the Millennium Development Goals (MDGs) and complete what these did not achieve. They are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental.

PRI = Principles of Responsible Investment (UNPRI):

approach to investing that aims to **incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns**.

The six principles of the PRI are a voluntary and aspirational set of investment principles that offer a **menu of possible actions for incorporating ESG issues into investment practice**:

1. *incorporate ESG issues into investment analysis and decision-making processes*
2. *be active owners and incorporate ESG issues into our ownership policies and practices*
3. *seek appropriate disclosure on ESG issues by the entities in which we invest*
4. *promote acceptance and implementation of the Principles within the investment industry*
5. *work together to enhance our effectiveness in implementing the Principles*
6. *each report on our activities and progress towards implementing the Principles*

Different forms of Responsible Investments:

<u>ISR (fr) = SRI = Socially Responsible Investment</u>

(also used "Sustainable investments" or "Socially conscious" investing). Common themes: avoiding investment in companies that produce or sell addictive substances (alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. Socially responsible investments can be made in individual companies or through a socially conscious mutual fund or exchange-traded fund (ETF).

<u>Social Impact:</u>

The effect of an activity on the social fabric of the community and well-being of the individuals and families

<u>Green Bonds</u>:

When the **proceeds from an instrument are used exclusively to finance or refinance green projects**

We recognise several broad categories of eligibility for green projects:

- *Renewable energy*
- *Energy efficiency*
- *Pollution prevention and control*
- *Environmentally sustainable management of living natural resources and land use*
- *Terrestrial and aquatic biodiversity conservation*
- *Clean transportation*
- *Sustainable water and wastewater management*
- *Climate change adaptation*
- *Eco-efficient and/or circular economy adapted products, production technologies and processes*
- *Green buildings which meet regional, national or internationally recognised standards or certifications*

Social bonds:

When the **proceeds from an instrument are used exclusively to finance or refinance social projects**

We recognise several broad categories of eligibility for social projects:

- *Affordable basic infrastructure*
- *Access to essential services*
- *Affordable housing*
- *Employment generation*
- *Food security*
- *Socioeconomic advancement and empowerment*

Ex*amples of target populations include, but are not limited to:*

- *Living below the poverty line*
- *Excluded and/or marginalised populations/communities*
- *Vulnerable groups*
- *People with disabilities*
- *Migrants and/or displaced persons » Undereducated » Underserved » Unemployed*

Sustainability bonds:

When the **proceeds from an instrument are used exclusively to finance or refinance a combination of both green and social projects**

Impact Bonds:

- Development Impact Bonds (DIBs) finance development programs with money from private investors who earn a return if the program is successful, paid by a third-party donor.
- A social impact bond (SIB) is a contract with the public sector or governing authority, whereby it pays for better social outcomes in certain areas and passes on the part of the savings achieved to investors. A social impact bond is not a bond, per se, since repayment and return on investment are contingent upon the achievement of desired social outcome -> tend to be risky investments.

Green Funds:

A green fund **invests more than 75% of its total assets in environment-related sectors** such as

- *Renewable energy*
- *Forestry*
- *Environmental and ecological*
- *Water*
- *Carbon*

Social funds:

A social fund **invests more than 75% of its total assets in social-related sectors** such as:

- *Social impact*
- *Social entrepreneurship and solidarity*
- *Microfinance*

ESG funds:

An ESG fund screens 100% of its portfolio against environmental, social and governance criteria.

Asset managers may implement different investment strategies, which include one or more of the following:

- *Norms-based screening*
- *Multiple exclusions*
- *Best-in-class*
- *ESG integration*

Climate risk:

Climate risk means a risk resulting from climate change and affecting natural and human systems and regions. -> Climate risk management

Climate bond:

Climate bonds are used to finance – or re-finance - projects needed to address climate. They range from wind farms and solar and hydropower plants, to rail transport and building sea walls in cities threatened by rising sea levels. Only a small portion of these bonds have actually been labelled as green or climate bonds by their issuers.

