Sustainability-related disclosure: statement on integration of sustainability risks

Introduction

This statement is published by the LATIN AMERICAN GREEN BOND FUND S.A., SICAV-SIF (LAGreen, "the Fund") on its website in accordance with Article 3 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial service sector. Its purpose is to provide transparency on LAGreen's policies for integrating sustainability risks into its investment decision-making process. Other publicly available documents that are related to this statement include:

- Statement on adverse sustainability impacts (December 2021) in accordance with Article 4 of the Regulation
- Statement on the promotion of sustainable investment objectives (December 2021) in accordance with Article 10 of the Regulation

This statement is made on 20th December 2021[1].

A sustainability risk is defined as an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment. LAGreen and its investments could be affected by sustainability risks: Environmental, Social and Governance (ESG) risks and incidents associated with business activities and projects financed by bond issuers (counterparties of LAGreen) can have adverse effects on the market value of their assets as well as their financial and earnings situation or cause adverse reputational effects to them. Consequently, if such sustainability risks materialize for the counterparties, these could also trigger negative impacts on the value of LAGreen's investments and therefore to the Fund overall.

[1] Published on the occasion of the launch of the LAGreen Website.

LAGreen's risk management processes (particularly in relation to credit risk management) incorporate the evaluation, ongoing monitoring and control of sustainability risks.

Sustainability risks are also addressed within the overall framework of reputational, legal and ESG risk management, benefiting from LAGreen's strong focus on delivering positive environmental and social impact and supporting good governance practices of the investees.

Context

LAGreen promotes climate change mitigation and adaptation and the delivery of other environmental and societal benefits in Latin America. The Fund's investment strategy focuses primarily on investing in Green Bonds[2] but also encompasses other thematic fixed income products (such as Social Bonds and Sustainability Bonds) that contribute to international development priorities, including the UN Sustainable Development Goals (SDGs). LAGreen may also invest in other products such as green loans.

LAGreen will solely make investments into debt instruments whose proceeds are allocated to 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.

The Green Bonds in which the fund invests must meet LAGreen's eligibility requirements and investment criteria as defined in the Investment Guidelines and in the ESG Policy. Furthermore, Green Bonds and issuers undergo a negative and positive screening and investments are monitored and managed based on internationally recognized ESG standards (such as the IFC Performance Standards, the ILO core conventions and the UN Guiding Principles on Business and Human Rights) for the identification, avoidance and mitigation of adverse impacts and ESG-related risks.

The Fund's investment strategy of focusing primarily on investing into Green Bonds means that the Fund inherently has limited exposure to potentially material sustainability risks through its investments. Nevertheless, national ESG regulations and enforcement in the emerging and transitional economies targeted by the Fund are sometimes weaker compared to developed markets and may be subject to change and reform, which could imply sustainability risks. Moreover, at the time of investing, the issuers may also have limited ESG management capacity and expertise.

Environmental, Social and Governance Risks

LAGreen's ESG Policy places a priority on effectively managing – i.e., avoiding, minimizing and mitigating – ESG risks and impacts associated with its investments.

[2] The term 'Green Bond' in this document is used as a generic term to cover various types of thematic bonds that follow the relevant International Capital Markets Association's principles or any equivalent standard.

The Fund's Board of Directors has overall responsibility for setting the ESG Policy and overseeing its implementation, both directly and via the Investment Committee appointed by the Board. Primary responsibility for day-to-day operational implementation rests with the Fund Advisor[3].

LAGreen expects issuers to use and/or on-lend the bond proceeds (for financial intermediaries) in compliance with the LAGreen Exclusion List. The LAGreen Exclusion List safeguards against the use of funding provided by LAGreen for activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, activities associated with the destruction or impairment of areas particularly worthy of protection, among others. LAGreen expects issuers to establish an adequate Environmental & Social Management System (ESMS) commensurate with the level of environmental and social (E&S) risks of the eligible project categories that would be financed with LAGreen's support. Equally, issuers and recipients of bond proceeds (for financial intermediaries) 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, where applicable. LAGreen is also committed to the core conventions of the International Labor Organization and the International Bill of Human Rights.

LAGreen's investments are subject to E&S screening and categorization. LAGreen's E&S categorization system is closely aligned with those employed as standard by IFC and other development finance institutions. The investment evaluation includes a risk-based E&S due diligence, customized according to the initial E&S risk categorization of the investment and the type of investment (e.g., primary bond issuance, secondary market bond, loan). The due diligence process includes the use of internal and external (publicly available) data to screen for and identify high-risk factors, which may impact the reputational and/or credit risk. Results of the E&S due diligence are presented to responsible decision-making bodies, whose investment decision includes the review of E&S risks. Investments that, in the opinion of the Investment Committee, carry significant residual E&S risks will be escalated to LAGreen's Board.

LAGreen performs risk-based ESG performance monitoring of Green Bonds and issuers (e.g., high-risk investees are monitored more intensively), through ESG information made available by the bond issuers and public information. Where appropriate, third party data providers or consultants may be engaged to support the monitoring of investments and/or to provide independent monitoring reports.

Engagement with issuers is considered by the Fund throughout the investment process. This engagement may address ESG matters and can serve to avoid and mitigate sustainability risks, while the Fund acknowledges that the depth of engagement will vary depending on the product and the Fund's degree of leverage in the transaction.

In addition, LAGreen operates a communications and complaint mechanism to allow project affected persons or other stakeholders to raise concerns or grievances about the ESG aspects of LAGreen's investments. Potentially material sustainability risks of an investment, identified as a result of

[3] LAGreen's Fund Advisor is the impact asset manager Finance in Motion.

LAGreen's Risk Management and ESG performance monitoring, are escalated to the Investment Committee and/or Board of Directors according to the nature of the identified risk.

LAGreen, with support of its Fund Advisor, maintains a formal and documented E&S Management System to implement the policies and procedures described below. This includes clear requirements for E&S-related functional clearances and the documentation and retention of information on internal decision-making. E&S procedures and decision-making are also subject to internal oversight and (at certain intervals) external review.

Assessment of the investees' governance, i.e., its market position, ownership structure, composition, quality and independence of the Board of Directors and Management, and the effectiveness of control standards are integrated into the counterparty creditworthiness assessment. Equally, the investees' approach to consumer protection, the availability of complaints mechanisms, the assessment of unethical business practices, involvement in crime (including bribery and corruption), associations with acts of violence are an integral part of the investee due diligence process.

Governance-related risk management is further complemented through the Fund's AML/CFT framework. The AML/CFT Policy for Investees/Investors defines investee/investors eligibility, as well as detailed KYC procedures and ML/TF due diligence and monitoring requirements for all potential investees/investors, whose scope and frequency are subject to the respective AML risk classification of the counterparty.