Sustainable Finance Disclosure Regulation

Entity level sustainability risk disclosure

Introduction

This statement is based on the requirements as set out in the Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFDR) specifically relating to the integration of sustainability risks and principal adverse impacts (PAIs).

This statement describes how *Fonds de compensation commun au régime général de pension* (FDC) ensures that sustainability risk information is assessed and integrated into investment decision-making processes of its umbrella fund *Fonds de Compensation de la Sécurité Sociale, SICAV-FIS* (SICAV) and whether and how PAIs are addressed.

Description of sustainability risks and PAIs

FDC considers sustainability risks to be environmental, social and governance events or conditions whose occurrence could have an actual or potential material negative impact on the value of an investment (and hence on the net asset value of portfolios and returns). Examples of sustainability risks include climate-related and environmental risks, poor governance practices and/or significant social issues which can impact the value of an investment in a number of ways, for example, through physical, policy or technology risks or through changes in consumer preferences. Similarly, climate risks can be identified across asset classes, sectors and geographies or on the basis of length and maturity and can be experienced through a business's activities and/or through its operations. To summarise, sustainability risk refers to events or circumstances in the environmental, social and corporate governance spheres that could have a definite or potential adverse effect on the value of portfolios if they occurred.

The SICAV's portfolios are exposed to potential sustainability risks. These sustainability risks are integrated into investment decisions to the extent that they represent an actual or potential material risk, with the aim of minimising the impacts of these risks on a portfolio's return. Within traditional indexed portfolios, the identification and management of sustainability risks and their impact on the return are generally derived by the benchmark, especially in the context that the SICAV does not allow off-benchmark positions.

A PAI is any impact of investment decisions that results in a negative effect on sustainability factors, such as environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters.

Under the SFDR requirements, it should be reported on a predefined list of PAI indicators, which consists of 18 mandatory indicators (14 applicable to corporate issuers, 2 are specific to sovereign and supranational issues, and 2 to real estate) and over 40 optional indicators covering additional environmental and social factors. PAIs should be disclosed at product level and at entity level.

Considerations

FDC invests long-term and globally and therefore believes it can benefit from a healthy and sustainable economy. As an institutional asset owner, FDC is aware of its ecological, social and good governance responsibilities. As a consequence, such considerations are being taken into account in the investment strategy as well as in investment decisions. However, this does not mean that all the SICAV's investments are necessarily disclosing under article 8 or article 9 under the SFDR regulation.

FDC had already started to formalise a responsible investor policy as early as 2010 applicable to its SICAV. At the beginning of 2011, an exclusion list based on international conventions ratified by the Grand Duchy of Luxembourg and covering the fields of environment as well as institutional, social and joint responsibility was implemented. At the same time, FDC proactively started to pay more attention to sustainable criteria and aspects in its public tenders aiming to mandate external asset managers. For example, in 2012, the first mandate with an investment approach exclusively based on ESG criteria was awarded.

To draw up a transparent inventory of its responsible investor policy and publicly confirm its commitment as a responsible investor, FDC's first Sustainable Investor Report was published in 2020. Today, FDC's responsible investor policy has further evolved and deepened and is based on several pillars, covering different themes and at varying levels of granularity. The second edition of FDC's Sustainable Investor Report, published in early 2025, exposes given pillars in detail.

The implementation of the pillars of FDC's responsible investor policy allows lessening adverse impacts of the SICAV's investments on society and the environment and some of them help to focus on ESG sustainability risks in the SICAV's portfolios. The application of ESG analysis and stewardship activity to a portfolio, for example, can result in improvements to corporate behaviour, and though the exclusion of a company from a portfolio for violation of FDC's exclusion policy applicable to the SICAV may not reduce societal impacts, it may protect the portfolio from related risks. Ultimately, the materiality of an ESG risk will depend on the investment strategy implemented by the SICAV's asset managers, timeframe of the investment, underlying investment universe, as well as other factors.

FDC believes that analysing investments using ESG criteria helps take into account a wider set of risks and opportunities, which in turn, helps make better-informed investment decisions. In other words, FDC's fiduciary duty is aligned with sustainability.

