

# SUSTAINABLE FINANCE



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# 01

## CLIMATE CHANGE: THE CHALLENGE FACING US ALL

This generation faces challenges on an unprecedented scale. The eradication of poverty and the fair distribution of global resources are reflected in the United Nations Sustainable Development Goals, but they are both dependent on a third and even greater challenge: the fight to halt global warming. The combat against climate change can only be successful if every country, company, and household is prepared to contribute towards achieving a low-carbon global economy.

The COP 21 Paris Agreement signed by 185 countries in 2015 and ratified the following year in Marrakech, marked a turning point in the scale of sustainable finance. The Agreement was premised on the need to mobilise \$100 billion annually between now and 2020 and a total \$1 trillion by 2030 in order to keep global warming under 2°C.

Governments are not capable of financing all of these goals alone, and that is where the financial sector has a major role to play. By committing to sustainable finance, the financial sector can have a multiplier effect.

The Grand Duchy of Luxembourg is fully committed to the goal of transforming itself and assisting others in the transition to a low-carbon global economy. There is a broad social and political consensus that the time to integrate these goals into policy frameworks, and everyday decision-making, is now.

The private sector can contribute by attracting new pools of funding and responding to investor demand for social impact and ecological accountability.

Sustainable finance refers to any form of financial service integrating environmental, social, and governance (also referred to as ESG) criteria into business or investment decisions for the lasting benefit of both clients and society at large.

Luxembourg supports the UN Sustainable Development Goals:



## LUXEMBOURG IS COMMITTED TO A SUSTAINABLE FUTURE

Luxembourg has a full domestic climate finance agenda and is resolute in meeting the Paris Agreement and UN Sustainable Development Goals targets. It meets its UN commitments, and contributes 1% of its GDP to development aid.

But that is only part of the picture. The country is also committed to making an international contribution to securing a sustainable future. Thanks to an infrastructure that provides the ideal platform, the Luxembourg financial centre can assist companies, government agencies, and investors around the world to meet their own sustainable development targets.

A sizeable proportion of the country's standing overseas development commitments are already delivered through long standing cooperative relationships with the Luxembourg financial centre, which has in consequence developed into a global leader in many sustainable finance sectors.

Today, Luxembourg is the primary centre for listing green bonds and the leading European domicile for impact funds. It is also the long-standing world leader in the area of cross-border distribution.

In recent years the financial markets have developed instruments that are specifically designed to raise public money for development goals.

Luxembourg has been at the forefront of this development, thanks to close cooperation between the public, private, and civil society sectors. The local sustainable finance ecosystem is furthermore stimulated by the presence of the European Investment Bank (EIB), the world's largest lender, and an expert in public-private investment projects. The Luxembourg financial centre has built up an ecosystem that is uniquely suited to raising international capital for responsible investment.

“

*If you have on the one side the political will to be very active in the fight against climate change and on the other hand you have a thriving financial centre with all the professional expertise and experience readily available, it would be remiss not to combine these and make a meaningful contribution to the financing of action against global climate change.*

”

**Marc Bichler,**

Ambassador at Large for Climate Finance and  
President of the Climate Finance Task Force.

Luxembourg's major achievements in sustainable finance include:

- **The Green Bond capital of the world**

Over 50% of all green bonds are listed in Luxembourg and the local stock exchange features the Luxembourg Green Exchange (LGX), the world's first platform dedicated exclusively to green securities, provides issuers and investors with an environment where they can come together to fulfil their green objectives.

- **The leading European sustainable investment funds domicile**

Luxembourg is the leader in European responsible investment fund assets, accounting for 31% of funds and 39% of all assets under management<sup>1</sup>. Furthermore, two out of every three impact investment funds in Europe are domiciled in the Grand Duchy<sup>2</sup>.

- **Finance labelling: a commitment to quality**

Luxembourg hosts LuxFLAG, the finance labelling agency, providing clarity, and confidence to investors in sustainable investment funds and international financial instruments.

- **A leader in microfinance vehicles**

Luxembourg has a history of commitment to the microfinance sector, and 61%<sup>3</sup> of all microfinance vehicle assets are domiciled in the Grand Duchy.

- **Philanthropy: putting wealth to work**

The presence of the *Fondation de Luxembourg*, a public-private partnership that provides a third party facility for setting up private foundations. Projects fall under one of five themes: health, social cohesion, diversity, universal education, and climate change.

- **Empowering others through financial knowledge transfer**

Luxembourg hosts the ATTF-House of Training, which co-finances training programmes around the world, strengthening financial structures, building capacity, and supporting sustainable development in over 40 markets.

<sup>1</sup> KPMG/Broadridge data, 2017

<sup>2</sup> KPMG/Broadridge data, 2015

<sup>3</sup> Symbiotics/LuxFLAG study, 2015





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## DEFINING CHARACTERISTICS OF THE LUXEMBOURG FINANCIAL CENTRE



Decades of experience in dealing with an international client base and serving clients on a cross-border basis



A state-of-the-art IT infrastructure specifically aimed at providing speed, security and reliability to the financial centre



Economic, political, social and financial stability



A culture of investor protection and rigorous anti money-laundering policies



A legal, regulatory and tax framework that caters to the specificities of all types of international finance



A strong working relationship between the public and private sectors

These factors have attracted banks, insurance companies, investment fund promoters, sovereign wealth funds, corporate banks, and specialised service providers from all over the world, turning Luxembourg into a leading EU hub for international financial services and products.

## THE LUXEMBOURG FINANCIAL CENTRE IS:

**2<sup>nd</sup>** financial centre in  
the EU after London and  
**1<sup>st</sup>** in the Eurozone (2017)<sup>4</sup>

Fiscally stable, with  
public debt at just

**20.0 %**  
of **GDP**<sup>8</sup>

Europe's **leading**  
investment fund centre, worth  
**€3.7** trillion of assets  
(December 2016)  
the second largest investment fund centre  
in the world after the United States<sup>5</sup>

The most multilingual  
country in Europe<sup>9</sup> and

**7<sup>th</sup>**  
worldwide for  
English proficiency



world leader in the **cross border**  
**distribution of retail investment**  
**funds**<sup>6</sup> and a leading domicile for  
**alternative investment vehicles**  
including real estate, infrastructure, private  
equity and venture capital investment vehicles

**Premier international  
wealth management**

centre in the Eurozone

Consistently rated

**AAA**

by all major credit-rating agencies

Home to Europe's leading international  
bond listing centre, the



**LUXEMBOURG**  
STOCK EXCHANGE

Financially strong, with

**GDP** 

growth above  
the EU average **(+4.2 %)**  
in 2016<sup>7</sup>

<sup>4</sup> GFCI <sup>5</sup> CSSF <sup>6</sup> PWC <sup>7</sup> STATEC <sup>8</sup> STATEC <sup>9</sup> Eurobarometer

# 02

## FIGHTING CLIMATE CHANGE THROUGH CAPITAL MARKETS

One of the most successful ways to raise money to tackle climate change is through international capital markets.

