

Latin American Green Bond Fund

Sustainability-related disclosures: Statement on sustainable investment objective

(a) Summary

Sustainable investment objective of the financial product: The Fund’s sustainable investment objective is 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.

Considering the Fund’s target regions and specifics of the investment strategy, the Fund has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

No significant harm to the sustainable investment objective: Through its Environmental, Social and Governance (ESG) Management System, LAGreen considers adverse impacts beyond the Principal Adverse Impact (PAI) indicators on sustainability factors outlined in Table 1/Annex I of the SFDR Regulatory Technical Standards (RTS) at each stage of the investment cycle, including the Fund’s investment decision making process. It maintains an ESG Management System including, but not limited to, the Fund’s ESG Policy, Environmental and Social (E&S) exclusion list, and detailed E&S procedures. The LAGreen ESG Management System guides the Fund’s approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Fund is leveraging the PAI indicators to monitor potential adverse impacts of its investees and to inform investment selection. The Fund’s E&S requirements to issuers of bonds in which it invests include obligations to manage adverse impacts of the LAGreen funded activities to avoid significant harm. The issuer’s capacity and commitment to manage and mitigate significant adverse impacts is assessed during due diligence considering international standards, such as the IFC Performance Standards, ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Investment strategy: The Fund works towards its sustainable investment objective by investing in Green Bonds that are issued in adherence to the International Capital Markets Association (ICMA) Bond Principles (BP)¹ or an equivalent 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.

To facilitate contribution to the Fund's sustainable investment objective, the investment strategy stipulates criteria both to guide the selection of issuers and Green Bonds as well as to steer the use-of-proceeds.

Eligibility criteria for the Issuers and Green Bonds reflect considerations of the Fund's sustainable investment objective and principles of good corporate governance.

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. Issuer selection is based on a systematic approach considering the issuer's alignment with core international sustainability frameworks and 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).

The Fund monitors alignment with the eligibility criteria of its investments based on post-issuance reports, such as annual allocation report and periodic impact reports of the issuers.

The Fund's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigation potential negative sustainability impacts.

Core binding elements of the investment strategy used to select the investments to attain the sustainable investment objective relate to:

1. Target countries; and
2. Investment products and terms.

The Fund, guided by its Investment Guidelines, Risk Management Policy, AML/CFT Policy, and ESG Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection of investments, financing and monitoring of bond issuers. Good governance practices – including, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance – are assessed as part of the due diligence and integrated into the Fund's decision making.

¹ ICMA Green, Social or Sustainability Bond Principles

Proportion of investments: The Fund started its investment activities in 2021 and is currently in the ramp up period of its investment portfolio. At the end of this ramp up period, by end 2024, it strives to invest at least 80% of its total net assets in investments considered as sustainable under SFDR considering the annual average. The remaining share can be held in cash and cash equivalent instruments (including cash placements and money market instruments) to reduce the opportunity cost of holding cash. While these investments may not be considered as a sustainable investment within the meaning of the SFDR², the Fund ensures a minimum level of environmental and social safeguards when selecting them. As such, the investments which are not sustainable investments are not expected to affect the delivery of the Fund's overarching sustainable investment objective.

Out of the minimum share of sustainable investments overall, the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy is at least 80%.

Monitoring of sustainable investment objective: In order to monitor the positive impact of its activities, LAGreen has identified a set of indicators, including:

- Share of financing towards green bonds;
- Share of financing towards sustainability bonds;
- Share of bonds invested in alignment with International Capital Market Association's relevant Bond Principles (ICMA BP) or equivalent;
- 100% compliance with the LAGreen Exclusion List

The Fund will also report on its contribution to the Sustainable Development Goals (SDGs) at the SDG target-level.

(b) No significant harm to sustainable investment objective

How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?

Through its Environmental, Social and Governance (ESG) Management System, LAGreen considers adverse impacts beyond the Principal Adverse Impact (PAI) indicators on sustainability factors outlined in Table 1/Annex I of the SFDR RTS at each stage of the investment cycle, including the Fund's investment decision making process. It maintains an ESG Management System including, but not limited to, the Fund's ESG Policy, Environmental and Social (E&S) exclusion list, and detailed E&S procedures.

The LAGreen ESG Management System guides the Fund's approach to assessing, mitigating and monitoring potential adverse impacts at every stage of the investment process. The Fund is leveraging the PAI indicators to monitor potential adverse impacts of its investees and to inform investment selection. The Fund's E&S requirements to issuers of bonds in which it invests include obligations to manage adverse impacts of the LAGreen funded activities to avoid significant harm. The issuer's capacity and commitment to manage and mitigate significant adverse impacts is assessed during due

² Regulation (EU) 2020/852 (Taxonomy) on the establishment of a framework to facilitate sustainable investment

diligence considering international standards, such as the IFC Performance Standards, ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

How are the indicators for adverse impacts on sustainability factors taken into account?