Sustainability topics can be imperfectly or differently understood, under-researched or inefficiently priced, with inconsistent levels of disclosure. Against this background, integrating ESG factors into investment analysis and decision-making helps asset managers to identify and assess areas of risk.

Within the scope of the SICAV's investments, actively managed strategies and some indexed strategies disclose under article 8 or article 9 while some other strategies are not disclosing under article 8 or 9.

FDC's approach to sustainable investing, ESG and PAIs

At entity-level, FDC's relies on the following pillars:

1. Responsible business conduct and exclusions: since 2011, FDC puts into practice a normative exclusion of companies that do not comply with international standards as enshrined in the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct as well as in their underlying conventions and treaties. These cover human rights, the environment, international labour standards and the fight against corruption. Equally excluded are companies involved in controversial weapons as well as companies deemed to have a status of being "under observation for an extended period" with "no concrete prospects of improvement". FDC's exclusion list applicable to the SICAV can be accessed through following link: https://fdc.public.lu/en/investissement-responsable/liste-exclusion-fdc.html

2. ESG integration: FDC is delegating the management of its assets to external portfolio managers, chosen through European public tenders, that are committed to responsible investing as an organisation. Hence, FDC integrates since 2010 sustainable aspects and criteria during the selection process of its asset managers. During 2017, the integration of a sustainable approach into the investment strategy offered by a tendering company has become mandatory for the SICAV's actively managed mandates.

   Consequently, the SICAV's asset managers are all professionally set up and specialised to assess and evaluate financial and extra-financial risks deemed relevant and they do all have robust in-house ESG teams. Within the SICAV's actively managed mandates, ESG criteria are integrated in the financial analysis and portfolio construction process, mostly via dedicated ESG approaches. In addition, consideration of specific carbon criteria or targets, proprietary exclusions or sustainable certifications are often part of an active asset manager's approach. In this way, FDC can for example regularly evaluate ESG scores assigned to portfolios and compare their relative performance.

   Irrespective of FDC's exclusion list to be bindingly applied by the SICAV's asset manager, asset manager specific exclusion criteria are applied and function as an additional layer within sustainability risk mitigation.

   Finally, the SICAV's asset managers pursue engagement policies that are in general consistent with the sustainability goals they publicly support and carry out engagement activities with investments part of the mandates they manage. This allows for example to address adverse impacts to society and the environment from corporations. For more information, please refer to the SDFR pre-contractual and website disclosures at product level: https://fdc.public.lu/en/investissement-responsable/approches-durables-gerants-fdc.html

   For more information, please also refer to FDC's Sustainable Investor Reports and Sustainable Investor Factsheets: https://fdc.public.lu/en/publications.html

3. Transparency and quality control through certifications: whilst the implemented sustainable approaches of the SICAV's asset managers may vary, FDC endeavours to implement overarching criteria. These criteria are the LuxFLAG label eligibility criteria as well as the voluntary compliance of the SICAV with the SFDR regulation in the interest of transparency and to be able to report in a predefined and standardised format, notably on whether and how PAIs are considered and managed in the investment approach of the SICAV's asset managers. For more information, please refer to the SDFR pre-contractual and website disclosures at product level: https://fdc.public.lu/en/investissement-responsable/approches-durables-gerants-fdc.html

   This being said, the FDC does not predefine the type, scope and impact of a sustainable approach on the investment strategy proposed to the SICAV and the sustainable approaches can therefore take different forms (positive or negative screening, specific ESG approach (for example best-in-class), thematic investments, etc.). This approach allows an asset manager to tender with the strategy it deems most appropriate in relation to the tendered mandate and the SICAV's needs while remaining in compliance with the investment restrictions and guidelines imposed by the SICAV.

   Transparency and quality of its non-financial reporting is very important to FDC. When establishing product level disclosures (e.g. SFDR pre-contractual, website as well as periodic disclosures), the FDC is dependent on the data that an asset manager (and its service provider(s)) is(are) able to provide. FDC is and will therefore be in constant dialogue with the SICAV's asset managers to improve, as the case might be, product level disclosures and to ensure that the latter are of the highest possible quality and exhaustiveness. At entity level, FDC does report on mandatory PAIs, as detailed in Appendix 1, by using the services of an external service provider.

