



## Sustainability-related disclosure: statement on sustainable investment objective

### Introduction

This statement is published by LAGreen (“the Fund”) on its website in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, “the Regulation”). Its purpose is to provide transparency on the promotion of environmental or social characteristics and, as applicable to LAGreen, of sustainable investments<sup>1</sup> on websites. Additional publicly available documents that are related to and complement this statement include:

- [LAGreen statement on consideration of principal adverse impacts on sustainability factors \(December 2021\) in accordance with Article 4 of the Regulation](#)
- [LAGreen statement on integration of sustainability risks \(December 2021\) in accordance with Article 3 of the Regulation](#)

This statement is made on 20th December 2021<sup>2</sup>.

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<sup>1</sup> The Regulation defines ‘sustainable investment’ as, “an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”.

<sup>2</sup> Published on the occasion of the launch of the LAGreen Website.

## 1. Sustainable investment objective of the financial product

LAGreen aims to support positive environmental (particularly related to climate action) and societal benefits through the provision of responsible finance predominantly via green, social and sustainability bonds (“Green Bonds”) in Latin America.

The Fund further strives for systemic impact by contributing to building the green bond market in Latin America through actively engaging relevant stakeholders, setting standards for transparency, and strengthening best practices in environmental, social and governance (ESG) investments. In pursuing such an explicit sustainable investment objective, LAGreen falls within the scope of Art. 9 of SFDR.

In working towards its sustainable investment objective, the Fund is also expected to contribute to the Sustainable Development Goals (SDGs).

## 2. Attainment of the sustainable investment objective

No index has been designated as a reference benchmark. Details on how the continued effort of attaining the environmental impact objective is ensured are provided in the sections concerning investment strategy and monitoring approach.

## 3. (Investment) Strategy to attain sustainable investment objective

**Investment strategy.** The Fund invests in Green Bonds that are issued in adherence to the International Capital Market Association’s relevant Bond Principles (“ICMA BP”)<sup>3</sup> or an equivalent national or international bond standard. In particular, LAGreen aims to support the primary issuance of new Green Bonds by investing in or underwriting such Green Bonds. The Fund may also invest in other products such as green loans.

The Fund will only invest into debt instruments whose proceeds target countries and territories in Latin America eligible to receive official development assistance (ODA) and which are listed in the OECD DAC list of ODA recipients at the time of the respective investment.

**Issuer selection.** The Fund invests in Green Bonds issued by, but not limited to: (i) financial institutions, (ii) special purpose vehicles, (iii) corporates as well as (iv) sovereign and sub-sovereign entities, such as governments or municipalities. Issuers will be selected based on a systematic and rigorous assessment, including the issuer’s alignment with core international sustainability frameworks<sup>4</sup> as well as their capacity and commitment to monitor and report on the environmental and/or social impact of the underlying projects, including qualitative and/or quantitative information (where feasible).<sup>5</sup>

**Use of proceeds.** In line with the Fund’s Investment Guidelines, eligible Green Bonds require specifically earmarked proceeds to be used for projects with environmental and/or societal benefits in the fund’s target region, Latin America, and to be managed in alignment with industry standards.

Eligible Green Bonds shall be issued under a bond framework, which is aligned with the respective ICMA BP and includes an external review. The issuance’s proceeds will have to be utilized for projects

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<sup>3</sup> ICMA Green, Social or Sustainability Bond Principles

<sup>4</sup> Including but not limited to the UN Global Compact, the OECD Guidelines for Multinational Enterprise and the UN Guiding Principles on Business and Human Rights.

<sup>5</sup> In line with its investment strategy, the Fund can also grant green loans to this group of investees.

that are expected to make a positive contribution to the environmental and/or social impact areas defined by the ICMA BP and are to be used in compliance with the LAGreen Exclusion List.

**Technical assistance.** The Fund complements its investment activities with Technical Assistance to support issuers of Green Bonds and facilitate stakeholder engagement to strengthen the overall Latin American Green Bond market.

#### **4. Proportion of investments**

Following the Fund's sustainable investment objective and investment strategy, the entire investment portfolio (excl. cash) is dedicated to meeting the sustainable investment objective.

#### **5. Monitoring of sustainable investment objective**

Progress towards LAGreen's sustainable investment objective is continuously monitored based on a set of sustainability indicators, which align with the Fund's Theory of Change, including:

- % of financing towards green bonds
- % of financing towards social bonds
- % of financing towards sustainability bonds
- 100% bonds invested in alignment with ICMA BP or equivalent
- 100% compliance with the LAGreen Exclusion List

#### **6. Data sources**

For monitoring and management, the Fund draws on a range of data sources, including:

- (Internal) Fund-level data: Covering a range of data points at the Fund and portfolio level, allowing monitoring of the Fund's overall activities related to resource mobilization, financing, and technical assistance.
- Post-issuance reports: Annual allocation report and periodic impact reports of the issuers present a key source of information for the Fund on the use-of-proceeds and positive impacts contributed to.
- External reviews: Green Bond Certifications, SPOs, and other external assurance provide a general indication on the extent of alignment with the ICMA BP or equivalent.
- Fund studies: In collaboration with the Fund's Development Facility, the Fund periodically conducts studies on specific topics and/or investments.

#### **7. Assessment methodologies**

For its monitoring, the Fund largely utilizes first-hand data, such as the annual post-issuance reports and internal Fund monitoring to assess its contribution to the sustainable investment objective.

The Fund may also commission third parties to conduct impact assessments and provide technical assistance to verify and/or enhance reporting.

## **8. Due diligence on underlying assets (concerning the sustainable investment objective of the Fund).**

During the due diligence, the issuer's and issuance's alignment with the Fund's investment strategy is reviewed taking into consideration different elements, such as, expected use-of-proceeds, quality of the issuer's Green Bond Framework and its commitment to impact and good governance standards. Due diligence is supported by impact and sustainability experts of the Fund Advisor, with support of external experts as applicable.

## **9. Engagement approach**

The Fund engages with issuers, including through technical assistance initiatives. Engagement is also facilitated through the Fund Advisor's local representation in the region. The Fund is further committed to actively promoting good governance and transparency standards, both in the selection of investments as well in reporting practices.

The Fund's monitoring system also supports identifying whether an issuer or partner no longer aligns with the Fund's sustainability criteria and allows targeted action.

## **10. No significant harm to the sustainable investment objective**

LAGreen's Environmental, Social and Governance Policy (ESG Policy) places a priority on effectively managing – i.e. avoiding, minimizing and mitigating – environmental and social (E&S) risks and impacts associated with its investments. Therefore, the Fund maintains an environmental and social management system (ESMS) and has incorporated ESG matters into the due diligence on both the use of bond proceeds and the issuer level. Within the investment process, such due diligence aims at ascertaining that proceeds are only allocated to projects and companies that meet the eligibility criteria, the exclusion list, and the ESG requirements defined in LAGreen's ESG Policy and Investment Guidelines. Moreover, during the lifetime of a bond the Fund conducts regular E&S performance monitoring to effectively manage the potential risks of adverse impacts of Fund's investments.

The Fund expects issuers to use the bond proceeds in compliance with the LAGreen Exclusion List. This Exclusion List prohibits the use of funding provided by the Fund for activities with inherent or elevated risk of causing adverse sustainability impacts, such as those related to coal, oil and gas sectors, activities involving child or forced labour, activities associated with the destruction or impairment of areas particularly worthy of protection, among others.

The Fund expects issuers to establish an adequate E&S Management System (ESMS) commensurate with the level of E&S risks of the eligible project categories that would be financed with the Fund's support. Equally, issuers and recipients of bond proceeds (for instances when financial intermediaries are LAGreen's investees and on-lend proceeds) are expected to carry out activities in compliance with national law and in a manner consistent with the IFC Performance Standards and good international industry practice, including relevant World Bank Group Environmental, Health and Safety Guidelines and the principles contained in the UN Global Compact, where applicable. LAGreen Fund is also committed to the core conventions of the International Labor Organization and the International Bill of Human Rights.