

SUSTAINABLE FINANCE



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01

**THE LUXEMBOURG FINANCIAL
CENTRE: THE INTERNATIONAL
PLATFORM FOR SUSTAINABLE
DEVELOPMENT AND CLIMATE
FINANCE**

As one of Europe's leading international financial centres, Luxembourg is today globally recognised as an ideal platform to assist companies, governments and investors around the world to meet their sustainable development targets.

A sizeable proportion of the country's standing overseas development commitments is 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.

In recent years, financial markets have developed instruments that are specifically designed to raise money for sustainable 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.

Today, Luxembourg is the primary centre for listing green bonds and the leading European domicile for impact funds. It is also the long-standing global leader and has developed an unparalleled level of sophistication in the area of cross-border fund distribution and has been a pioneer in the area of sustainable finance labels for more than a decade.

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

Luxembourg is committed to the UN Sustainable Development Goals:



Luxembourg has a comprehensive domestic climate finance agenda and is resolute in meeting the Paris Agreement and the UN Sustainable Development Goals. The Grand Duchy moreover meets its UN commitments, consistently contributing 1% of its GDP to development aid.

Some of Luxembourg's key contributions to sustainable finance:

- **The Green Bond capital of the world**
Over 50% of all green bond volume and an estimated 30%¹ of sustainable and social bonds are listed on the Luxembourg Green Exchange (LGX), the world's first platform dedicated exclusively to sustainable securities and a trading point for issuers and investors.
- **The leading European sustainable investment funds domicile**
Luxembourg is the European leader in responsible investment fund assets, accounting for 31% of funds and 39% of all assets under management². Furthermore, two out of every three impact investment funds in Europe are Luxembourg funds³. The Luxembourg fund toolbox is perfectly suited to meet the demands of the international sustainable investment community.

¹ LuxFLAG estimate

² KPMG/Broadridge data, 2017

³ KPMG/Broadridge data, 2015

- **Finance labelling: a commitment to quality**
Luxembourg is home to LuxFLAG, the pioneering finance-labelling agency, providing clarity and confidence to investors in sustainable investment funds and financial instruments.
- **A leader in microfinance vehicles**
Luxembourg has a history of commitment to the microfinance sector, and is the leader in assets held in microfinance investment vehicles, domiciling 61%⁴ of all microfinance vehicle assets.
- **Philanthropy: putting wealth to work**
The *Fondation de Luxembourg*, a public-private partnership provides a 3rd party facility to setting up private philanthropic foundations, providing advice and guidance to donors. 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 capacities, and supporting sustainable development in 40 markets.

LUXEMBOURG'S CLIMATE FINANCE STRATEGY

This generation faces challenges on an unprecedented scale. The eradication of poverty and the 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.

⁴ Symbiotics/LuxFLAG study, 2015

By committing to sustainable finance, the financial sector can have an important multiplier effect.

The Grand Duchy of Luxembourg is fully committed to the goal of transforming itself and assisting others in the transition to a sustainable global economy and has thus set up a coherent climate finance strategy to help leverage international public and private sector investment.

Since 2015, the Luxembourg government and Luxembourg's financial services industry have been working together in a dedicated Climate Finance Task Force, implementing a coherent and fully integrated Climate Finance Strategy with the dual objective of contributing in a meaningful way to the international fight against climate change and cementing Luxembourg's role as an international centre for climate finance.

The strategy is built on four key vectors:

- consolidate and leverage Luxembourg's existing expertise in sustainable finance to drive and develop climate finance capabilities,
- enter into strategic partnerships with climate finance leaders such as the European Investment Bank and the International Finance Corporation,
- ensure quality control in the specific area of climate finance notably via standards and dedicated labels, and
- to encourage innovation in climate finance.

Luxembourg ranks among the top green financial centres in the latest global Green Finance Index (GGFI) published in 2018, measuring how financial centres contribute to the creation of a more sustainable global economy. The Grand Duchy ranks 2nd in Green Finance penetration and 6th in Green Finance quality.

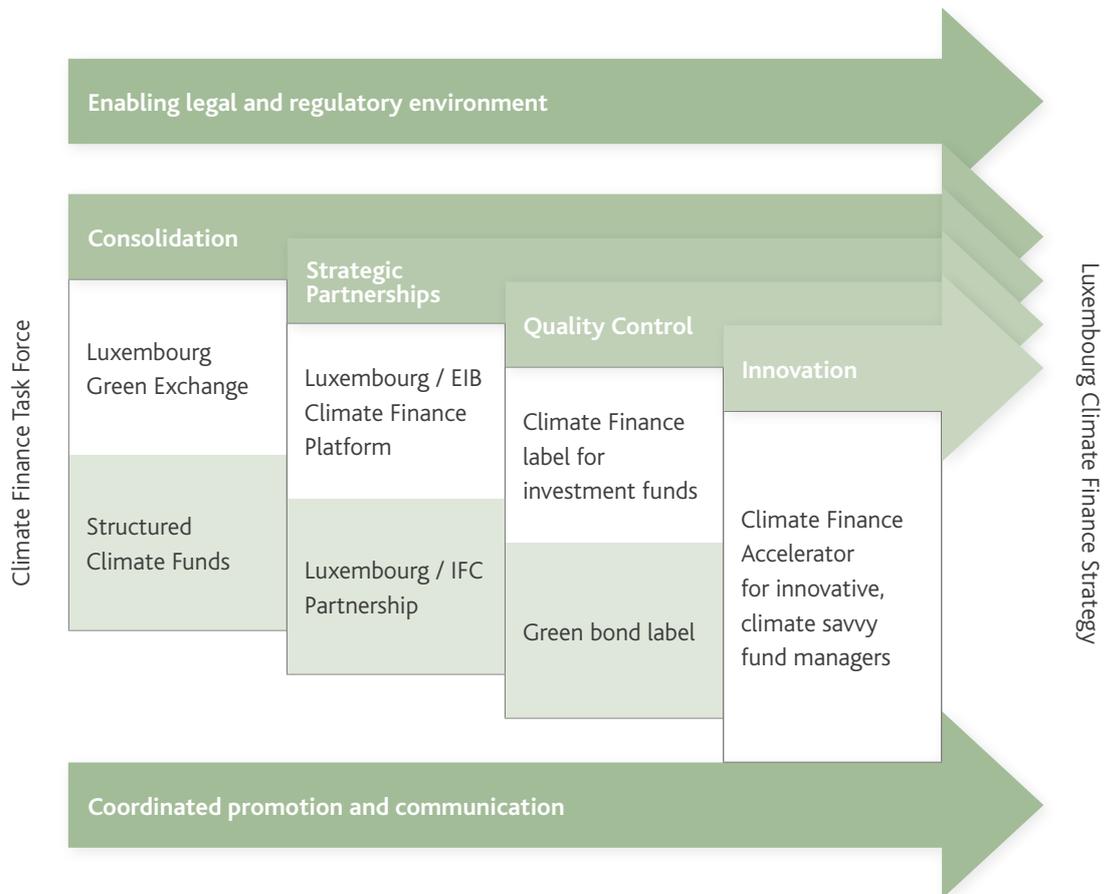
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If you have on the one side the political will to be very active in the fight against climate change and on the other hand you have a thriving financial centre with all the professional expertise and experience readily available, it would be remiss 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

Leveraging Private Sector Investment



This work has already resulted in several key initiatives, including:

The Luxembourg Green Exchange

- In 2016, the Luxembourg Stock Exchange launched the Luxembourg Green Exchange (LGX), the world's first platform exclusively dedicated to green securities, and today listing half the world's green bonds. The LGX today also features a dedicated social and sustainable bond window.

Luxembourg-EIB Climate Finance Platform

- The Luxembourg-EIB Climate Finance Platform between the European Investment Bank (EIB) and the Luxembourg government aims to mobilise investments for projects with a strong impact in the fight against climate change. It is the first time the EIB enters in such a partnership with a Member State. The Luxembourg government is contributing € 30 million as a first loss guarantee to mitigate the risk for private sector when co-investing in funds dedicated to climate change mitigation and adaptation.

IFC/Amundi Planet Emerging Green One

- As a strategic partner of the International Finance Corporation (IFC), the Luxembourg government contributes to the technical support facility of the Amundi Planet Emerging Green One, the largest green bond fund in the world. This Luxembourg based investment fund targets green bonds emitted by banks in developing countries and at the same time helps develop green bond policies, training programs, and best practices in such markets through the technical support facility. The fund thereby deepens new green capital markets and facilitates the adoption of the Green Bond Principles across the globe.

Climate Finance and Green Bond labels

- In 2016, the labeling agency LuxFLAG launched a dedicated Climate Finance quality label to ensure the effective climate focus of investment funds in the implementation of their investment policy. In the same spirit, the agency launched a specific Green Bond label in 2017.

DEFINING CHARACTERISTICS OF THE LUXEMBOURG FINANCIAL CENTRE

The Climate Finance Accelerator

- The Luxembourg government and partners from the private sector will set up a Climate Finance Accelerator facility to help innovative fund managers specialising in climate action by offering various forms of support, including support in fund raising with institutional and public investors as well as financial and operational support during the launch phase of a new fund structure.

The success of the Grand Duchy of Luxembourg as an international financial centre is founded on:

- decades of experience in dealing with an international client base and serving clients on a cross-border basis;
- economic, political, social and financial stability;
- a legal, regulatory and tax framework that caters to the specificities of all types of international finance;
- a state-of-the-art IT infrastructure specifically aimed at providing speed, security and reliability to the financial centre;
- a culture of investor protection and rigorous anti money-laundering policies;
- 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.

DEFINING CHARACTERISTICS OF THE LUXEMBOURG FINANCIAL CENTRE



Economic, political, social
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These factors have attracted banks, insurance companies, investment fund promoters, sovereign wealth funds and specialised service providers from all over the world.

THE LUXEMBOURG FINANCIAL CENTRE:

Ranks **2nd** in Green Finance penetration
and 6th in Green Finance
quality (GGFI 2018)

2nd financial centre in
the Eurozone (2018)

Europe's **leading**
investment fund centre, worth
€4.3 trillion €
(May 2018)
the second largest investment fund centre
in the world after the United States



The world leader in the **cross
border distribution** of
retail investment funds

Consistently rated

AAA

by all major credit-rating agencies

GDP 
growth above
the EU average
+3.9%
in 2018

Very low public debt,

23.0%
of **GDP**

The most multilingual
country in Europe
7th worldwide for
English proficiency

**Premier international
wealth management**

centre in the Eurozone

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



**LUXEMBOURG
STOCK EXCHANGE**

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02

LUXEMBOURG: GREEN BOND CAPITAL OF THE WORLD ... AND THE FUTURE HOME OF SOCIAL AND SUSTAINABLE BONDS



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. There are many types of bonds in sustainable finance, such as:

- green bonds, closely linked to climate change prevention and climate change mitigation;
- social bonds, focusing activities and investments that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for 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.

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

FIGHTING CLIMATE CHANGE THROUGH CAPITAL MARKETS

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, or "forestry bonds", just to name a few.

Green bonds generally exist in several forms:

Types of green bonds

Type	Proceeds raised by bond sale are	Debt recourse
Green "Use of Proceeds" Bond	Earmarked for green projects.	Standard/full re-course to the issuer; therefore same credit rating applies as to issuers other bonds.
Green "Use of Proceeds" Revenue Bond	Earmarked for green projects.	Revenue streams from the issuers though fees, taxes etc are the collateral for the debt.
Green Project Bond	Ring-fenced for the specific underlying green project(s).	Recourse is only to the project's assets and balance sheet.
Green Securitised Bond	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 \$ 221bn¹¹, 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 25% of the total climate-aligned bonds market worth \$ 895bn¹².

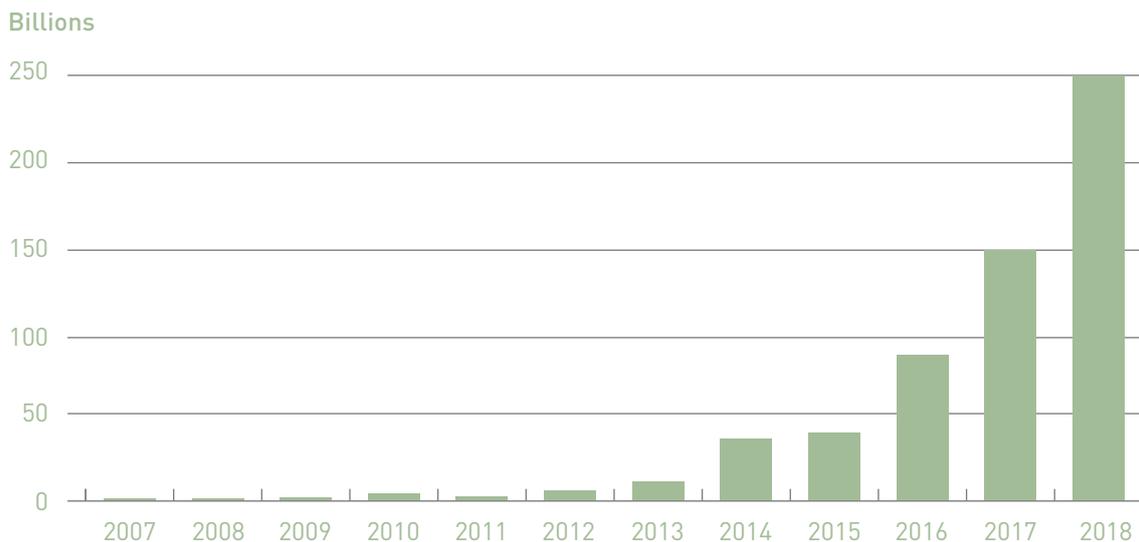
Nevertheless, the green bond has perhaps the strongest potential to grow, as raising capital through green bonds is both a versatile instrument for issuers and easily-understandable one for investors.

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 (2018 estimate)

¹¹ Climate Bond Initiative, December 2017

¹² Climate Bond Initiative, December 2017

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 size 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 \$ 250bn¹³ in 2018.

Poland was the first sovereign state to issue a green bond and decided to list the instrument on the Luxembourg Stock Exchange.

Connecting the world's largest green bond exchanges

China is entering the green bond market on a grand scale, accounting for 27% of issuers¹⁴, and Luxembourg is the preferred gateway for Chinese issuers to tap European markets. For example, Bank of China was the first Chinese issuer to choose Luxembourg to list its pioneer multi-tranche multi-currency green bond.

Furthermore, in 2017 the Luxembourg Stock Exchange (LuxSE) partnered up with two of the most important Chinese Stock Exchanges, the Shenzhen Stock Exchange (SZSE) in March and the Shanghai Stock Exchange (SSE) in June. These partnerships have helped launch green bond index series, which provide the first synchronous quotes for green bonds between China and Europe, the world's two largest green bond markets. The Green Bond Index Series (LuxSE & SZSE), the SSE Green Corporate Bond Index (LuxSE & SSE), and the SSE Green Bond Index (LuxSE & SSE) now act as market benchmarks and investment tools bridging the gap between Europe and China. Furthermore they help attract foreign investments into China's green financial system, and provide greater transparency in green securities.

In June 2018, The LuxSE launched a Green Bond Channel in partnership with the Shanghai Stock Exchange (SSE), which focuses on providing relevant information in English about Chinese green bonds to offshore investors, thereby bridging an information gap and supporting the mobilisation of investor demand for investment. By receiving enhanced visibility, issuers are exposed to a far wider segment of potential investors and a deeper pool of investment capital.

¹³ Climate Bonds Initiative, 2018 data (2015 is estimated)

¹⁴ Climate Bonds Initiative, 2015 data

In March 2018, LuxSE extended the same display service to the Chinese Interbank Market 2017 and welcomed the first bond from a Chinese policy bank, the Agriculture Development Bank of China (ADBC).

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 (CBI), which tracks self-labelled Green Bonds appearing on the market since 2007.

The Luxembourg Stock Exchange recognises in particular ICMA's Green Bond Principles, the CBI's Climate Bonds Standard (for green bonds), the ICMA's Social Bond Principles (SBP) and the Sustainability Bond Guidelines (SBG).

In July 2018, Luxembourg established the world's first legal framework for green covered bonds, a new type of covered bond to finance the generation of renewable energies. This is the first law globally to establish a Green Covered Bond and underlines the country's commitment to help drive global innovation in sustainable finance.

“

Green finance is not a passing fashion, it is a real game changer. We believe it will become the foundation of future capital markets.

”

Robert Scharfe,
CEO Luxembourg Stock Exchange

CASE STUDY: LISTING GREEN BONDS ON THE LUXEMBOURG GREEN EXCHANGE

The Spanish utility firm Iberdrola has listed all of the company's green bonds on the Luxembourg Stock Exchange. The six bonds, issued between 2015 and 2017 and which raised a total amount of €4.3 billion, are displayed on the Luxembourg Green Exchange (LGX), and thus benefit from an 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, the only international platform entirely dedicated to green securities, was possible thanks to the company's proven alignment with the industry's highest practices in terms of transparency and disclosure, verified green features of the projects behind the bond and Iberdrola's commitment to regularly report on the use of the proceeds for projects presenting environmental additionality.

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 to LGX.

Iberdrola is 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 Iberdrola to achieve the expected degree of availability for international investors. This has been developed even more with the recent birth of LGX, where Social Responsible Investors can easily find the kind of securities they are looking for.

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

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.

A new window for Social and Sustainable bonds

In May 2016, the LGX opened up a new segment dedicated to the listing of social and sustainable (S&S) projects. Estimated to be worth \$ 23 trillion globally¹⁵, S&S project categories include socioeconomic advancement and empowerment, affordable housing and food security. The new window increases the visibility of S&S projects so that investors can take informed decisions. The listing process is similar to that of green bonds: once a Social or Sustainable bond is listed on the Luxembourg Stock Exchange, an issuer can apply for LGX display. The issuers must commit to disclosing detailed information relating to planned use of proceeds and provide an ex-ante external review, as well as a post-issuance report presented regularly throughout the lifespan of the security.

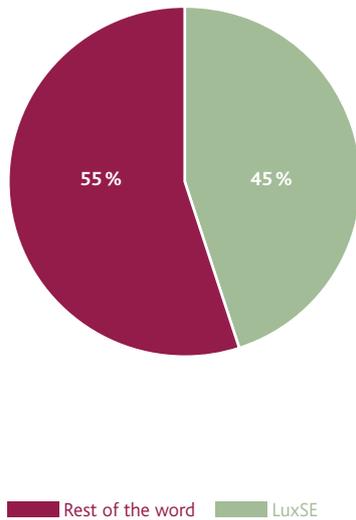
The first **social bond** to be displayed on the LGX since the launch of the dedicated window was a €300m issue by the Austrian issuer **Kommunalkredit** to finance education, healthcare and social housing.

¹⁵ Global Sustainable Investment Alliance

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 to the ICMA GBP principles.

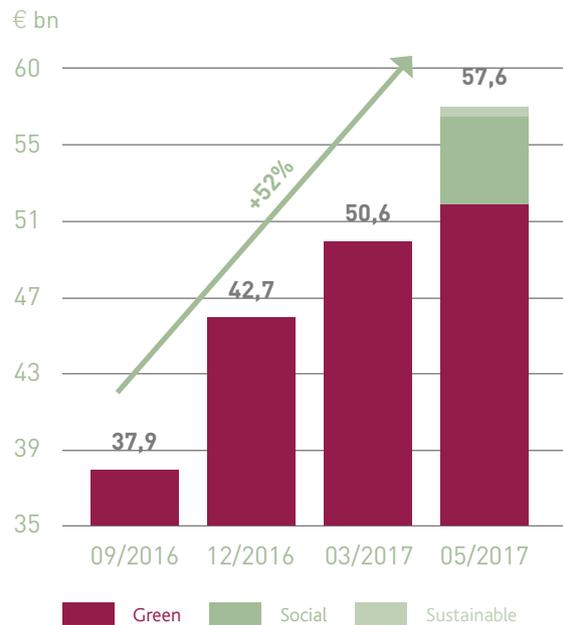
With 117 green bonds, 11 social bonds, and 3 sustainable bonds, in 17 currencies from 36 issuers, the LGX is the exchange with the highest number of listed green bonds worldwide¹⁶. The value of green bonds on the Luxembourg Green Exchange has passed € 50 billion, in its first six months of existence.

LGX market share for listed green bonds by amount issued



Source: Bloomberg & LuxSE - June 2018

Green, social and sustainable bonds displayed on LGX by amount issued



¹⁶ Luxembourg Stock Exchange, data from 31/07/2017

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 40,000 securities in 55 currencies, on behalf of over 1000 clients including 72 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.

Outstanding listed green bonds¹⁷:

LuxSE: **\$100.7** billion
186 bonds

All other exchanges: **\$135.6** billion
418 bonds

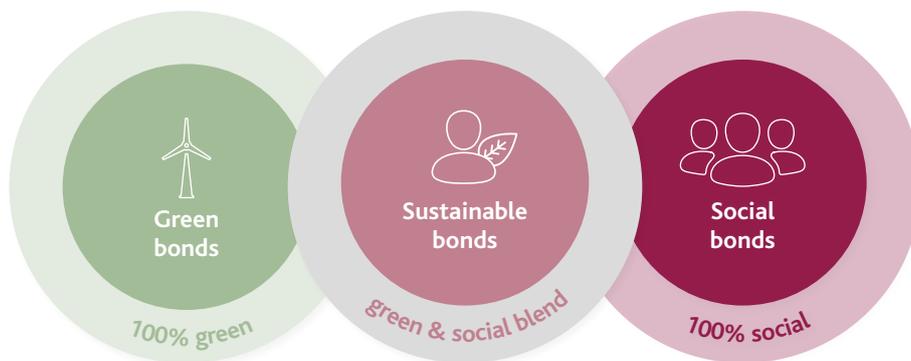
¹⁷ LuxSE, June 2018

“

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



03

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

SUSTAINABLE INVESTING - THE NEW NORM

Sustainable investing, often also 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 employs 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.

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.

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

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

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.

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.



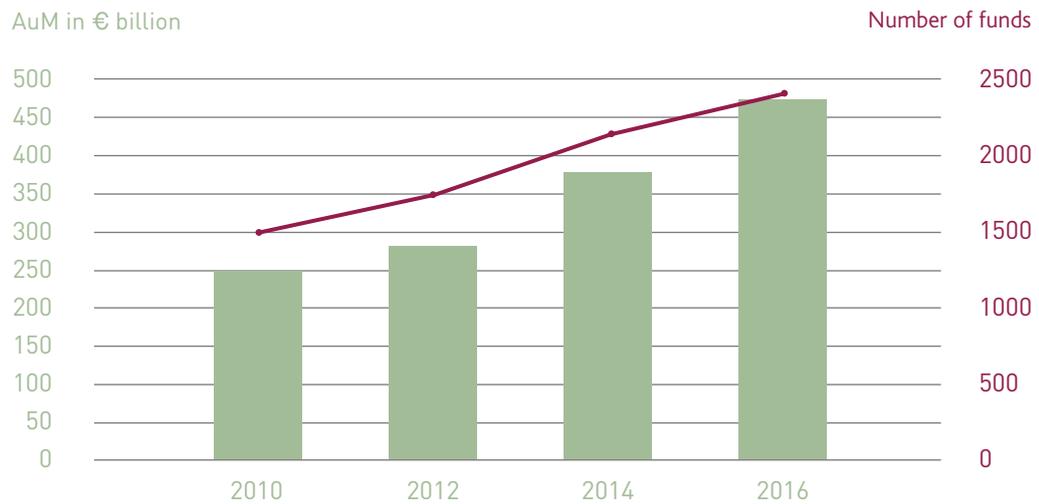
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LUXEMBOURG – THE LOCATION OF CHOICE FOR RESPONSIBLE INVESTMENT FUNDS

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

European responsible investment funds evolution

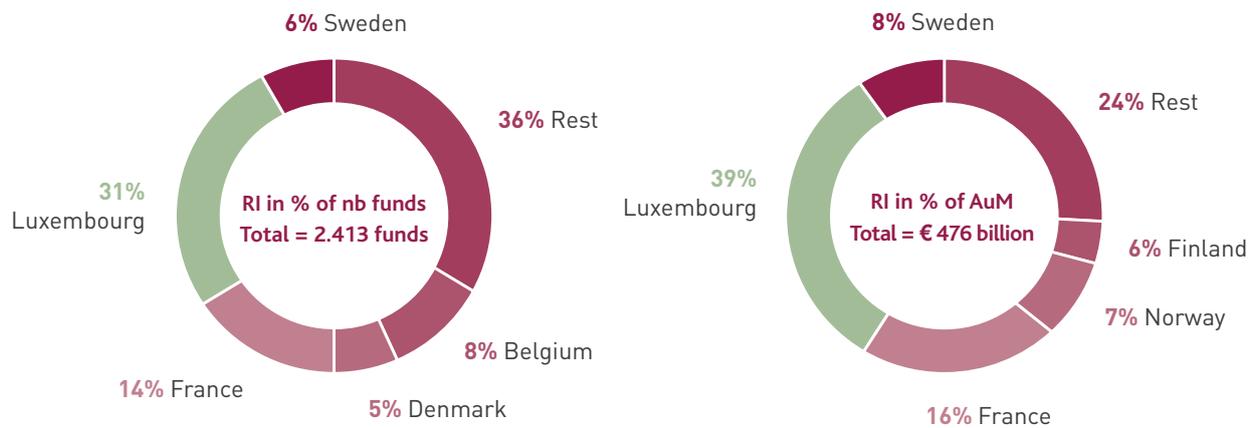


Source: KPMG/Broadridge data, 2017

Luxembourg is the leader in European responsible investment fund assets, accounting for 31% of funds and 39% of all assets under management¹⁸.

¹⁸ 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 strategies¹⁹:

- 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;
- ethics strategies, accounting for 56% of funds and 42% of assets under management.

¹⁹ KPMG/Broadridge data, 2017

CASE STUDY: IFC / AMUNDI PLANET EMERGING GREEN ONE

Amundi, European largest asset manager, has launched the world's largest green-bond fund dedicated to emerging markets in 2017, the IFC / Amundi Planet Emerging Green One - with the involvement of the International Finance Corporation (IFC), the World Bank's private sector investment arm.

The \$2bn-target fixed income fund intends to invest in green bonds issued by banks in Africa, Asia, the Middle East, Latin America, Eastern Europe and Central Asia. Green bonds are used to raise funds for projects that help tackle environmental problems such as renewable energy, energy efficiency and waste management.

The fund, which uses a layered structure is based in Luxembourg, and aims to be fully invested in green bonds within seven years.

Luxembourg has been chosen as a jurisdiction to base the Green Cornerstone Bond Fund due to the well-developed framework of rules and regulations, the country's international reputation as a pre-eminent onshore jurisdiction for structuring funds and deals alike, and the presence of the leading international bond capital market, the Luxembourg Stock Exchange.

The IFC is one of the world's largest financiers of climate-smart projects for developing countries, providing financing over the last decade for renewable power, energy efficiency, sustainable agriculture, green buildings and private sector adaptation to climate change.

A committed player, Amundi made responsible finance one of the four pillar of its growth strategy and puts its expertise at the service of sustainable performance.

Luxembourg has a long history of promoting sustainable investment innovations. This includes private sector initiatives, such as the incubator and information exchanges run by the "European Impact Investing Luxembourg" (EILL), 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 a few.

A fund accelerator dedicated to climate finance

Importantly, in order to support new and innovative asset managers in launching new projects that aim to mitigate or help adapt to the effects of climate change, the Luxembourg government together with key industry players is setting up the Luxembourg Climate Finance Accelerator. The Accelerator offers various forms of support, including support in fund raising with institutional and public investors as well as financial and operational support during the launch phase of a new fund structure.

Layered funds in Luxembourg – An ideal way to raise public & private finance for sustainable projects

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.²⁰

²⁰ Innpact, 2016

The Luxembourg-EIB Climate Finance Platform

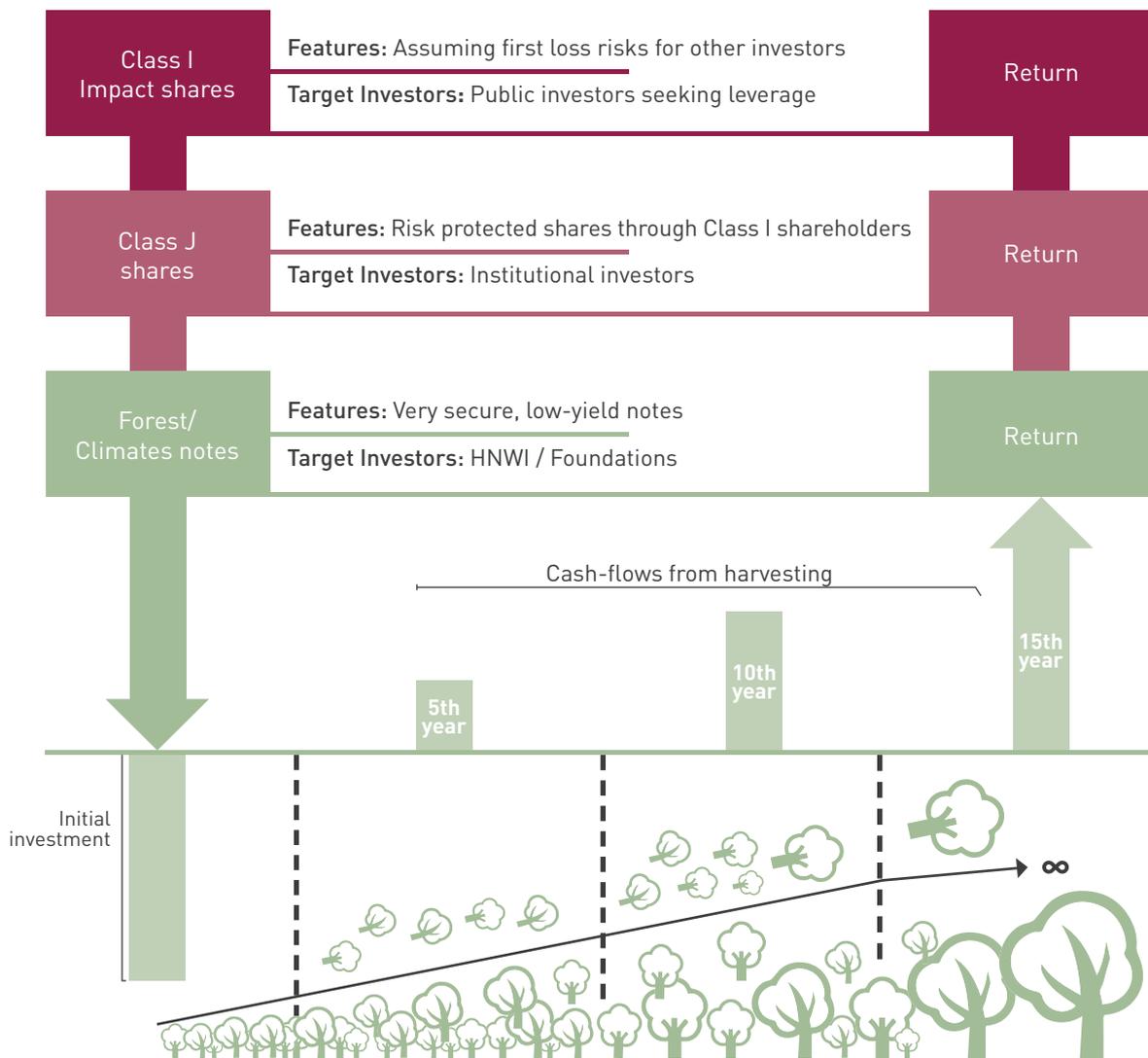
Layered funds were pioneered by the European Investment Bank (EIB), which recently has teamed up with the Luxembourg government to create the Luxembourg-EIB Climate Finance Platform. This Platform aims to mobilise investments for projects with a strong impact in the fight against climate change, and was the first time the EIB entered in such a partnership with a Member State. The Luxembourg government contributes €30 million as a first loss guarantee to mitigate the risk for private sector actors when co-investing in funds dedicated to climate change mitigation and adaptation.

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.

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%²¹ of assets in microfinance investment vehicles are domiciled in Luxembourg (see chapter 5).

Luxembourg structures have been at the forefront of the impact investing market: 67% of assets under management in impact funds are domiciled in Luxembourg²². The EIB’s decision to use Luxembourg structures for some of their most complex and innovative funds has stimulated product development in the Grand Duchy.

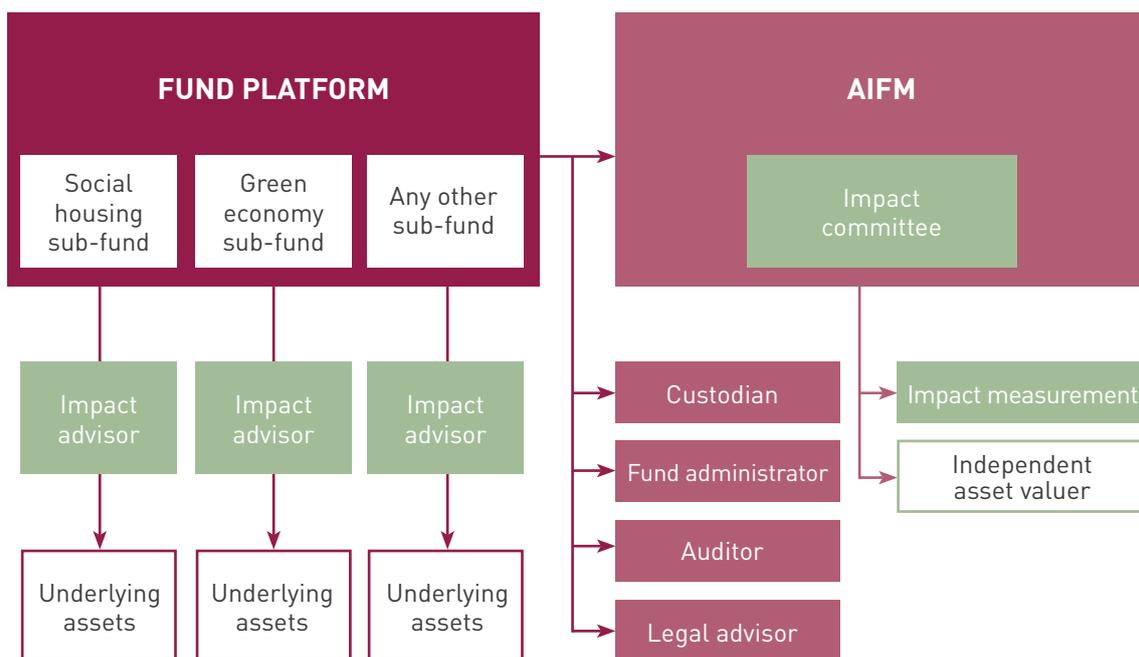
Impact investments require expert knowledge at the investment end and specialised skills on the part of service providers such as the administrator and the custodian. Many service providers in Luxembourg offer impact investment services, including some pure impact consultancies such as “Innpact”, a Luxembourg 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, and sustainable agriculture & forests.

Luxembourg has existing umbrella fund structures, which provide such expertise. This type of structure provides asset managers with dedicated impact advisors, impact committees, and impact measurement consultants.

²¹ Symbiotics - CGAP

²² Symbiotics - CGAP

Example of an umbrella fund platform²³



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

Fighting climate change through Luxembourg climate finance investment funds

Luxembourg plays a leading role in climate change funds. 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 strategies²⁴.

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

²³ Based on the Luxembourg-based European Impact Investing Platform model

²⁴ Symbiotics – CGAP

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) and technical advice.

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 CO₂ 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 passports and can be structured as an umbrella fund with multiple compartments, each with different investment strategies and separate profit and loss accounts.

The most popular investment fund structures in Luxembourg are:

- the UCITS²⁵, 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, 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).

²⁵ 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:

- ELTIF, 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 "ELTIF" 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 a proliferation of ESG principles and label adherents 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) 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. LuxFLAG grants five distinct labels: Microfinance, Environment, ESG, Climate Finance and the most recent addition, a label for Green Bonds.

LuxFLAG labels 95 investment vehicles (31 Microfinance, 8 Environment, 26 ESG, 5 Climate Finance funds, 4 applicant fund status and 21 Green Bonds) as of 1 July 2018 representing over 37bn € in assets under management.

Label	Target funds	Principal portfolio criteria ²⁶
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.
Green Bond	Bonds investing in Green projects.	The applicant must utilise its 100% of proceeds for investing in one of the broad categories of potential eligible Green Projects recognised by LuxFLAG.

“

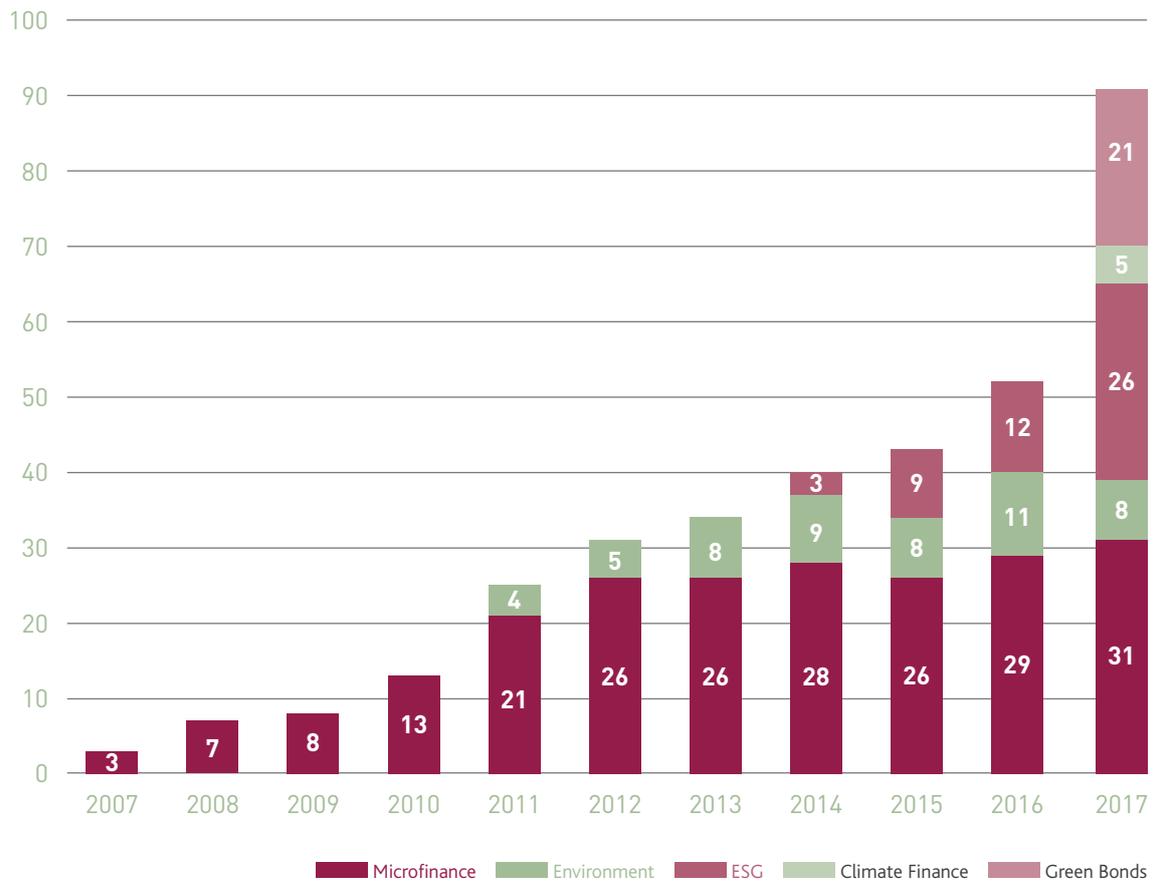
With the LuxFLAG label, OFI's fund meets the best sustainable standard and extends the perspective of international development and distribution, the LuxFLAG label being independent and internationally acknowledged.

”

Eric Van Labeck,
Head of SRI research and development, OFI Asset Management

²⁶ See www.luxflag.org for a full explanation

LuxFLAG labels as at 1 July 2018



“

The Climate Change 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 that 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

05

MICROFINANCE: FACILITATING FINANCIAL INCLUSION

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 crosssectorial 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 campaign to "put the finance into microfinance".

Luxembourg was the founding member of the European Microfinance Platform (e-MFP). With 130 members, e-MFP 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 industry stakeholders to Luxembourg and during which the prestigious annual European Microfinance Award is presented.

The annual European Microfinance Award, which is worth €100,000, is funded by the Luxembourg government. 37 MFIs from 23 countries have entered applications for the 2017 award; they will compete on the theme “Microfinance and Housing”.

% of AuM in Microfinance Investment Vehicles

	2006	2015
Luxembourg	44	61
Netherlands	32	21
Other Western 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 was due to the successful growth of the funds with the widest international distribution: 11 MIV with assets of over \$250m represent 62% of assets.²⁷

²⁷ Source : Symbiotics -CGAP

Microfinance in Luxembourg

Several microfinance institutions are active within Luxembourg. Two of the oldest are Etika, founded in 1996 and the Spuerkeess ethical savings account. More recent initiatives providing capital and technical assistance include:

- Microlux, a joint venture that supports microenterprises not eligible for traditional banking credit;
- 1,2,3,Go, a programme dedicated to early-stage entrepreneurs generating a social/environment impact;
- 6zero1, a joint venture between the government and a royal foundation that sponsors social entrepreneurs.

The National Institute for Sustainable Development and Corporate Social Responsibility (INDR) was launched in 2007 by the Luxembourg employers' organisation (UEL). The institute sets a national standard for corporate social responsibility and helps companies to analyse their profile and boost their performance.

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.

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.

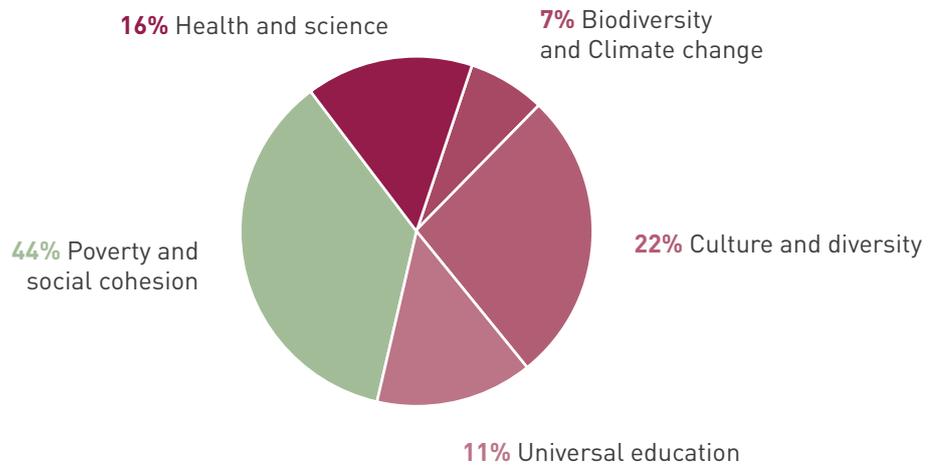
The Foundation acts as a consultant and service provider. It is a gateway to associations and NGOs around the world and can assist donors in the selection of their ideal charitable project. By providing an umbrella structure, donors benefit from a simplified structure that relieves them of the day-to-day 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.

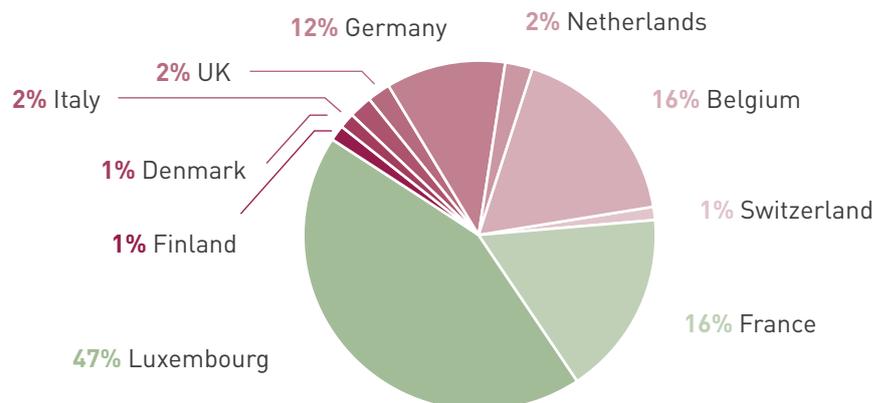
The Foundation has been a success with clients of the Luxembourg private banking community, where it has met growing demand. 64 foundations have been created under the scheme, 89% of them by private individuals or families.

Both the origin of donors and target beneficiaries reflect the diversification of the Luxembourg financial centre.

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 solid operational platform. The assistance programmes are provided with the support of the Luxembourg Government to over 40 selected country partners around the world.

The dual 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.

It 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 go beyond the "regular classroom").

In almost all cases, the 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 increasingly also certifications, some to an internationally recognised standard.

The work carried out by the House of Training on behalf of the Luxembourg Government is an investment that benefits all parties. The relationships developed through training activities provide contacts and develop goodwill between banks and bankers in both Luxembourg and its partner countries.

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 support and assistance for the development of the financial sectors of 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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