As part of the Fund's approach to managing adverse impacts associated with its investments, the Fund considers and collects information on the PAI indicators outlined in Table 1/Annex I of the SFDR RTS. Assessment of PAI indicators is integrated into due diligence and monitoring. The Fund uses proxies and tools to estimate performance against the PAI indicators where data gaps exist.

Are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

LAGreen is committed to respecting human rights as defined by the International Bill of Human Rights and to the core conventions of the International Labor Organization (ILO). The Fund's ESG due diligence process, which is conducted on both use of bond proceeds and issuer level, is a key tool for identifying potential adverse impacts related to human rights, corruption and bribery and taxation. The issuer's capacity and commitment to avoid causing harm is assessed during due diligence in line with the international standards, such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

For more details, please refer to the [LAGreen statement on the integration of principal adverse impacts](#).

(c) Sustainable investment objective of the financial product

What is the sustainable investment objective of the financial product?

The Fund's sustainable investment objective is 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.

Considering the Fund's target regions and specifics of the investment strategy, the Fund has not designated a reference benchmark for the purpose of attaining the sustainable investment objective.

(d) Investment strategy

What investment strategy does this financial product follow?

The Fund works towards its sustainable investment objective by investing in Green Bonds that are issued in adherence to the International Capital Market Association's relevant Bond Principles ("ICMA BP") 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.

To facilitate contribution to the Fund's sustainable investment objective, the investment strategy stipulates criteria both to guide the selection of issuers and Green Bonds as well as to steer the use-of-proceeds.

Eligibility criteria for the Issuers and Green Bonds selection reflect considerations of the Fund's sustainable investment objective, and include issuer's alignment with core international sustainability frameworks, their capacity and commitment to monitor and report on the environmental and/or social impact of the underlying projects and alignment with principles of good corporate governance.

Positive and negative criteria for the Green Bonds and use-of-proceeds include:

1. In line with the Fund's Investment Guidelines, eligible Green Bonds require specifically earmarked proceeds to be used for projects with environmental or, to a lesser extent, societal benefits in the fund's target region, Latin America, and to be managed in alignment with industry standards.
2. Eligible Green Bonds shall be issued under a bond framework, which is aligned with the respective ICMA BP and includes an external review.
3. Investments have to follow the Fund's Exclusion List, which prohibits financing activities with inherent or elevated sustainability risk, such as those related to coal, oil and gas sectors, activities involving child or forced labor, and those involving the destruction of high conservation value areas, among others.

The Fund monitors alignment with the eligibility criteria based on post-issuance reports, such as annual allocation report and periodic impact reports of the issuers.

The Fund's investments can be complemented by tailored capacity building and technical assistance to enhance positive impact as well as on building investee capacity on managing and mitigation potential negative sustainability impacts.

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

What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?

Core binding elements of the investment strategy used to select the investments to attain the sustainable investment objective relate to:

1. Target countries; and
2. Investment products and terms.

What is the policy to assess good governance practices of the investee companies?

The Fund, guided by the LAGreen Investment Guidelines, Risk Management Policy, the AML/CFT Policy, and the ESG Policy, is committed to actively promoting good governance, integrity, and transparency standards in its selection of investments, financing and monitoring of bond issuers. Good governance practices – including, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance – are assessed as part of the due diligence and integrated into the Fund’s decision making.

Does this financial product consider principal adverse impacts on sustainability factors?

- Yes
 No

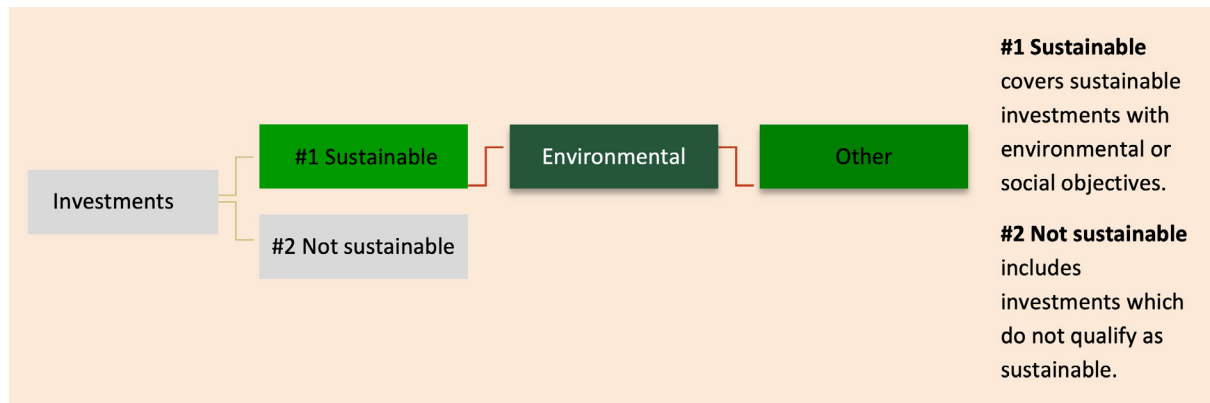
Through its ESG Management System, LAGreen considers adverse impacts beyond the PAI indicators on sustainability factors outlined in Table 1/Annex I of the SFDR RTS at each stage of the investment cycle, including the Fund’s decision-making process.