CSR: Corporate Social Responsibility:

The notion that a company **has responsibilities to society that go beyond its legal obligations and its duties to shareholders**. Corporate social responsibility considerations include the company's impact on the environment, any ethical issues arising from its trading or investment practices, and the policies of the company internally, for instance with regard to transparency and the fair and equal treatment of employees

Triple bottom-line accounting (TBL):

A method of **measuring a company's social and environmental impact in addition to its economic value**. Triple bottom-line accounting seeks to appraise not only

- *the conventional 'bottom line' of economic profit and loss but also*
- *a company's 'people account', a measure of corporate social responsibility, and*
- *its 'planet account', a gauge of its environmental impact.*

Social Entrepreneurship:

A form of entrepreneurship in which a company or organization is established to support a defined social goal rather than to pursue maximum profit. Typically, a social entrepreneur recognizes a need not currently met by for-profit business, government, or charity and aims to fill this gap through his or her own initiative, rather than by campaigning against existing business practices or public policy.

Circular Economy:

The CE's goal is the production of goods and services while at the same time reducing the consumption and wastage of raw materials, water and energy sources -> implementing a **new economic system that is circular – not linear – based on the principle of "closing the loop" of the lifecycles of products, services, waste, materials, water and energy.**

UN Global Compact:

voluntary initiative based on **CEO commitments to implement universal sustainability principles** and to take steps to support UN goals. Goal established: to **advance SDGs + Ten principles**:

HRs

- *Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights*
- *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.*

The UN Global Compact is a founding member of the **United Nations Sustainable Stock Exchanges (SSE)** initiative along with the **Principles for Responsible Investment (PRI)**, the **United Nations Environment Programme Finance Initiative (UNEP-FI)**, and the **United Nations Conference on Trade and Development (UNCTAD)**.

HLEG = High Level Expert Group on the Measurement of Economic Performance and Social Progress,

attached to the **OECD**, has been established to follow-up on the recommendations of the Commission on the Measurement of Economic Performance and Social Progress (the Stiglitz-Sen-Fitoussi Commission) and to provide impetus and guidance to the various initiatives currently ongoing on **measuring people's well-being and societies' progress**.

4 substantive areas in measuring economic performance and social progress:

- *Income and Wealth Inequality*
- *Multidimensional and Global Inequalities*
- *Multidimensional Subjective Well-Being*
- *Sustainability*

Environmentally sustainable investment / green investments / eco-investing:

"Environmentally conscious" investing -> serves to fulfil goals of environmental protection, pollution limitation etc.

Climate change mitigation:

permanently **eliminate or reduce the long-term risk and hazards of climate change** to human life, property *-> the stabilization of GHG concentrations in the atmosphere, including through process or product innovation (EU Directive)*

Climate change adaptation:

ability of a **system to adjust to climate change** (including climate variability and extremes) to moderate potential damage, to take advantage of opportunities, or to cope with the consequences. *-> reducing the negative effects of the current and future climate or preventing an increase or shifting of negative effects of climate change (EU Directive).*

Greenwashing (éco-blanchiment):

the use of marketing to portray an organization's products, activities or policies as environmentally friendly when they are not -> misleading of consumers about the environmental benefits of a product or policy through specious advertising, public relations and unsubstantiated claim

Good environmental status:

Marine Directive is to achieve Good Environmental Status of EU marine waters by 2020. The Directive defines Good Environmental Status (GES) as: "The environmental status of marine waters where these provide ecologically diverse and dynamic oceans and seas which are clean, healthy and productive" Article 3 = the different uses made of the marine resources are conducted at a sustainable level, ensuring their continuity for future generations.

EEA = European Environmental Agency:

agency of the EU, whose task is to provide sound, independent information on the environment. The EEA aims to support sustainable development by helping to achieve significant and measurable improvement in Europe's environment, through the provision of timely, targeted, relevant and reliable information to policymaking agents and the public.

Sustainable forest management:

Sustainable forest management means the environmentally appropriate, socially beneficial, and economically viable management of forests for present and future generations (see The "Forest Principles" (non-binding) adopted at UNCED 1992).

EuSEF =

European Social entrepreneurship funds (Regulation (EU) N°346/2013 of the European Parliament and of the Council of 17 April 2013)

LuxFLAG =

The LUXEMBOURG FINANCE LABELLING AGENCY is an independent, non-profit making association created in Luxembourg in July 2006 by seven founding partners who are the Charter Members.

The agency aims to promote the raising of capital for the Responsible Investment sector by awarding a recognisable label to eligible investment vehicles. Its objective is to reassure investors that the applicant invests, directly or indirectly, in the Responsible Investment sector. The applicant may be domiciled in any jurisdiction that is subject to a level of national supervision equivalent to that available in European Union countries.

GIIN =

Global Impact Investing Network is the global champion of impact investing, dedicated to increasing its scale and effectiveness around the world.

LGX =

Luxembourg Green Exchange

The non-exhaustive list below mentions project categories that will generally not be admitted to LGX:

- *Armaments*
- *Tobacco*
- *Gambling*
- *Nuclear power production*
- *Fossil fuels (specifically oil, gas and coal), including 'clean coal'.*
- *Violations to the UN Global Compact*
- *Pornography*
- *Alcohol*
- *Trade in CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)*
- *Animal testing for cosmetic and other non-medical products*

The Sustainable Financial System (SFS)

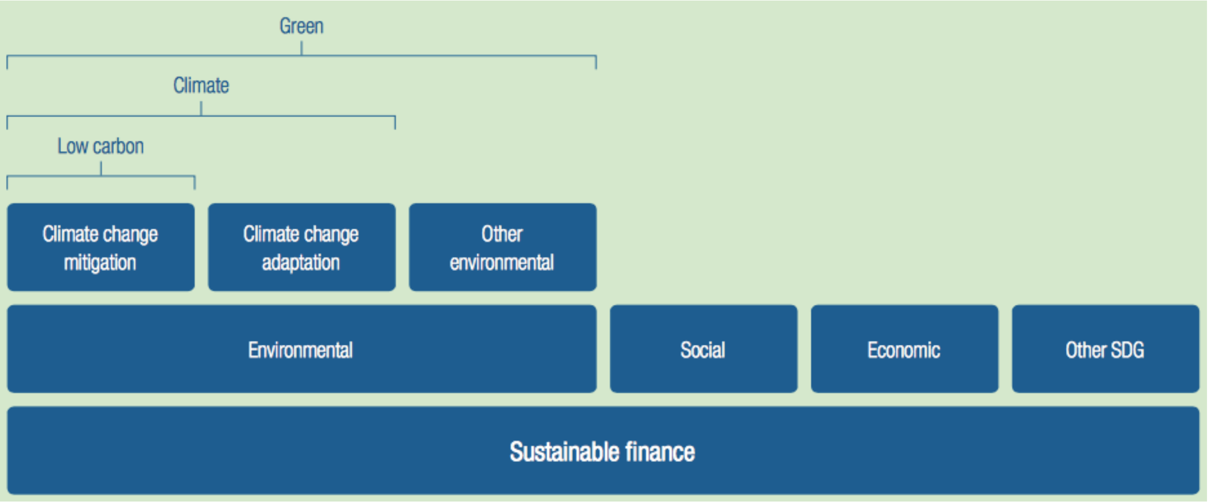
programme focuses on nine key risks and challenges that could undermine a sustainable financial system.

By addressing these we believe we can support a more sustainable financial system:

- ***short-termism****: short-term investment objectives;*
- ***beneficiaries****: attention to beneficiary interests;*
- ***policy makers****: policy maker influence of markets;*
- ***lobbying****: capture of policy by vested interests;*
- ***service providers****: brokers, rating agencies and advisors;*
- ***principal-agent****: relationships in the investment chain;*
- ***culture****: financialisation and rent-seeking;*
- ***misaligned incentives****: with sustainable economic development;*
- ***investor practice****: practices, capacities and competencies.*

Additional useful terms:

- GBP - Green Bond Principles
- GFC - Green Finance Committee
- IEA - International Energy Agency
- REC - Regional energy certificates
- RGGI - Regional greenhouse gas initiative
- SSE - Sustainable Stock Exchanges (initiative)
- UN Environment FI - United Nations Environment Finance Initiative



Arendt and Microfinance

From the very beginning Arendt has been actively involved in the microfinance, social and environmental impact fields.

We have advised on the structuring of the first Luxembourg microfinance fund and since then we have developed very strong expertise in the structuring and day-to-day management of these types of funds.

We are constantly involved in state-of-the-art investing projects. Being the legal advisor of numerous microfinance and impact investing vehicles regulated or unregulated, we have an extensive expertise and a good knowledge of the market in this area.

We are furthermore committed to a number of Luxembourg or international initiatives around responsible finance.

Should you have any questions, please do not hesitate to contact:

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