LUX IM – MUZINICH SHORT TERM CREDIT

Sustainability-related disclosures required for Article 8 financial products under the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector

Preamble

LUX IM – MUZINICH SHORT TERM CREDIT ("the Sub-fund") invests in securities of issuers that contribute to the Sub-fund's promoted environmental and social characteristics (such as but not limited to biodiversity; greenhouse gas emissions; natural resource use; community relations; health and safety; human rights; audit practices; corporate accountability and disclosures) in line with the Sub-fund's defined environmental, social and governance (hereinafter "ESG") investment strategy. In particular, the Sub-fund applies a negative screening through an industry exclusion list and certain conduct-related criteria to avoid investing in companies which the Investment Manager considers to be fundamentally unsustainable. The Sub-fund also adheres to a weighted average carbon intensity target. Moreover, the portfolio investments are also required to take account of good governance practices.

The Sub-fund does not invest in issuers that qualify as sustainable investment in accordance with Article 2 (17) of Regulation (EU) 2019/2088 ("SFDR").

The Sub-fund is not considering the EU criteria for environmentally sustainable economic activities as defined under the EU Taxonomy Regulation to determine the attainment of the sustainable environmental or social characteristics that it promotes.

The Sub-fund invests 80% of its net assets to investments that are aligned to the promoted environmental and social characteristics.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-fund.

Sustainable Finance Disclosure Regulation Level 2 – Website Disclosure

Section	Regulatory Requirements	Disclosure
Summary **Article 25 – SFDR II**	In the website section 'Summary' referred to in Article 24, point (a), financial market participants shall summarise all the information contained in the different sections referred to in that Article about the financial products that promote environmental or social characteristics. The summary section shall have a maximum length of two sides of A4-sized paper when printed.	Please refer to the standardized 2 pager summary https://www.bgfml.lu/site/en/home/sustainable.html
	The website section 'Summary' referred to in Article 24, point (a), shall be provided in at least the following languages: (a) one of the official languages of the home Member State and, where different and where the financial product is made available in more than one Member State, in an additional language customary in the sphere of international finance; (b) where the financial product is made available in a host Member State, one of the official languages of that host Member State.	
No sustainable investment objective **Article 26 – SFDR L2**	In the website section 'No sustainable investment objective' referred to in Article 24, point (b), financial market participants shall insert the following statement: "This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment."	This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.
	Where the financial product commits to making one or more sustainable investments, financial market participants shall in the website section 'No sustainable investment objective' referred to in Article 24, point (b), explain how the sustainable investment does not significantly harm any of the sustainable investment objectives, including all of the following:	
	▪ how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex I, are taken into account;	
	▪ whether the sustainable investment is aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.	
Environmental or social	In the website section 'Environmental or social characteristics of the financial product' referred to in Article 24, point (c), financial market	The Sub-fund invests in securities of issuers that contribute to the Sub-fund's promoted environmental and social characteristics (such as but not limited to biodiversity; greenhouse gas emissions; natural

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characteristics of the financial product **Article 27 – SFDR L2**	participants shall describe the environmental or social characteristics that the financial products promote.	resource use; community relations; health and safety; human rights; audit practices; corporate accountability and disclosures) in line with the Sub-fund's defined environmental, social and governance (hereinafter "ESG") investment strategy. In particular, the Sub-fund applies a negative screening through an industry exclusion list and certain conduct-related criteria to avoid investing in companies which the Investment Manager considers to be fundamentally unsustainable. The Sub-fund also adheres to a weighted average carbon intensity target. Moreover, the portfolio investments are also required to take account of good governance practices.
Investment strategy **Article 28 – SFDR L2**	In the website section 'Investment strategy' referred to in Article 24, point (d), financial market participants shall describe all of the following:	
	▪ the investment strategy used to meet the environmental or social characteristics promoted by the financial product;	The investment objective of the Sub-fund is to generate an attractive positive return on a risk-adjusted basis over the medium to long term by investing, either directly or indirectly, in high yield (i.e.: sub-investment grade bonds) corporate bonds and/or investment grade corporate bonds issued by US, European and emerging market issuers. The Sub-fund generally targets an average duration to worst (i.e.: for callable bonds assuming a bond is repaid at the date most advantageous to the issuer, even before the maturity date) of no more than 3 years; but, due to market conditions, the average duration to worst may at times be as high as 4 years. The ESG analysis of the target issuers relies on internal research activity complemented with external research and data from specialised external providers and encompasses the following binding elements. The Investment Manager integrates the ESG analysis within the investments' selection process, as follows: ▪ Negative screening: exclusion of target issuers involved in controversial conduct and/or activities; ▪ Carbon efficiency ▪ Consideration of principal adverse impacts
	▪ the policy to assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance.	The Investment Manager considers good corporate governance practices to be fundamental to the ongoing success and resilience of the businesses it invests in and it therefore believes such consideration to be essential to its investment due diligence, research and ongoing monitoring of potential and realized investments. In the Investment Manager's Responsible Investment Policy it commits to considering and integrating important ESG factors into its investment decisions. Furthermore, the Investment Manager sources data from external service providers to assess companies' governance and alignment with principles, standards or conventions such as those which underly the UN Global Compact, the ILO Convention, the UN Guiding Principles on Business and Human Rights as they relate to human rights, labour rights, environmental considerations and business integrity matters such as anti-corruption and corporate transparency. The Investment Manager has appointed an internal ESG Eligibility Committee to determine whether it may invest in a company deemed to have severely breached, or to be at high risk of breaching, these principles.
Proportion of investments	In the website section 'Proportion of investments' referred to in Article 24, point (e), financial market participants shall insert the information referred to in Article 14 and shall distinguish between direct exposures in investee entities and all other types of exposures to those entities.	The Sub-fund invests 80% of its net assets to investments that are aligned to the promoted environmental and social characteristics.

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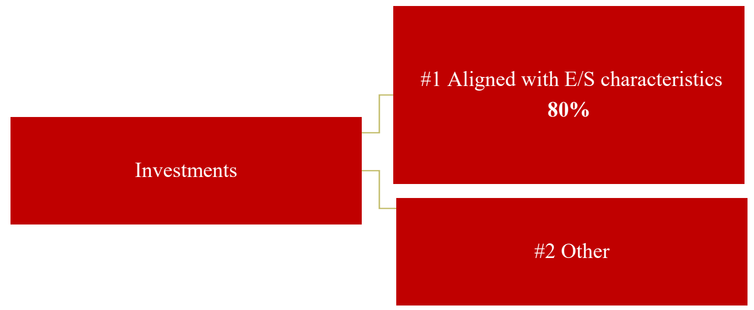
Article 29 – SFDR L2		 *#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.* *#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.* The remaining investments of the Sub-fund ("#2 Other") may be invested in (i) ancillary cash and cash equivalents for liquidity purposes within the limits prescribed by applicable laws , (ii) derivatives which may be used for hedging and investment purposes as per the applicable provisions of the Investment Policy of the Sub-fund; (iii) securities of issuers not aligned with the promoted environmental or social characteristics and may be used within the Sub-fund's investment objective of attractive positive return on a risk-adjusted basis over the medium to long term. The Investment Manager believes that these holdings do not relate directly to a specific issuer and therefore do not relate to the management of sustainability risks and/or principal adverse sustainability impacts. The Investment Manager does not believe therefore that it would be possible to make a meaningful determination on considerations relating to minimum environmental or social safeguards, in part due to the lack of relevant data relating to such instruments.
Monitoring of environmental or social characteristics **Article 30 – SFDR L2**	In the website section 'Monitoring of environmental or social characteristics' referred to in Article 24, point (f), financial market participants shall describe how the environmental or social characteristics promoted by the financial product and the sustainability indicators used to measure the attainment of each of those environmental or social characteristics promoted by the financial product are monitored throughout the lifecycle of the financial product and the related internal or external control mechanisms.	The Investment Manager integrates the ESG analysis within the investments' selection process, as follows: **Negative Screening** Exclusion of target issuers that: ▪ are involved in severe controversies according to the United Nations Global Compact; ▪ are involved in specific activities (according to specific thresholds applied to the revenues deriving from such activities) o controversial and nuclear weapons; o conventional weapons; o adult entertainment; o coal; o tobacco; o gambling

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		Carbon Efficiency Target issuers having complied with the negative screening are further assessed for their carbon emissions comparing the percentage margin between the weighted average carbon intensity of the portfolio and that of a comparable investable universe of securities to determine whether the Sub-fund meets or breaches its carbon efficiency criteria. **PAI consideration** The Sub-fund considers Principal Adverse Impacts ("PAIs") during the investment decision process. The typical approach to integrating consideration of sustainability risks and PAIs is to integrate relevant ESG factors alongside more traditional financial factors as part of the due diligence, research and ongoing monitoring of individual target issuers. The Investment Manager's consideration of PAIs is guided by monitoring the mandatory indicators provided in Regulation (EU) 2022/1288, Annex 1, Table 1 relating to SFDR. As a result of assessing PAIs at an issuer and Sub-fund level, the Investment Manager may decide to set restrictions and targets at the Sub-fund level, and ultimately may exclude certain issuers from being eligible for investment on the basis of PAIs metrics. As a result, it is possible that consideration of PAIs may restrict certain investments relative to a strategy which does not consider PAIs, however the overall impact on the Sub-fund is likely to be negligible. The Investment Manager's consideration of PAIs is based on its understanding and expectations of the materiality of certain PAIs in relation to specific industries, regions and jurisdictions in which issuers operate, and also on the availability of data on such PAIs. More information on how PAIs are considered during the reference period will be made available in the periodic reporting of the Sub-fund.
Methodologies for environmental or social characteristics **Article 31 – SFDR L2**	In the website section 'Methodologies for environmental or social characteristics' referred to in Article 24, point (g), financial market participants shall describe the methodologies to measure how the social or environmental characteristics promoted by the financial product are met.	In order to attain the promoted environmental and social characteristics, the eligibility of target issuers is assessed based on the above-described negative screening, Carbon efficiency procedures, and consideration of principal adverse impacts (see ´Monitoring of the sustainable investment objective´). Internal controls are in place in respect of investment decision making for the Sub-fund. These include, but are not limited to, pre-trade and post-trade controls to ensure all binding elements are observed at all times and independent oversight by risk management functions as required.
Data sources and processing **Article 32 – SFDR L2**	In the website section 'Data sources and processing' referred to in Article 24, point (h), financial market participants shall describe all of the following:	
	▪ the data sources used to attain each of the environmental or social characteristics promoted by the financial product; ▪ the measures taken to ensure data quality; ▪ how data are processed; ▪ the proportion of data that are estimated.	The process of gathering and processing ESG data is specialized and resource intensive. Muzinich's analysts collect financial and non-financial information as part of their research process. They have also partnered with independent ESG data providers to source ESG data including raw ESG metrics; ESG scores and rankings; involvement in controversial products, incidents or business conduct; greenhouse gas emissions data; climate risk data; and data required for regulatory disclosures. We may also source data from government and non-governmental organisations, academic sources and other publicly available sources. Muzinich primarily sources ESG data from external data providers. They are committed to reviewing data sources at least every two years to ensure they are able to source high quality relevant data in a cost-effective manner. Members of their ESG Integration Group review options for data provider services

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		and the ESG Advisory Group members make final recommendations to partner with specific providers. Among our considerations for ESG data providers are the data accuracy, timeliness, coverage, the quality of insight they bring; the efficiency with which we can process the data and the general user-friendliness of the data platforms offered. The Investment Manager integrate directly and indirectly sourced ESG data into our trading, research and reporting systems to support the implementation of the Fund's ESG policies. Procedures for monitoring, executing and reporting on ESG policies is increasingly automated by Muzinich's IT systems and is overseen by relevant teams as described. The Investment Manager note that a significant proportion of such data is modelled or estimated due to factors including gaps in corporate reporting and the need to extrapolate certain data points in order to generate more forward-looking metrics. They recognize the need to reduce the rate of estimated ESG metrics and frequently engage both data providers and issuers to improve the quality of ESG data.
Limitations to methodologies and data **Article 33 – SFDR L2**	In the website section 'Limitations to methodologies and data' referred to in Article 24, point (i), financial market participants shall describe all of the following:	
	▪ any limitations to the methodologies referred to in Article 24, point (g), and to the data sources referred to in Article 24, point (h);	Muzinich understands that considerations relating to sustainability can be highly complex, subjective, and reliant on imperfect information provided by issuers and third-party data providers. While they do not believe this is a reason to disregard such information, they recognize the need to constantly monitor and improve methodologies, procedures and data sources to ensure our approach to sustainable investment is robust. Muzinich consider some of the limitations to sustainability-related methodologies and data to include: • Gaps in corporate sustainability reporting can lead to imperfect ESG research coverage. • Complex corporate structures can lead to mapping of ESG data points to the wrong entity. • Third party ESG scoring methodologies favour more comprehensive ESG reporting which may tilt ESG scores towards larger public entities. • Sustainability impacts and PAI factors are context specific and oversimplified methodologies for measuring such factors can cause poor understanding of actual financial or non-financial impacts. • The delay in corporate ESG disclosures and processing of those disclosures by ESG data providers means that ESG data is inherently backwards looking. • The complexity and interconnectedness of ESG factors means that reduction of multiple underlying ESG indicators into a small number of metrics rarely provides a complete picture of sustainability risks. • Models created to estimate ESG information are reliant on a variety of assumptions which may prove to be incorrect. Muzinich is mindful of the need to engage issuers and ESG data providers to enhance the provision of timely, robust and comparable ESG data. They also seek to educate the research team on the materiality of certain ESG factors and understanding of ESG best practice among corporates. To consolidate the backward-looking nature of ESG data with the need to consider long term sustainability concerns they may use scenario analysis to plot a range of possible outcomes.

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	▪ how such limitations do not affect how the environmental or social characteristics promoted by the financial product are met.	Based on the details above, there is no material effect on the attainment of the environmental or social characteristics promoted by the Sub-fund identified.
Due Diligence **Article 34 – SFDR L2**	In the website section 'Due diligence' referred to in Article 24, point (j), financial market participants shall describe the due diligence carried out on the underlying assets of the financial product, including the internal and external controls on that due diligence.	In order to qualify for initial investment, the investments must comply with the binding elements applied by the Sub-fund. This compliance has to be ensured by the Investment Manager through pre-trade compliance mechanism in place.
Engagement policies **Article 35 – SFDR L2**	In the website section 'Engagement policies' referred to in Article 24, point (k), financial market participants shall describe the engagement policies implemented where engagement is part of the environmental or social investment strategy, including any management procedures applicable to sustainability-related controversies in investee companies.	Muzinich is mindful of the need to engage issuers and ESG data providers to enhance the provision of timely, robust and comparable ESG data. The theory of change is that engagement is generally a more powerful tool than outright divestment from an entity except in cases where we apply specific exclusion policies or where they consider meaningful changes in ESG practices a result of engagement to be unrealistic. As corporate debt investors, Muzinich do not typically hold rights to vote on a company's management practices. Nevertheless, as a lender of capital for critical business expenditures and growth, they can express opinions about and exert a certain amount of influence over the businesses that we lend to. They believe it is important to use this influence and engage with companies in the investment universe to actively identify, manage, and mitigate ESG business risks and/or minimize negative impacts on the environment or society. • Muzinich is committed to using engagement as a key responsible investment tool to manage severe ESG risks and impacts relating to the companies they invest in. • They are committed to participating in collaborative engagements either as a signatory to high-level engagement letters, or as a participant or leader in investor collaborations with issuing entities. • They are committed to transparency around our engagement procedures, our priority engagement themes, and information about the progress of our engagement activities including data and case studies. • They are committed to engaging with public policy makers as the primary drivers of sustainability-related policy for both corporates, and financial market participants. • They are committed to engaging investors to educate and better understand their requirements relating to ESG.
Designated reference benchmark – Optional **Article 36 – SFDR L2**	In the website section 'Designated reference benchmark' referred to in Article 24, point (l), financial market participants shall describe whether an index has been designated as a reference benchmark to meet the environmental or social characteristics promoted by the financial product, and how that index is aligned with the environmental or social characteristics promoted by the financial product, including the input data, the methodologies used to select those data, the rebalancing methodologies and how the index is calculated.	No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-fund.