Investments are subject to initial screening and comprehensive due diligence processes which support the Fund in identifying potential adverse impacts and in assessing the issuer’s capacity and commitment to address and mitigate against these impacts of eligible projects. Results of the due diligence form a part of the investment proposal and are presented to the Investment Committee. If the ESG due diligence determines that additional measures are required for the issuer to meet LAGreen’s ESG requirements, these are presented in the investment proposal as well as potential engagement measures to support the issuer in meeting LAGreen’s requirements, commensurate to the Fund’s leverage on the investment transaction and with the issuer. Issuers are excluded from financing if they are not considered to have the capacity to manage potential adverse impacts.

Regular risk-based monitoring of the issuer’s E&S performance is considered crucial in order to effectively manage the potential risks of potential adverse impacts of the Fund’s investments. 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 financed by the Fund in compliance with national laws and in a manner consistent with – among others – the IFC Performance Standards and the ILO Fundamental Conventions. Monitoring makes use of publicly available reports from the issuer, media screenings, ESG data providers and third-party consultants, as required.

(e) Proportion of investments

What is the planned asset allocation for this financial product?



The Fund started its investment activities in 2021 and is currently in the ramp up period. At the end of this ramp up period, by end 2024, it strives to invest at least 80% of its total net assets in investments considered as sustainable under SFDR (#1 Sustainable) considering the annual average.

What is the minimum share of investments with an environmental objective aligned with the EU Taxonomy?

LAGreen invests in economic activities that are expected to contribute to the following environmental objective set out in the Article 9 of the Taxonomy Regulation: (a) climate change mitigation; (b) climate change adaptation.

The minimum extent to which the Fund’s sustainable investments are aligned with the EU Taxonomy constitutes 0%. Considering the Fund’s target region (implying a different regulatory context) and investment strategy, availability of data to demonstrate alignment is limited. The Fund will strive to work with issuers (and data providers) to enhance data coverage and to the extent feasible assess and disclose the share of Taxonomy-aligned investments.

What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

In line with the Fund’s sustainable investment objective and focus towards environmental impacts, out of the minimum share of sustainable investments overall, the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy is at least 80%.

What investments are included under “#2 Not sustainable”, what is their purpose and are there any minimum environmental or social safeguards?

The Fund's assets not qualifying as sustainable investments under the SFDR can be held in cash placements and money market instruments for liquidity purposes, falling under the scope "#2 Not sustainable". In addition, attaining the sustainable investment objective in its target region requires the Fund to provide investments in currencies suitable for these countries (in local currency, or in hard currency other than the Fund's currency) as well as in interest rate structures that do not necessarily match the interest rate structures paid to investors. In these cases, the Fund may use derivatives for the purpose of hedging currency risk and interest rate risks. By doing so, derivatives enable the Fund to make sustainable investments that would not have been possible otherwise.

Given the Fund's evergreen structure this position might at times fluctuate beyond the level implied above, for example due to high portfolio repayments, or to mismatches between the timing of onboarding new investors (for example, the Fund has limited influence on the exact timing of funding subscriptions from public investors and on tranching this funding) and disbursements of the Fund's investment in the target region.

While these investments may not be considered as a sustainable investment within the meaning of the SFDR, the Fund ensures a minimum level of environmental and social safeguards, when selecting cash placement and money market counterparties and instruments. As such, the investments which are not sustainable investments are not expected to affect the delivery of the Fund's overarching sustainable investment objective.

(f) Monitoring of sustainable investment objective

What sustainability indicators are used to measure the attainment of the sustainable investment objective by this financial product?

In order to measure the positive impact of its activities, LAGreen has identified a set of indicators, including:

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

How are the sustainable investment objective and the sustainability indicators monitored throughout the lifecycle of the financial product and what are the related internal/external control mechanisms?