Governments and private entities regularly issue debt securities in the form of bonds to finance their projects. When such projects are linked to wider sustainable or social development, they are known as sustainable development bonds. Over the last decade, this sector has evolved rapidly to spawn a handful of highly specialised instruments that are now sectors in their own right.

These include:

- Green bonds, closely linked to climate change prevention and climate change mitigation
- Social bonds, focusing on activities and investments that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially for a target population
- Sustainable bonds, mixing environmental and social objectives
- Development finance bonds (DFBs), issued by development finance institutions, such as the World Bank, to raise capital to support their initiatives
- Positive Impact Bonds, financing projects producing a positive impact on the economy, society or the environment, whilst ensuring any potential negative impacts have been duly identified and mitigated
- Microfinance bonds, issued by microfinance institutions and social businesses to fund their on-going operations
- Impact bonds, where private investors provide capital to a social or environmental service provider, which, if successful, delivers both social value and (importantly) public sector cost savings.

These bonds can be:

- Social impact bonds,
- Development impact bonds,
- Environment impact bonds

All bond-types can be listed on the Luxembourg Stock Exchange.

## LUXEMBOURG: GREEN BOND CAPITAL OF THE WORLD

Green bonds are fixed income instruments that raise money for activities with a climate-linked or environmental benefit. Variations of green bonds exist, such as "water bonds" or "blue bonds", that raise capital for a sustainable ocean economy, and "forestry bonds", etc.

### Types of green bonds

Type	Proceeds raised by bond sale are	Debt recourse
<b>Green "Use of Proceeds" Bond</b>	Earmarked for green projects.	Standard/full re-course to the issuer; therefore same credit rating applies as to issuers other bonds.
<b>Green "Use of Proceeds" Revenue Bond</b>	Earmarked for green projects.	Revenue streams from the issuers though fees, taxes etc are the collateral for the debt.
<b>Green Project Bond</b>	Ring-fenced for the specific underlying green project(s).	Recourse is only to the project's assets and balance sheet.
<b>Green Securitised Bond</b>	Either 1) earmarked for green project or 2) go directly into the underlying green projects.	Recourse is to a group of projects that have been grouped together (i.e. covered bond or other structures).

The world's first green bond was issued by the European Investment Bank in 2007 and listed on the Luxembourg Stock Exchange. Green bonds have since been adopted in markets worldwide.

The green bond sector is still young and the overall volume of the labelled universe, at around \$118bn<sup>10</sup> issued in 24 countries, remains just a fraction of what is required to make a substantial impact in the fight against climate change. Labelled green bonds account for 18% of the total climate-aligned bond market worth \$576bn<sup>11</sup>.

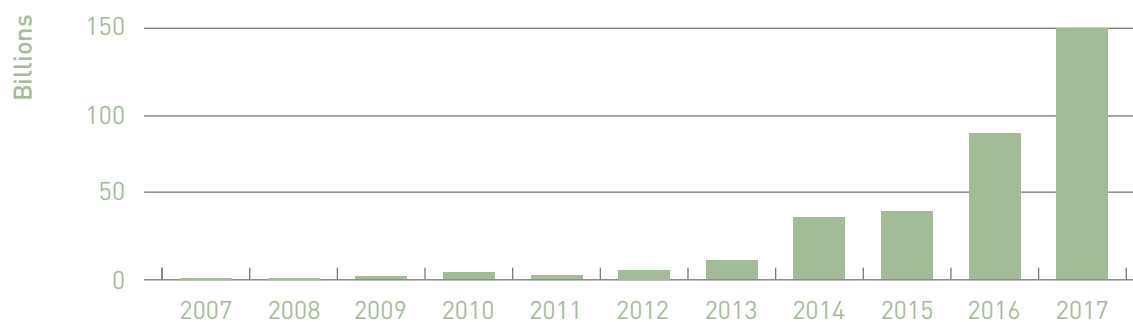
Nevertheless, the green bond has perhaps the strongest potential for growth, as raising capital through green bonds is a versatile instrument for issuers and can be easily understood by investors.

### Why green bonds work

Green bonds appeal to a wide range of investors and constitute a fast-growing market. The issuer of a green bond commits itself to public scrutiny and, often, to a third party validation. The discipline that this engenders, combined with their ethical profile, is what makes green bonds popular with institutional investors, wealth managers, family offices, and retail banks.

Issuers were initially limited to supranational and multilateral banks, but now the private sector is increasingly using this tool to raise assets.

### Explosive growth in green bonds market



Source: Climate Bonds Initiative (2017 estimate)

<sup>10</sup> Climate Bond Initiative, December 2016

<sup>11</sup> Climate Bond Initiative, December 2016

The turning point in the market growth came with a large increase in the number of corporate green bonds in November 2013, which pushed the global market for 2013 to \$11bn. The market trebled in size in 2014 to \$36.6bn. By 2016, green bond issuance reached \$81bn and is estimated to reach \$150bn<sup>12</sup> in 2017.

Poland was the first sovereign state to issue a green bond and listed the instrument on the Luxembourg Stock Exchange. China is entering the market on a grand scale, accounting for 27% of issuers<sup>13</sup>, with Luxembourg being the preferred gateway for Chinese issuers to tap European markets. Bank of China chose Luxembourg to list its pioneer multi-tranche multi-currency green bond.

The first Eurozone sovereign green bond, issued by France in January 2017, was more than three times over-subscribed by asset managers, banks, and institutional investors.

### Green bond criteria

The green bond market does not as yet have a single set of globally agreed criteria but the principal markets involved in the sector are working actively to this end. Two sets of standards are widely followed by issuers and investors alike.

- The International Capital Markets Association (ICMA) publishes a set of voluntary Green Bond Principles (GBP) that recommends transparency and promotes integrity. These are widely referred to by Green Bond issuers.
- A further set of best practice recommendations, the Climate Bond Standards, is published by the Climate Bonds Initiative, which tracks self-labelled Green Bonds appearing on the market since 2007.

