LATIN AMERICAN GREEN BOND FUND

S.A., SICAV-SIF

Environmental, Social and Governance (ESG) Policy

Document control

Date of approval	Version number
20 September 2021	Initial version
5 April 2022	Second version
18 September 2024	Third version
5 December 2024	Fourth version (AIFMD in-scope updates)

Environmental, Social and Governance Policy

Introduction

1. The Latin American Green Bond Fund S.A., SICAV-SIF ('LAGreen' or 'Fund') is an impact fund that 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 Green Bonds[1] 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). The Fund may also invest in other products such as green loans to corporates and green credit lines to financial intermediaries. Importantly, LAGreen also provides technical assistance to strengthen and shape the continuing development and sustainability of Latin America's Green Bond market.

2. Potential clients and bond issuers include, but are not limited to, (a) financial institutions (FIs); (b) special purpose vehicles (SPVs); (c) corporates; and (d) sovereign and sub-sovereign entities. In all cases, financing must be specifically earmarked for investment in climate-related projects or projects that address other eligible sustainable development criteria as set out in the Fund's Investment Guidelines.

3. Alongside its sustainable development and positive impact objectives, the Fund is committed to responsible investment including the integration of Environmental, Social and Governance (ESG) factors into its investment decisions as set out in this ESG Policy. This ESG Policy aims to ensure that:

   - the Fund's investments do not cause or contribute to significant adverse ESG impacts; and
   - the Fund is protected from ESG-related risks that could have a material negative impact on LAGreen's financial performance and/or reputation.

4. The development of the Fund's ESG approach was guided by the sustainability policy of LAGreen's initiator (in place at the time of the initiator's initial investment)[2], international best practice frameworks such as the UN Principles for Responsible Investment (PRI) and the IFC Performance

---

[1] The term 'Green Bond' in this document is used as a generic term to cover Social Bonds, Sustainability Bonds and other types of thematic bonds that follow the relevant International Capital Markets Association's principles or any equivalent standard as well as to other financial instruments (e.g. green loans) that are included in the Fund's Investment Guidelines.

'Green Bonds' means any debt securities and any instruments whose proceeds are used for projects or activities that support verifiable climate and/or environmental benefits and follow the criteria and guidelines of the Green Bond Principles.

'Social Bonds' means any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects in accordance with the Social Bond Principles.

'Sustainability Bonds' means bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects in accordance with the Sustainability Bond Guidelines.

[2] KfW's Sustainability Guidelines as of February 2021.

Standards. It considers relevant regulatory frameworks including the minimum social safeguards of the EU Taxonomy for Sustainable Activities.

5. In particular, the ESG policy is underpinned by the following principles:
   - ESG risks and impacts associated with investments and the use of proceeds are identified, evaluated and managed;
   - ESG risks and adverse impacts on the environment and communities are avoided, and, if the latter is not feasible, minimized, mitigated, remediated or offset. If significant residual risks remain and it is not technically or financially feasible to remediate social and human rights impacts and offset environmental impacts that may occur, the investment will not proceed;
   - Project affected communities are appropriately informed and consulted, and particular care is taken to safeguard the rights of vulnerable and disadvantaged people; and
   - Continuous improvement of ESG risk management is promoted at the Fund- and issuer-level.
6. The ESG Policy is an integral part of the Fund's investment strategy and impact framework and applies in conjunction with other Fund and Alternative Investment Fund Manager (AIFM)[3] policies such as the Investment Guidelines, Complaints Management Policy, Impact Framework, and Risk Management Policy. Notwithstanding, in case of contradiction between this Policy and the Fund's Issue Document, the Issue Document shall prevail.
7. The ESG Policy will be subject to review by the AIFM every two years.

Key policy commitments

8. LAGreen places a priority on the effective management of ESG risks and impacts associated with its investments. The Fund therefore commits itself to incorporate ESG factors into its investment decision-making and monitoring processes to identify and manage (i) actual or potential principal adverse impacts of its investments on the environment and society and (ii) sustainability risks[4] that could have a material negative impact on the Fund's financial performance and/or reputation, throughout the entire investment cycle and lifetime of the investment. ESG factors considered by the Fund may include, but are not necessarily limited to, impacts related to climate change, pollution, biodiversity, human rights, occupational and community health and safety, labor and working conditions, indigenous peoples, and cultural heritage. Corporate governance factors include issues such as board composition and function, protection of minority shareholders, disclosure and transparency, and codes of ethics and conduct.
9. The Fund is committed to the ten principles on corporate sustainability established by the UN Global Compact and to respecting human rights as defined by the International Bill of Human Rights. Furthermore, LAGreen applies the IFC Performance Standards and the fundamental

[3] The entity appointed by the Board to act as investment manager of the Fund.

[4] Sustainability risk refers to an ESG event or conditions that, if it occurs, could cause a negative material impact on the value of the investment.

conventions of the International Labour Organisation (ILO) as reference frameworks for assessing and monitoring the environmental and social risks associated with its investments.

10. LAGreen is committed to actively promoting good ESG performance, integrity and transparency standards in its financing activities. The Fund aims to foster principles of good corporate governance in the investees' ownership and management structures.
11. To implement this ESG Policy, the Fund has established a formal ESG management system. The ESG management system guides the screening, risk assessment, performance management of issuers and investments, and stakeholder engagement. The ESG management system is further explained below and will be maintained, implemented and continuously improved throughout the Fund's lifespan.

ESG requirements for use of proceeds and issuers

12. The Fund has established exclusion criteria that define the types of projects that will not be financed by the Fund based on ESG considerations (see Annex 1 of this Policy).
13. Bond proceeds must be solely allocated to eligible projects in accordance with this Policy and the Investment Guidelines. The Fund expects issuers to execute eligible projects in compliance with applicable laws and in a manner consistent with the IFC Performance Standards or another equivalent standard[5], the applicable principles of the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights (UNGPs) and the fundamental conventions of the ILO.
14. Issuers are expected to follow applicable laws and regulations and to operate at a satisfactory level of ESG performance. This includes maintaining appropriate ESG policies, management systems and reporting practices. In addition, the Fund will only consider investment in transition bonds[6] if the issuer has a credible strategy in place to support the transition to a low carbon economy.
15. The requirements applicable to an investment by the Fund are based on the version of this Policy that is valid at the time of investment approval for such transaction.
16. The Fund may consider providing an issuer with access to its Technical Assistance Facility to develop a Green Bond and/or to strengthen its ESG management arrangements and capacity in order to achieve the ESG requirements established by this ESG Policy.

[5] E.g. World Bank Environmental and Social Standards, standards set in the Inter-American Development Bank Environmental and Social Policy Framework.

[6] Transition bonds in this Policy refers to Green Bonds to finance assets that are in the scope of the Fund issued by (i) corporates whose business activities are traditionally not considered aligned with the Paris Agreement or other Environmental Conventions but that are on a path to adapt its business model to make a positive contribution to the transition to a low carbon economy and/or reduce environmental impacts; (ii) FIs with significant exposure to business activities that are not considered aligned with the Paris Agreement or other Environmental Conventions but which are committed to align their lending and investment portfolios to the goals of the Paris Agreement or other Environmental Conventions.

17. When participating in a bond issuance, the Fund may accept alternative ESG standards and requirements set by the issuer and applicable to all bondholders (in line with the principle of equal treatment of investors) provided that these alternative standards and/or requirements are consistent with the objectives and principles of this ESG Policy (see paragraphs 3 and 4).

LAGreen's ESG management system

18. The Fund maintains an ESG management system to implement this ESG Policy with the support of the ESG professional capacity and expertise of the AIFM. The ESG management system includes dedicated procedures, guidance materials and reporting protocols.

19. The procedures set out in the ESG management system are summarized in paragraphs 21-33 below. The AIFM's investment process will follow these procedures.

20. The AIFM maintains and updates the Fund's ESG management system and is responsible for the operationalization of ESG screening, due diligence, reporting and engagement on ESG matters with the bond issuer. The AIFM may delegate in full or in part the implementation of the ESG function to Finance in Motion GmbH[7]. In case of delegation, the AIFM will remain accountable and will monitor the performance of the delegates by establishing reporting lines and conducting periodic reviews, considering proportionality and risks. The AIFM will ensure that relevant staff of the AIFM or its advisors receives ESG training appropriate to their roles and responsibilities in the ESG management system.

ESG assessment

21. In accordance with the ESG management system, all prospective investments undergo an ESG assessment by the AIFM which includes a review of country- and sector-specific ESG risks as well as ESG due diligence on the issuer and E&S assessment of the use of proceeds. Whereas the assessment covers both the issuer and the use of proceeds, the focus for investment decision-making is on the use of proceeds. The assessment procedure includes initial categorization, negative screening and positive screening.

22. An **E&S categorization** system[8] is applied at an early stage in the investment cycle. Green Bonds are categorized as follows, according to their individual risk profile and type of activities, assets and/or projects to be financed as per the issuer's thematic bond framework:

    a) Bonds issued by corporates, SPVs, sovereigns, sub-sovereigns: A (high risk), B (medium risk) and C (low risk)

    b) Bonds issued by FIs: FI-1 (high risk), FI-2 (medium risk) and FI-3 (low risk)

[7] Whereas the ESG function will remain the responsibility of the AIFM and its affiliates, specific tasks or activities (e.g. E&S due diligences in specific transactions) may be delegated to external consultants.

[8] The assessment of Governance aspect relies on information collected during the credit and AML risk assessments, which are covered by the Fund's Risk Management Policy and the Fund's Investee AML CFT Policy, respectively.

23. The AIFM's ESG due diligence follows a risk-based approach based on this initial categorization. The higher the anticipated level of ESG risks and impacts of the eligible projects, the more scrutiny will be applied in subsequent phases of the ESG assessment process. Where relevant, the AIFM may retain external consultants to assist in the appraisal of specialized issues.

24. The process, methods and depth of the AIFM's ESG due diligence as well as the level of assurance possible may differ depending on the type of product, which may include green loans, primary market bonds (private placements and public offerings) and secondary market transactions. The product determines to a large extent the level of access to ESG related information and the degree of influence that the AIFM has in order to assess the issuer's ESG performance, identify potential ESG impacts linked to use of proceeds and negotiate ESG-related terms and conditions for the investment. While applying a risk-based approach, in some transactions (e.g. secondary market bonds), the AIFM may rely exclusively on publicly available information for conducting the ESG assessment. In such cases, the ESG assessment will focus on critically reviewing the available information, also taking into account additional market knowledge, where possible. If the available information does not enable the AIFM to conduct an adequate ESG assessment, the investment will not proceed.

25. After initial categorization, the AIFM conducts negative screening at both issuer level and use of proceeds level.

26. **Negative screening on issuer level** aims to exclude potential issuers that have significant exposure[9] to or are involved in activities with significant adverse ESG impacts, including production of or trade in: (i) weapons or munitions; (ii) tobacco; (iii) pornography and/or prostitution; iv) alcoholic beverages (except beer and wine) and (v) gambling, casinos and equivalent enterprises. The AIFM will also exclude potential issuers that have been involved in material ESG controversies, specifically serious violations of national laws or international norms regarding human rights, labour rights, anticorruption, corporate governance and the environment. Negative screening draws on publicly available information and data from ESG research providers.

27. **Negative screening of the use of proceeds** aims to ensure that the Fund does not finance prohibited activities as set out in the Exclusion List at Annex 1.

28. Following negative screening, the AIFM undertakes **positive screening** to assess eligible projects' ESG risks and impacts and evaluate the issuers' ESG performance and management capacity. Positive screening includes assessing the issuer and the use of proceeds against relevant ESG standards:

    a) Use of proceeds: eligible projects comply with applicable environmental and social laws and regulations, and are carried out in a manner consistent with the IFC Performance Standards,

[9] For corporate issuers, significant exposure is defined as more than 10% share in earnings from excluded activities, for FI issuers, the significant exposure is defined as more than 10% of commulative portfolio exposure to clients generating more than 10% of their earnings from excluded activities.

fundamental ILO conventions, applicable World Bank Group EHS Guidelines as well as key principles of OECD Guidelines and UNGPs, climate change risk assessment guidelines, as applicable.

b) Issuer: alignment with UN Global Compact, key principles of OECD Guidelines, and UNGPs. The AIFM may use proprietary ESG research and ratings from external service providers for assessing issuer ESG performance.

29. Positive screening may result in the identification of ESG performance gaps that could require additional studies, further monitoring and/or opportunities to improve the issuer's ESG management approach with support from the Technical Assistance Facility.

30. ESG due diligence results, conclusions and recommendations are a formal element in the AIFM's decision making. The Fund will invest only if (a) the issuer meets LAGreen's ESG requirements (see paragraphs 12-14), and (b) significant adverse ESG risks or impacts associated with the use of proceeds will be adequately managed (see paragraph 28a).

Engagement

31. The AIFM's engagement approach post-investment includes monitoring ESG performance (mainly through publicly available information), and, to the degree possible, engaging with issuers regarding specific ESG factors with the goal of advancing issuers' ESG policies and strategies. The depth of engagement will vary depending on the product and the Fund's degree of leverage in the transaction.

32. ESG performance monitoring of Green Bonds will be based primarily on ESG information made available by the bond issuers, post-issuance ESG ratings from external service providers, media screening and engagement with issuers. ESG monitoring will also aim to identify E&S incidents.

33. Engagement is a key component of the Fund's response to ESG controversies. If there is evidence of serious violations of ESG norms that result in a material risk for LAGreen, the AIFM will engage with the issuer to encourage and support the implementation of remedial measures. If engagement efforts are unsuccessful, the AIFM may (to the extent permitted by, amongst others, the product, underlying documentation and applicable laws and regulations) seek legal remedy and/or consider divestment in line with the Fund's Investment Guidelines.

Governance of ESG matters

34. The Board of Directors is responsible for approving this ESG Policy and any changes to it. The Board oversees the Fund's E&S performance via scrutiny of periodic management reports.

35. Given the importance of the Fund's ESG commitments, the AIFM or its affiliates designate an ESG manager who is responsible for ESG policy implementation.

36. The AIFM appoints a Complaints Handling Officer who ensures that systemic or recurrent complaints, including their cause, are being identified, and that complaints are treated in accordance with the procedures described in the Complaints Management Policy.

37. The AIFM implements this Policy by reviewing and considering ESG risks and impacts in specific investment decisions and at portfolio level, in line with the requirements established by this ESG Policy. The Fund shall ensure the AIFM's Investment Committee has adequate experience in ESG aspects.
38. The AIFM may define additional criteria excluding investments with respect to geographies, types of issuer or use of proceeds, if justified by ESG controversies in the Fund's current portfolio, emerging practice of other funds and/or additional market intelligence.
39. Primary responsibility for day-to-day implementation of the ESG Policy and the ESG management system rests with LAGreen's AIFM. The Fund will determine adequate capacity for ESG management with the AIFM in line with the AIFM Agreement.

Reporting and accountability

40. The Board of Directors and shareholders receive annual reports prepared by the AIFM on the implementation and effectiveness of the Fund's ESG Management System and the Fund's compliance with this ESG Policy.
41. Material E&S incidents identified by or reported to the AIFM may be informed to the Board of Directors.
42. The Fund makes relevant ESG information available to the public via its website and publications in various ways: (a) the Fund's ESG Policy as well as any regulatory disclosures, particularly in relation to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), are published on its website; (b) summary information on the ESG performance of the Fund is included in the Fund's annual report.
43. The AIFM maintains a complaints mechanism to enable third parties to raise any concerns about LAGreen's compliance with this Policy and/or the ESG impact of LAGreen's investments. The complaints mechanism can be accessed via email (AIFMComplaints@finance-in-motion.com) or on LAGreen's or the AIFM's public website, where the process for submitting and handling complaints is described.

Annex 1: Exclusion List

I. Exclusions

The Fund does not finance the following projects:

1. Production or trade in any product or activity subject to national or international phase-out or prohibition regulations or to an international ban, for example
   i) certain pharmaceuticals, pesticides, herbicides, PCB's (Polychlorinated Biphenyls) and other toxic substances (under the Rotterdam Convention, Stockholm Convention and WHO "Pharmaceuticals: Restrictions in Use and Availability"),
   ii) ozone depleting substances (under the Montreal Protocol),
   iii) protected wildlife or wildlife products (under CITES / Washington Convention)
   iv) prohibited transboundary trade in waste and waste products (under the Basel Convention).
2. Investments which could be associated with the destruction[1] of High Conservation Value areas[2].
3. Production or trade in munitions, weapons and critical components thereof (nuclear weapons and radioactive ammunition, biological and chemical weapons of mass destruction, cluster bombs, anti-personnel mines, enriched uranium).
4. Production or trade in alcoholic beverages (excluding beer and wine).[3]
5. Production or trade in tobacco.[3]
6. Gambling, casinos and equivalent enterprises.[3]
7. Production or trade in radioactive material. This does not apply to the procurement of medical equipment, quality control equipment or other application for which the radioactive source is insignificant and/or adequately shielded.
8. Production or trade in unbound asbestos. This does not apply to the purchase or use of cement linings with bound asbestos and an asbestos content of less than 20%.
9. Unsustainable or destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 km.
10. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
11. Prospection, exploration, mining and processing of coal; the production of gas by carbonization of coal, land-based means of transport and related storage and infrastructure essentially used

[1] "Destruction" means (i) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or or (ii) modification of a habitat in such a way that the area's ability to maintain its role is lost.

[2] High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see http://www.hcvnetwork.org).

[3] For companies, significant exposure is defined as more than 10% share in earnings from excluded activities, for FIs, the significant exposure is defined as more than 10% of commulative portfolio exposure to clients generating more than 10% of their earnings from excluded activities.

for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines.[4]

12. Prospection, exploration, extraction and production of oil (upstream), transport and storage infrastructure for crude oil, oil terminals and oil harbours as well as refineries.
13. Prospection, exploration, extraction and production of natural gas (upstream), new construction of natural gas grids and pipelines, vessels for the laying of natural gas pipelines, LNG liquefying terminals as well as production facilities for grey hydrogen (steam reforming of fossil fuels, without the use of CCS).
14. Construction of new or refurbishment of any existing HFO-only or diesel-only power plant producing energy for the public grid and leading to an increase of absolute CO2 emissions.
15. Extraction of peat and electricity generation from peat.
16. Forced or child labor.
17. Pornography and/or prostitution.
18. Racist and/or anti-democratic media.

All Financial Intermediaries (FIs), except those engaged in activities specified below*, must apply the following exclusions, in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor[5]/harmful child labor.[6]
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

* When investing in **microfinance** activities, FIs will apply the following items in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor[5]/harmful child labor.[6]

[4] Investments in power transmission grids with significant coal-based power feed-in will only be pursued in countries and regions with an ambitious national climate protection policy or strategy (NDC), or where the investments are targeted at reducing the share of coal-based power in the relevant grid.

In developing countries, heating stations and cogeneration facilities (CHP) essentially fired with coal can be co-financed in individual cases based on a rigid assessment, if there is a particularly high sustainability contribution, major environmental hazards are reduced, and if there demonstrably is no more climate-friendly alternative.

[5] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[6] Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

* **Trade finance projects**, given the nature of the transactions, FIs will apply the following items in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor[5]/harmful child labor.[6]

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

II. Supplementary Requirements

In selected sectors, the Fund ties its direct financial commitment for new projects to the following qualitative conditions:

1. Outside the EU and the OECD high income countries, large agricultural or forestry enterprises producing palm oil or wood must either comply with recognised international certification systems (RSPO or FSC) or equivalent regulations to ensure sustainable cultivation conditions or must be in the process of achieving compliance.
2. Large dam and hydropower projects use the recommendations of the World Commission on Dams (WCD) as orientation.[7]

[7] Dams with a height of at least 15 meters measured from the foundation or dams with a height between 5 and 15 meters with a reservoir volume of more than 3 million cubic meters.

Annex 2: E&S requirements for green loans

1. When the Fund invests in green loans to corporates and green credit lines to financial intermediaries, the AIFM shall ensure that the ESG policy requirements, an E&S action plan (if applicable) and reporting requirements on ESG performance and material ESG incidents will be included in the financing agreement with the borrower.

   1. The Fund will only invest if:

      - identified material adverse ESG impacts or performance gaps are sufficiently mitigated or resolved; or,
      - the borrower has agreed to an E&S Action Plan to address the identified material adverse impacts or gaps within a reasonable timeframe.

   2. For corporate, Project Finance or similar loans associated with high-risk activities (Category A), the Fund will engage qualified independent external experts to support the due diligence against the relevant IFC PS and good international practice, such as the World Bank Group EHS Guidelines.

   3. The Fund shall request that for investments in high risk and moderate Project Finance and/or project-related corporate loans, where an ESIA is required by applicable law, the borrower makes publicly available a Non-Technical-Summary of the main E&S risks and impacts and proposed mitigation measures, including details of the stakeholder engagement process, in a manner consistent with IFC PS 1.