The expected positive impacts are assessed ex-ante and are continuously monitored at the portfolio level as well as for each investment throughout its lifecycle. Where appropriate, studies and/or relevant proxies can be utilized to support the Fund's monitoring of investments.

For more information on the Fund's impact monitoring approach and LAGreen's investment activities please see:

- [LAGreen Website](#)
- [Fund Advisor's Disclosure statement to the Operating Principles for Impact Management](#)

(g) Methodologies

What is the methodology to measure the attainment of the sustainable investment objective using the sustainability indicators?

For a large proportion of its monitoring, LAGreen utilizes primary data, such as data from issuers' reporting or internal Fund monitoring data. The primary source for all fund's impact KPIs is the issuer's reporting. In order to assess and monitor its environmental impact, the Fund may also apply the following assessment methodologies:

- **Modelling:** The Fund may integrate primary data with third-party data to estimate environmental indicators. For the estimations, the Fund would align with international standards and methodologies, such as the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting and its corresponding supporting standards.
- **Studies:** The Fund may commission third parties to conduct impact assessments and provide technical assistance to verify and/or enhance the issuers' reporting.

(h) Data sources and processing

What are the data sources used to attain the sustainable investment objective of the financial product including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?

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

- **(Internal) Fund-level data:** Aggregated in the internal data management tools of the Fund Advisor. The data covers a range of data points at Fund and portfolio level, allowing monitoring of the Fund's overall activities related to resource mobilization, financing, and technical assistance.
- **Pre-issuance reports:** On a preliminary basis, data provided by the issuer about the envisaged allocation of proceeds may be used to estimate the fund's impact, subject to plausibility checks. This data will be substituted by post-issuance reports as soon as they are ready.
- **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, Second Party Opinion ("SPO"), 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 may conduct studies on specific topics and/or investments.

- Third-party data and technical parameters: In order to perform additional analysis, parameters on environmental impacts the Fund might draw on third-party evidence, incl. scientific research and international organizations' data.

The proportion of data that is estimated is limited.

(i) Limitations to methodologies and data

What are the limitations to the methodologies and data sources? (Including how such limitations do not affect the attainment of the sustainable investment objective and the actions taken to address such limitations)

Considering the Fund's target regions and investment strategy, the availability of the external data for monitoring of the attainment of the Fund's sustainable investment objective is limited. To address this limitation and to ensure that it does not affect the capacity to measure and monitor the attainment of the sustainable investment objective, input data on the abovementioned sustainability indicators is collected from the issuer's allocation and impact reporting. Additionally, independent assessments from consultants and verification bodies may be made available by the issuer or other public sources. To avoid potential uncertainties in measuring and monitoring the attainment of the Fund's sustainable investment objective, the data reported to the Fund is reviewed by the Fund Advisor's expert teams.

(j) Due diligence

What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?

Assessing the potential of an investment to contribute to the Fund's sustainable investment objective follows a two-step approach in the pre-investment phase:

- During pre-screening, the investment's alignment with the Fund's requirements is assessed. This relates to minimum requirements regarding ESG aspects, alignment with international standards for Green Bond issuance, such as the ICMA Principles, as per the Fund's Issue Document and Investment Guidelines.
- During the due diligence phase, the investment is assessed with regards to the binding elements of the Fund's investment strategy related to the eligibility criteria and positive and negative screening criteria for the use of proceeds. In addition, for each investment the alignment with the Fund's impact objectives is reviewed, taking into consideration different elements such as the issuer's sustainability strategy, characteristics of the bond issuance, quality of the impact reporting and the Fund's specific impact contribution. The due diligence also includes the identification of potential adverse impacts and an assessment of the issuer's capacity and commitment to address and mitigate against these impacts. The Fund assesses the bond issuer's own ESG due diligence practices and capacities.

(k) Engagement policies

Is engagement part of the investment strategy?

Engagement with issuers is an integral component of the Fund’s investment process and central to managing the Fund’s achievement of its sustainable investment objective.

The Fund engages with issuers, including through technical assistance initiatives. The Technical Assistance Facility is intended to assist in the development of the Green Bond market in the target countries by, among others, assisting issuers of Green Bonds to meet the highest market standards, assisting in the dissemination of best practices in environmental, social and governance investments in target countries and potentially organizing events and training programs relating to Green Bonds.

(l) Attainment of the sustainable investment objective

Has a reference benchmark been designated?

Yes

No

Annex

Version history	
Version date	Description of the change
20 December 2021 ³	First publication in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, “the Regulation”)
19 December 2022	Update of the statement in line with the final Regulatory Technical Standards (RTS) in accordance with Article 10 of SFDR

³ Published on the occasion of the launch of the LAGreen Website.