The Luxembourg Stock Exchange bases its rules for a green bond listing on the Green Bond Principles of ICMA, of which it is a member, and to which it has added qualifying criteria of its own.

<sup>12</sup> Climate Bonds Initiative, December 2016

<sup>13</sup> Climate Bonds Initiative, December 2016



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### CASE STUDY: LISTING GREEN BONDS ON THE LUXEMBOURG GREEN EXCHANGE

A Spanish utility firm, Iberdrola, has listed all of the company's green bonds on the Luxembourg Stock Exchange. The six bonds, issued between 2014 and 2017 and which raised a total amount of €4.3 billion, are displayed on the Luxembourg Green Exchange (LGX), thus benefitting from enhanced international visibility.

LGX was launched in September 2016 to encourage more issuers to embrace international standards of green bond transparency and bridge the gap with investors' expectations.

Iberdrola's entry to LGX was possible thanks to the company's alignment with the industry's best practices in terms of transparency and disclosure, the verified green features and additionality of the projects behind the bond, and Iberdrola's commitment to report regularly on the use of the proceeds.

The visibility of Iberdrola's strategic plan to finance construction and re-powering of renewable energy production units and, more generally, its green bond portfolio that fits with the international taxonomies for low carbon economy, has been greatly enhanced by inclusion on the LGX.

Iberdrola is really comfortable with the level of assurance provided both by the CSSF and the LuxSE, where their bonds have been listed for decades. The depth of this market allows the Company to achieve the expected degree of availability for international investors. This has been further developed by the recent birth of LGX, where socially responsible investors can easily find the kind of securities they are looking for.

## THE LUXEMBOURG GREEN EXCHANGE: THE WORLD'S FIRST GREEN- DEDICATED EXCHANGE



[www.bourse.lu/green](http://www.bourse.lu/green)

In 2016, the Luxembourg Stock Exchange launched a platform dedicated to green financial instruments – the Luxembourg Green Exchange (LGX), the only such platform of its kind worldwide. Instruments listed on LGX must meet strict eligibility criteria based on the Green Bond Principles.

LGX aims to provide issuers and investors with an environment where they can come together to satisfy their green objectives. Interest in green securities has surged since the historic COP21 agreement was reached in 2015. The International Energy Agency estimates that \$1 trillion a year will need to be spent between now and 2050 to fund low-emission projects. This presents a tremendous opportunity for the green capital market to grow. But in order for green assets to thrive, there needs to be a solid market framework and greater transparency. LGX is Luxembourg's answer to this need.

LGX is the only listing centre in the world that requires post issuance/ listing reporting on the actual disbursements made with the proceeds of a bond, in addition to ex-ante scrutiny aligned with the ICMA GBP principles.

With 129 green bonds in 19 currencies from 25 issuers, LGX is the exchange with the highest number of listed green bonds worldwide<sup>14</sup>. The value of green bonds on the Luxembourg Green Exchange has passed €50 billion, in its first six months of existence.

<sup>14</sup> Luxembourg Stock Exchange, April 2017

The Luxembourg Stock Exchange (LuxSE) is the world leader in listing international securities:

- The largest bond listing centre in Europe;
- Has contributed actively to the development of the international capital markets over the last 50 years;
- Strong culture of servicing international issuers;
- Provides a high level of transparency, increasing visibility to investors;
- One of the largest capital markets in the world, listing 37,000 securities in 54 currencies, on behalf of over 1000 clients including 73 sovereign issuers;
- Competitive in terms of speed, transparency, value for money and post-listing services, listing 99% of all securities are in less than 2 days.

The LGX accounts for over 48% of global outstanding listed green bonds assets<sup>15</sup>:

LuxSE: **\$63.1** billion  
129 listed green bonds

All other exchanges: **\$67.7** billion  
215 listed green bonds

“

*LuxSE is the biggest stock exchange for international bonds in Europe, and a very innovative one. The recent implementation of the Green Exchange is a proof of an open-minded approach towards the needs of financial markets. On top of that, we received strong recommendations from market participants to list there.*

”

**Piotr Nowak,**  
Poland's Deputy Minister of Finance.

<sup>15</sup> Bloomberg, April 2017

# 03

**LUXEMBOURG:  
THE LEADING  
EUROPEAN  
SUSTAINABLE  
INVESTMENT  
FUNDS DOMICILE**

## SUSTAINABLE INVESTING - THE NEW NORM

Sustainable investing, often referred to as responsible investment, is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

Any collective investment that applies non-financial screening to a portfolio of securities can be considered as a responsible investment. The most common strategy is a broadly invested portfolio that screens out assets according to selected criteria. Almost all institutional investment mandates now screen out sectors such as tobacco and arms production.

However, both institutional and retail investors are increasingly demanding active engagement in their investments, through positive screening techniques.

Over the long term, it can be expected that the broadly invested ESG fund universe and the market as a whole will slowly converge, as fund managers apply ESG values across all their product range.

Scores of asset managers have signed up to the voluntary UN Principles for Responsible Investing, which encourage both screening and corporate engagement.

82% of investors (91% of Millennials) would hold a responsible investment for longer than a standard investment. (Schroders, 2016)

Sustainable finance investment funds are becoming increasingly specialised, in areas such as:

- ESG funds, a rapidly growing body of investment funds that are actively managed to meet a specific ESG sector target, be it environment, social or governance-based investment.
  - Environment funds typically focus on strategies such as renewable energy, waste management, water management, carbon trading, or clean transportation.
  - Social investments aim to deploy their assets by taking into consideration working conditions (e.g., the exclusion of child labour), local communities, or health and safety factors.
  - Governance investments take into consideration aspects such as gender equality, fair pay, political lobbying, or diversity.
- Climate finance, where invested assets have a clear and direct link to mitigation and/or adaptation of climate change or related crosscutting activities.
- Impact funds, which differ from other responsible investment funds because they have a formal, quantifiable non-profit objective. Whereas the target of most ESG funds is to “do no harm”, by avoiding certain investments, an impact fund seeks to “do good”.

Sustainable investments are characterised by a robust and transparent investment rationale that appeals to institutional and wealth management clients. Such investments require expert knowledge at the investment end and specialised skills on the part of the fund administrator and the custodian.



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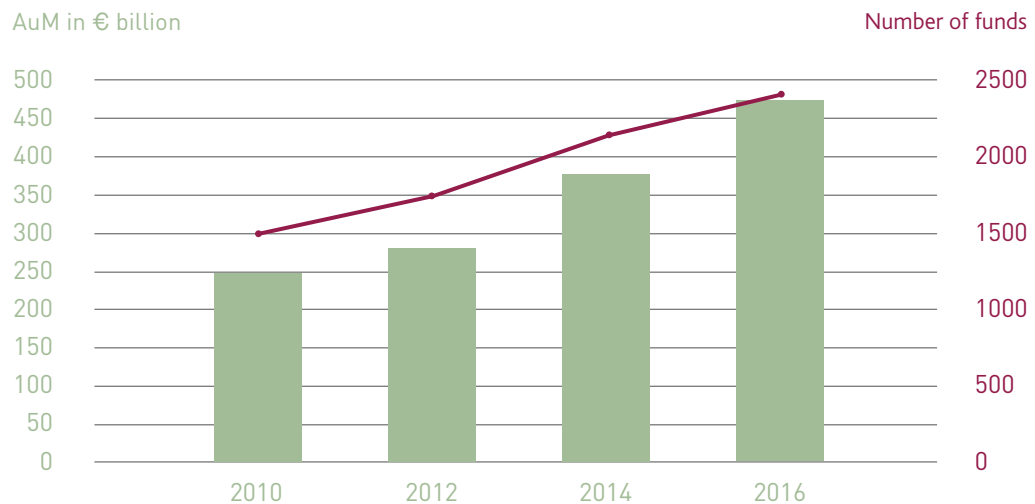


## LUXEMBOURG: THE DOMICILE OF CHOICE FOR RESPONSIBLE INVESTMENT FUNDS

Luxembourg has been at the forefront of developments in responsible investment funds thanks to an ecosystem that nurtures and supports innovation.

However, the 2008/2009 financial crisis acted as a catalyst. During the crisis years, turmoil in the financial markets encouraged a number of investors to adopt longer term thinking in their investment behaviour. This developed into a global phenomenon, as pension funds and other institutional investors were mandated by their own Boards to include ESG criteria in their investment policy. The market for responsible investment funds has continued to grow, and almost doubled since 2010, reaching €476 billion at the end of 2016.

### European responsible investment funds evolution



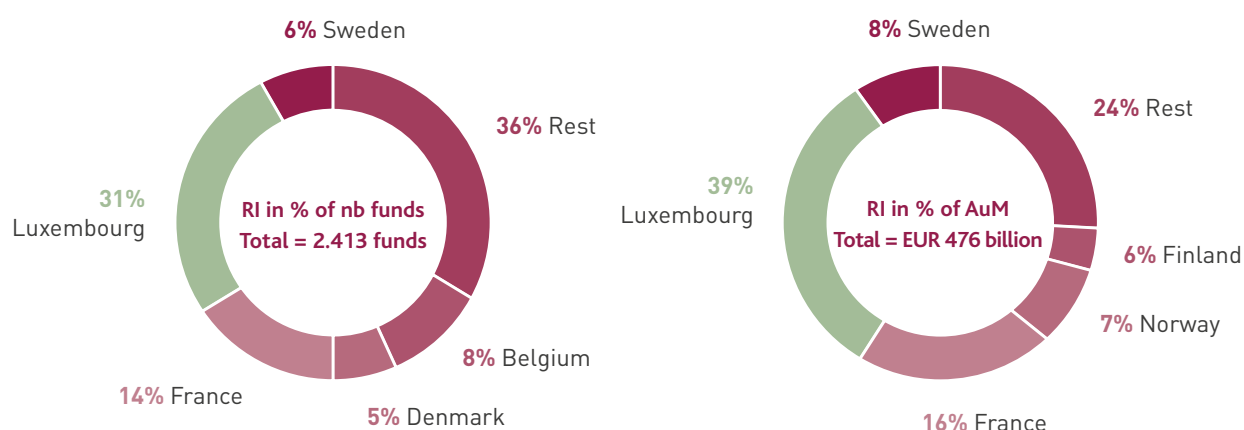
Source: KPMG/Broadridge data, 2017

Luxembourg is the leader in European responsible investment fund assets, accounting for 31% of funds and 39% of all assets under management<sup>16</sup>.

<sup>16</sup> KPMG/Broadridge data, 2017



### European responsible investment funds by domiciles



Source: KPMG/Broadridge data, 2017

In terms of the underlying ESG strategies, Luxembourg has the leading European market share of investment funds in each of the underlying strategies<sup>17</sup>

- Environment strategies, accounting for 38% of funds and 45% of assets under management;
- Social strategies, accounting for 23% of funds and 57% of assets under management;
- Ethical strategies, accounting for 56% of funds and 42% of assets under management.

Luxembourg has a long history of promoting sustainable investment innovations. This includes private sector initiatives, such as the incubator and information exchanges run by "European Impact Investing Luxembourg" (EIIL), an association that plays a role as an information exchange between stakeholders of the impact investing space, and the "Luxembourg Impact Investing Platform", (LIIP) an accelerator to help small but promising Funds during their first years of operation, to name but two.

<sup>17</sup> KPMG/ Broadridge data, 2017

### Layered funds in Luxembourg – gathering assets for all types of investors

Among the most successful developments in the Luxembourg sustainable finance sector is the “layered fund” structure, an investment fund in which risks and rewards are differentiated by shareholder classes, typically designed as retail, professional and foundation shareholders. This allows for issuance of shares and notes with different characteristics in relation to the needs of each investor. By accepting “first loss” liability and granting priority to retail investors on income earned, the foundation shareholders create a low-risk environment that encourages private investment.

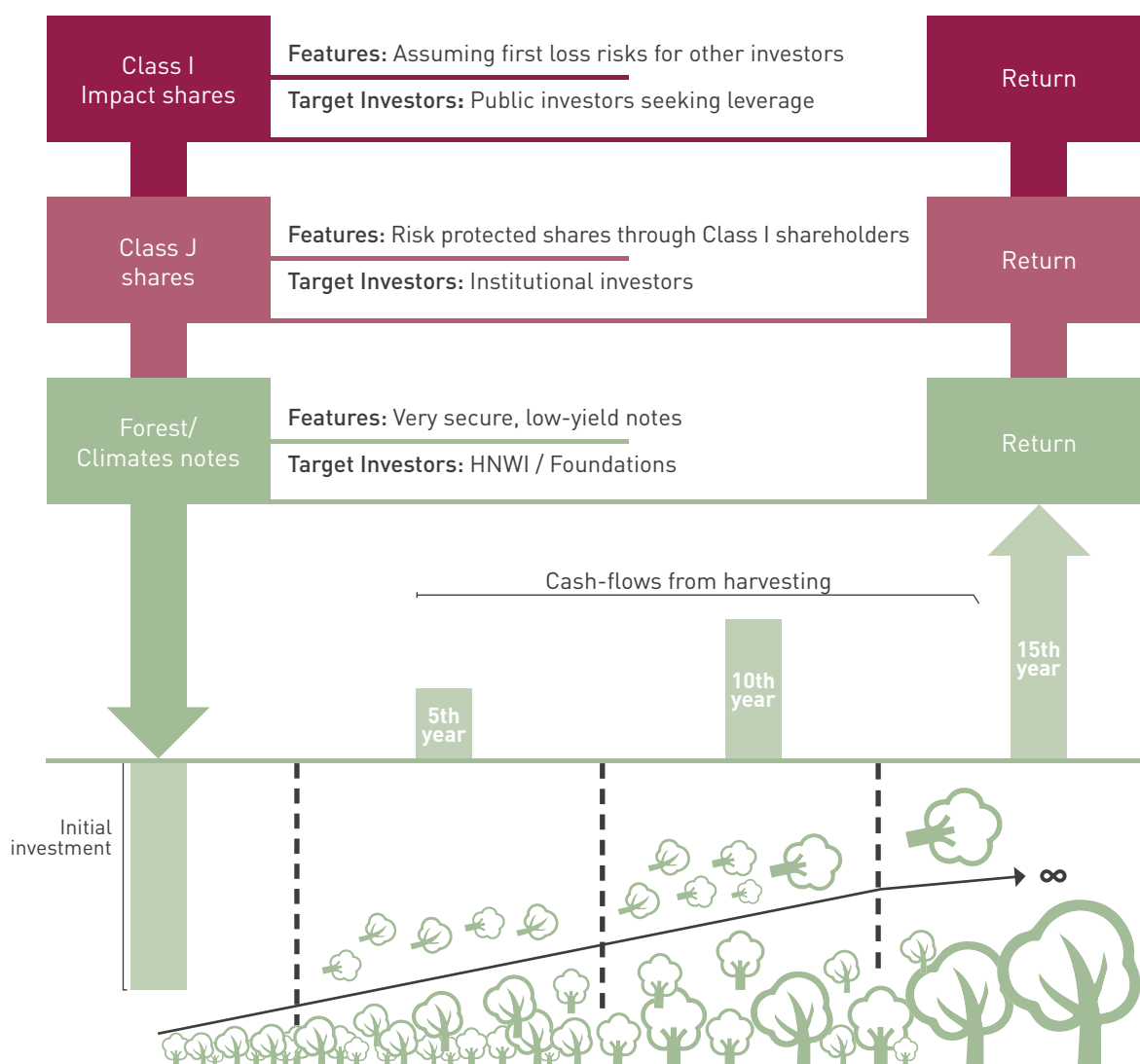
The result is to bring sufficient size to the fund to achieve its mission. Over \$6 billion of layered funds assets are domiciled in Luxembourg<sup>18</sup>.

#### How do layered funds work?

A practical example is the *Forestry and Climate Change Fund*, which aims to reduce carbon emissions by investing in the sustainable management of secondary and degraded forest.

The Forestry and Climate Change Fund is a compartment of the Luxembourg Microfinance Development Fund (LMDF), an umbrella fund that employs a layered structure to attract retail and institutional investors from the private sector.

<sup>18</sup> Innpact, 2016

**Forestry and Climate Change Fund**

Sustainable Management of Secondary and Degraded Forests

### Investing for impact through Luxembourg vehicles

Impact investment projects seek to “do good”. The purpose of all impact funds is to finance one or more specific projects, whether directly (project finance) or indirectly (such as through dividend splitting) with financial return linked directly to social performance. Typically, profits will not be distributed unless the performance indicators have been successfully met.

Microfinance is a subset of this market, and again Luxembourg leads the way for microfinance funds in Europe. 61%<sup>19</sup> of assets in micro finance investment vehicles are domiciled in Luxembourg.

Luxembourg structures have been at the forefront of the impact investing market: 67% of assets under management in impact funds are domiciled in Luxembourg. The EIB’s decision to use Luxembourg<sup>20</sup> structures for some of their most complex and innovative funds has stimulated product development in the Grand Duchy.

Impact investments require expert knowledge at the investment end and specialised skills on the part of service providers such as the administrator and the custodian.

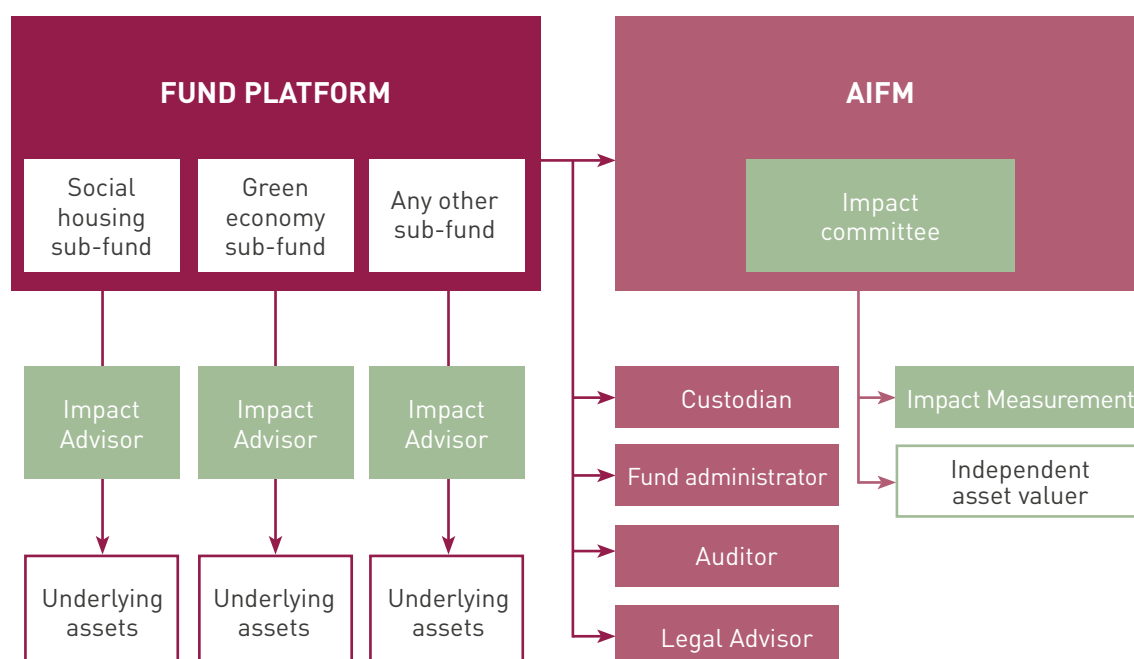
Many service providers in Luxembourg offer impact investment services, including some pure impact consultancies such as “Innpact”, a Luxembourg specialized impact consultancy company that has developed state-of-the-art advisory services regarding the set-up of layered investment funds for impact themes, such as climate finance, land degradation, sustainable agriculture and forests.

Luxembourg has existing structures, that provide such expertise, such as the “European Impact Investing Platform” EIIP, which provides asset managers with dedicated advisors, committees, and impact measurement consultants.

<sup>19</sup> Symbiotics - CGAP, 2015

<sup>20</sup> Symbiotics - CGAP, 2015

**Example of an umbrella fund platform (based on the EIIP model):**



Luxembourg is also host to among the largest and most advanced climate funds, which also often benefit from the layered fund structure.

**Mitigating climate change through Luxembourg climate finance investment funds**

Luxembourg plays a leading role in the climate change funds sector. In fact, in terms of European assets under management in climate funds, Luxembourg accounts for 69% in renewable energy funds, 69% in water funds, and 63% in remaining ecological investment strategies<sup>21</sup>.

Climate finance funds invest in assets that have a clear and direct link, to mitigation and/or adaptation of climate change or related cross-cutting activities.

<sup>21</sup> Symbiotics - CGAP, 2015

The typical Luxembourg climate change funds are public-private partnerships, which provide a platform that unites different parties towards a common goal using the layered fund principle. Many large public-private partnerships active in climate finance are based in Luxembourg, such as the EIB-Luxembourg Climate Finance Platform, the Green for Growth fund, or the Global Climate Partnership. They all tend to use public money to raise private capital, acting as a multiplier. Projects accepted receive seed funding from the public entities (Luxembourg and international governments and institutions) together with technical advice.

#### **CLIMATE FINANCE INVESTMENT FUND CASE STUDY: THE GLOBAL CLIMATE PARTNERSHIP FUND**

The Global Climate Partnership Fund (GCPF) is a Luxembourg public-private partnership fund that aims to deliver greenhouse gas emissions savings and support local development in emerging and developing economies around the globe. The fund is domiciled in Luxembourg, and is structured as a Luxembourg SICAV-SIF using a layered fund structure, with a Swiss investment manager (responsAbility Investments AG). It has public investors, including notably the International Finance Corporation and government branches of Germany, the UK, the Netherlands, Austria and Denmark.

GCPF primarily provides financing to or through local financial institutions in order to promote energy efficiency and renewable energy on-lending to small and medium-sized enterprises as well as to private households. To a limited extent, the fund also invests directly in renewable energy projects. One of the main objectives of the fund is to mobilize private capital by using public capital as a risk cushion.

Launched in 2010, GCPF has invested over \$360 million in 18 partner institutions in 20 countries. To date, funded projects account for a reduction of 9 million tons of CO<sub>2</sub> emissions.

***Johann Will,***  
*Director, responsAbility Management Company S.A.*

## A FLEXIBLE FUND TOOLBOX AT THE SOURCE OF THE RESPONSIBLE INVESTMENT SECTOR

Over the years, the Grand Duchy has developed a set of comprehensive investment fund tools. This toolbox is one of the defining strengths of the financial centre, enabling promoters to create the precise structure they need, given the nature of the investment and the target investors.

All Luxembourg investment funds can be used for sustainable finance, whether they are regulated retail funds or professional investment funds. Similarly, all may benefit from an EEA marketing passport and can be structured as an umbrella fund with multiple compartments, each with different investment strategies and separate profit & loss accounts.

The most popular investment fund structures in Luxembourg are:

- The UCITS<sup>22</sup>, principally oriented at retail investors and highly regulated;
- The SIF, which provides an operationally flexible and fiscally efficient multi-purpose vehicle that can be used for all asset classes;
- The SICAR, which is specifically designed for private equity investment and venture capital;
- The UCI Part II, a flexible but more regulated pooled vehicle;
- The RAIF, a fund with fast time-to-market, indirectly regulated via the fund manager.

Structures commonly used for funds with an ESG overlay are the UCITS and the SIF.

In general, Luxembourg funds may be structured as: a public limited company (SA), a private limited company (S.à r.l.), a partnership limited by shares (SCA), a limited partnership (SCS), a special limited partnership (SCSp), or a common investment fund (FCP).

For more information on the Luxembourg investment funds available for sustainable finance, please see the publications of the Association of the Luxembourg Fund Industry (ALFI).

<sup>22</sup> Undertaking for Collective Investment in Transferable Securities: the standardised EU retail fund

The Luxembourg UCITS benefits from a global network of sales agreements that make this product ideal for companies aiming at international distribution. Several other responsible investment fund structures have been introduced as pan-European initiatives:

- LTIF, the Long-Term Investment Fund, which is generally a closed-ended fund designed to channel capital into companies and encourage long-term saving. Any EU AIF can apply for the "LTIF" label;
- EuSEF, the EU Social Enterprise Fund, is designed for European social impact projects;
- EuVECA, the EU Venture Capital fund, is designed for European venture capital projects.

Luxembourg's regulator, the CSSF, is highly experienced and has a track record for combining a pragmatic and responsive attitude with investor protection and strict oversight. The CSSF is accustomed to working in English, French, and German.





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# 04

## FINANCE LABELLING: A COMMITMENT TO QUALITY

Luxembourg believes that transparency is vital to the growth of the sustainable finance sector.

In the investment sector, product labelling helps to raise money from investors by increasing transparency and fostering confidence. Such labels provide comfort that a given investment really does do what it claims to do. Luxembourg fund labels are based on clear, published criteria and a high level of transparency.

The momentum around COP21 sparked off renewed interest in ESG (Environment, Social, Governance) principles and labels around Europe. The most high profile of these are the UN Principles for Responsible Investment published in 2006. Today, over 1700 companies are signatories to the UN PRI; yet these rely on self-declaration.

The Luxembourg Finance Labelling Agency (LuxFLAG) goes several steps further. LuxFLAG is an independent, non-profit association created in Luxembourg in 2006, which applies a rigorous, high quality labelling process. The agency aims to promote the raising of capital for the Responsible Investment sector by awarding a recognisable and transparent label to investment vehicles complying with pre-defined eligibility criteria. These labels reassure investors that a labelled investment vehicle invests, directly or indirectly, in the responsible investment sector. The applicant may be domiciled in any jurisdiction that is subject to a level of national supervision equivalent to that available in European Union countries. The labelled funds are from various fund domiciles and asset managers based in more than 10 countries.

LuxFLAG labels stand out because they are subject to independent expert assessment by a qualified eligibility committee and because they have earned recognition around the world on the back of Luxembourg's global distribution business.

Today, LuxFLAG grants four labels: Microfinance, Environment, ESG and the most recent Climate Finance Label. The agency is working on a label for Green Bonds, available in Q2 2017.

Label	Target funds	Principal portfolio criteria <sup>23</sup>
Microfinance	MIVs of all types	50% of assets must be invested in microfinance and 25% of that portfolio must be invested in MFIs rated by an independent microfinance rating agency, or regulated by a competent local authority.
ESG	Any investment fund regardless of the sector	The fund must integrate ESG screening in its investment process and apply it to 100% of the portfolio
Environment	Funds that focus on the environment	75% of assets must be invested in companies that generate >20% of turnover in environment related sectors.
Climate Finance	Impact funds that actively contribute to the Paris Climate target	75% of assets must be invested in activities with a direct link to mitigation of and/or adaptation to climate change according to tightly defined rules.

“

*The Climate Finance Label will help us to get the message through that our fund is entirely about investing into companies which are environmental companies. Investors see this as a credible flag which they associate with accredited green funds. We hope the same levels of criteria needed for this label become a universal standard.*

”

Karin Hirn,  
Partner, East Capital

<sup>23</sup> See [www.luxflag.org](http://www.luxflag.org) for a full explanation

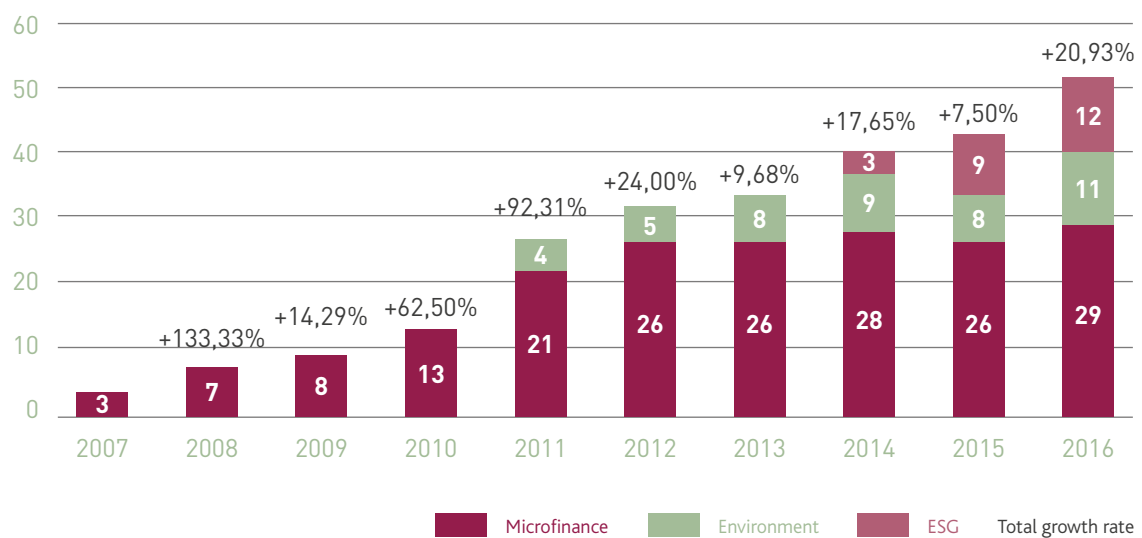
### Key LuxFLAG figures 2016

as at 31 December 2016



### LuxFLAG labels

as at 31 December



# 05

## MICROFINANCE: A GLOBAL SUCCESS STORY

Microfinance is a form of impact investing that exists in its own right and is the driving force behind a global industry. The focus of that industry is Inclusive Finance: the provision of financial goods and services to the un-banked.

Luxembourg has a history of commitment to the microfinance sector. Indeed, this has been one of the principal vehicles for the deployment of Luxembourg's overseas development aid, assisted by technical training. The microfinance sector has benefited from the support of successive governments and of HRH the Grand Duchess, an experienced and well-informed patron.

The not for-profit association Inclusive Finance Network Luxembourg Asbl (InFiNe.lu) is hosted in Luxembourg. InFiNe.lu brings together public, private, and civil society actors involved in inclusive finance. The value of InFiNe.lu lies in the wide range of expertise characterised by the diversity of its members. The Government played a key role in setting up InFiNe.lu as it understood early on the importance of financial inclusion for sustainable development, and made it a cross-sectorial part of its international development programme.

However it was in anticipation of the UN Year of Microfinance (2005) and recognition that development aid would never be enough on its own to meet demand for micro-loans, that Luxembourg launched its own campaign to "put the finance into microfinance".

Luxembourg was the founding member of the European Microfinance Platform (e-MFP). e-MFP, with 130 members, is the leading network of European organisations and individuals active in the microfinance/ financial inclusion sector in developing countries. The Platform fosters activities which increase global access to inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation. e-MFP also organises the annual European Microfinance Week which attracts over 450 top stakeholders to Luxembourg and during which the prestigious annual European Microfinance Award is presented.

### % of AuM in Microfinance Investment Vehicles

	2006	2015
Luxembourg	44	61
Netherlands	32	21
Other W European countries	4	6
USA	13	7
Others	6	3

Source: Symbiotics - CGAP, 2015

In the ten years since 2006, assets under management in microfinance investment vehicles (MIV) grew fivefold from \$2 billion to \$11bn in 2015 – an annual compound growth rate of 20%. At December 2015, Luxembourg funds accounted for 61% of MIV assets, up from 44% in 2006. This reflects the successful growth of funds with widest international distribution: 11 MIV with assets of over \$250m represent 62% of assets.<sup>24</sup>

### **The Société d'Impact Societal (SIS). An alternative way to finance social enterprise.**

Luxembourg has also set up a special corporate structure for managing social enterprises. The SIS permits a split capital structure, which is the coexistence of both for-profit and not for-profit shares, in a proportion that can vary over time. All dividends are linked to social performance. This structure permits the smooth evolution of a project from philanthropic undertaking to viable company, whilst also allowing the founder to retain control of his holdings, which would not be the case with a trust.

<sup>24</sup> Source: Symbiotics - CGAP, 2015



# 06

## PHILANTHROPY: PUTTING WEALTH TO WORK

Luxembourg has responded to the need for a centre of expertise in philanthropic engagement that can provide advice and guidance to donors and private bankers.

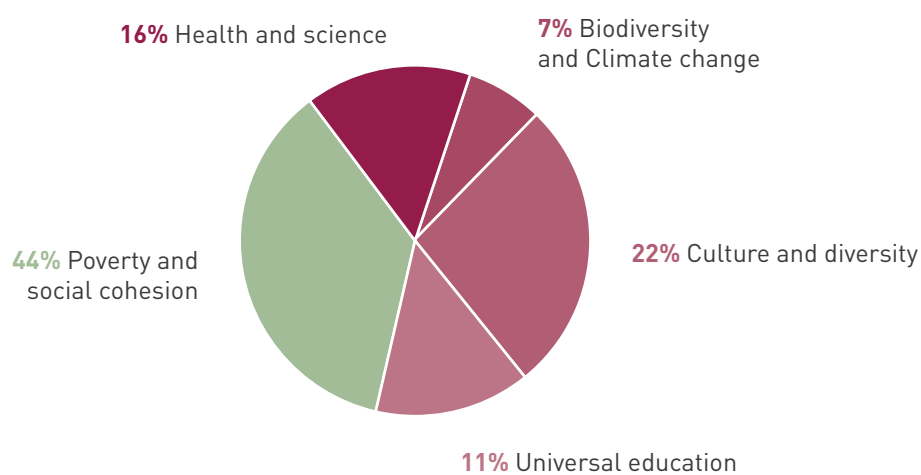
The *Fondation de Luxembourg* is a public-private partnership that combines finance and philanthropy. Established in 2008 by the State of Luxembourg and the Oeuvre National de Secours Grand-Duchesse Charlotte, the Foundation seeks to guide and assist donors who wish to make a long-term commitment to a significant philanthropic project.

The Foundation acts as a consultant and service provider. It is a gateway to associations and NGOs around the world and can assist donors in the selection of their ideal charitable project. By providing an umbrella structure, donors benefit from a simplified structure that relieves them of the day-to-day administration of the foundation. At the same time they can influence and control their project through board meetings and the provision of detailed impact reports.

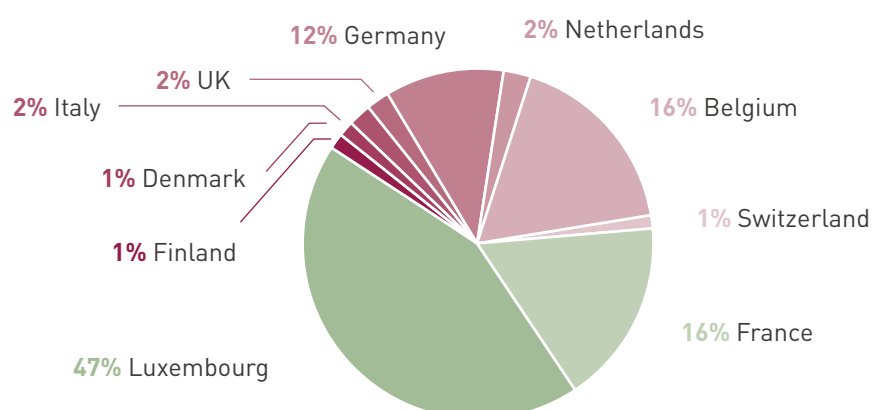
Projects typically fall under one of five themes: health and research, poverty and social cohesion, culture and diversity, universal education and biodiversity and climate change. The government removed bureaucratic impediments and facilitated a tax regime that recognises cross-border donations in 15 markets as tax deductible.

The Foundation has been a success with clients of the Luxembourg private banking community, where it has met growing demand. 64 foundations have been created under the scheme, 89% of them by private individuals or families.

### Projects per sectors



### Country of residence



Source: *Fondation de Luxembourg, 2017*

# 07

EMPOWERING  
OTHERS THROUGH  
FINANCIAL  
KNOWLEDGE  
TRANSFER

There is increasing demand from emerging and transition countries for the acquisition of financial know-how. Sharing knowledge helps countries to build up human capital and for the Luxembourg Government, it is an effective method of delivering both development assistance and creating goodwill.

In 2016, the ATTF (Agence de Transfert de Technologie Financière) was merged into the House of Training. Its activities and mission continue, in full, in this new and larger structure, where it benefits from significant additional learning resources and a solid operational platform. Training programmes are provided with the support of the Luxembourg Government to over 40 selected country partners around the world.

The objective of the House of Training, in performing its ATTF work, is to both highlight Luxembourg's finance expertise and to strengthen the financial sectors of the country partners that it works with by building capacity and supporting sustainable development.

ATTF does this through the transfer of knowledge and competence in financial services through:

- High quality seminars and training, both in Luxembourg and around the world;
- Technical assistance, consultancy, and coaching (where learning needs, to go beyond the "regular classroom").

Training is delivered by experienced, Luxembourg based practitioners from the financial centre.

In a typical year the House of Training (ATTF) organises some 100 sessions abroad and up to 20 in Luxembourg, opening doors to valuable learning opportunities and certifications, some to an internationally recognised standard.

The work carried out by private sector experts on behalf of the House of Training (ATTF) is a showcase for sharing know-how from the Luxembourg financial centre. Through the support provided by Luxembourg's Government, it has build up long-term relationships and has provided valuable assistance for the development of financial sectors in the many countries it has worked with.

## ABOUT LUXEMBOURG FOR FINANCE

Luxembourg for Finance (LFF) is the Agency for the Development of the financial centre. It is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). Founded in 2008, its objective is to promote the expertise of the financial centre and the diversification of its services abroad through different communication channels.

The agency continuously monitors global trends and evolutions in finance to identify development opportunities for the Luxembourg financial centre and to serve different target markets and target groups. It is also the first port of call for foreign journalists. In cooperation with the various professional associations, LFF develops documentation on products and services available in Luxembourg and their relevant legal and regulatory framework. Furthermore, LFF organises seminars in international business locations and takes part in selected world-class trade fairs and congresses.

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