4. Create positive impact: FDC has set up within the SICAV various strategies to create positive impact:

   - dedicated investments in green bonds to finance projects with a positive impact on the environment;
   - dedicated investments in companies that intend to generate a social or environmental impact, in addition to a financial return;
   - dedicated investments complying with the Paris Agreement to limit global warming to 2°C;
   - dedicated investments in infrastructure assets with a clear focus on clean energy.

5. Climate analyses and inherent risk monitoring: on an individual basis, detailed analysis and assessment of climate metrics and risks are carried out by the SICAV's asset managers. The use of external service providers or tools allows FDC to have a more consolidated and independent view of climate metrics and risks and appropriate means to monitor and assess them. FDC regularly assesses and publishes following elements in relation to the SICAV's portfolios:

   - climate metrics and footprints;

- analysis of transition trajectories and energy mixes and their alignment with global warming scenarios;
- exposure to fossil fuel activities;
- exposure to stranded asset risk;
- exposure to physical risk;
- exposure to transition risk.

For more information, please refer to FDC's Sustainable Investor Reports and Sustainable Investor Factsheets: https://fdc.public.lu/en/publications.html

6. FDC's responsible investor policy puts particular emphasis on engagement and values asset managers that actively seek dialogue with companies and who have established a consistent and wide-ranging engagement policy. In addition and from an asset owner perspective, FDC's engagement policy is put into practice through a membership of the IIGCC and by being signatory to the Climate Action 100+ initiative as a supporting asset owner.

Above pillars ensure that sound governance, monitoring and risk management is in place to steer, assess, evaluate and mitigate non-financial risk.

Integration of sustainability risks in the remuneration policy.

This is not applicable as FDC's SICAV is administered by FDC staff only.

APPENDIX 1

<table>
<tr><th colspan="3">CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</th></tr>
<tr><td rowspan="9">Greenhouse gas emissions</td><td rowspan="4">1. GHG emissions</td><td>Scope 1 GHG emissions</td></tr>
<tr><td>Scope 2 GHG emissions</td></tr>
<tr><td>Scope 3 GHG emissions</td></tr>
<tr><td>Total GHG emissions</td></tr>
<tr><td>2. Carbon footprint</td><td>Carbon footprint</td></tr>
<tr><td>3. GHG intensity of investee companies</td><td>GHG intensity of investee companies</td></tr>
<tr><td>4. Exposure to companies active in the fossil fuel sector</td><td>Share of investments in companies active in the fossil fuel sector</td></tr>
<tr><td>5. Share of non-renewable energy consumption and production</td><td>Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources</td></tr>
<tr><td>6. Energy consumption intensity per high impact climate sector</td><td>Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector</td></tr>
<tr><td>Biodiversity</td><td>7. Activities negatively affecting biodiversity-sensitive areas</td><td>Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas</td></tr>
<tr><td>Water</td><td>8. Emissions to water</td><td>Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average</td></tr>
<tr><td>Waste</td><td>9. Hazardous waste and radioactive waste ratio</td><td>Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average</td></tr>
<tr><th colspan="3">INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS</th></tr>
<tr><td rowspan="5">Social and employee matters</td><td>10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises</td><td>Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises</td></tr>
<tr><td>11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</td><td>Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises</td></tr>
<tr><td>12. Unadjusted gender pay gap</td><td>Average unadjusted gender pay gap of investee companies</td></tr>
<tr><td>13. Board gender diversity</td><td>Average ratio of female to male board members in investee companies, expressed as a percentage of all board members</td></tr>
<tr><td>14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)</td><td>Share of investments in investee companies involved in the manufacture or selling of controversial weapons</td></tr>
</table>

INDICATORS APPLICABLE TO INVESTMENTS IN SOVEREIGNS AND SUPRANATIONALS		
Environmental	15. GHG intensity	GHG intensity of investee countries
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law
INDICATORS APPLICABLE TO INVESTMENTS IN REAL ESTATE ASSETS		
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets