LuxFLAG Newsletter

N°10 - November 2013

LUXFLAG
Supporting Sustainable Finance

Dear Reader,

As Co-Chair of the ALFI Responsible Investing technical committee, it is a great pleasure for us to introduce this 10th edition of the LuxFLAG newsletter.

The "responsible investing" sphere, including microfinance and social impact finance, is living in interesting times:

The implementation of numerous European regulations (e.g. the Alternative Investment Fund Managers Directive, EMIR or the more specific regulation on European social entrepreneurships funds), the emergence of new tools such as crowdfunding, the important development of traditional investments taking into consideration non-financial analyses are all trends which represent a challenge for the Luxembourg financial centre but also a great opportunity to strengthen its positioning in and unrivalled support for responsible investing.

The coming months will present an opportunity to think outside of the box and to be creative with a view to setting up an innovative, reliable and adapted framework for responsible investing. The ALFI Responsible Investing technical committee looks forward to making its contribution to these initiatives and to working with other partners including LuxFLAG.

LuxFLAG as a labelling agency for investment funds has indeed a crucial role to play in providing reassurance to investors on the quality and reliability of the products they are investing in. Besides its current activity in the sphere of microfinance funds and environment funds, there is room – by creating new meaningful labels but not exclusively – for the organisation to play an accrued role and to support responsible investing through clarity, transparency and quality.

Enjoy reading this 10th edition of the LuxFLAG newsletter.

Anne Contreras
Uli Grabenwarter

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UNCDF – Sustainable Financing for Sustainable Inclusive Growth

Over the past thirteen years of the implementation of the Millennium Development Goals (MDGs), microfinance – when used with care and wisdom – has been a useful toolbox with proven impact on MDG 1 (poverty reduction), on MDG 3 (empowerment of women) and even on MDG 8 (global partnerships for development). Over the same period, cases of irresponsible practices in microfinance disguise have kept the industry on high alert, and if we were to look for the silver lining in these ruthless lending activities, it just might be that the collective consciousness for the importance of client protection has been sharpened with every misconduct.

With 2.5 billon adults still excluded today from formal financial services, financial inclusion is bound to remain high on the agenda of the international negotiations that are preparing the post-2015 development agenda. As a matter of fact, providing access to adequate financial services to poor underserved populations helps to fight subsisting inequalities and contributes to sustainable inclusive growth. In that spirit, UNCDF's advocacy efforts aim at policies and regulations that will foster financial inclusion, and we proudly support H.M. Queen Máxima of the Netherlands in her role as the UN Secretary-General's Special Advocate for Inclusive Finance for Development.

For UNCDF, financial inclusion is achieved when all individuals and businesses have access to and can effectively use a broad range of financial services that are provided responsibly, at a reasonable cost and by sustainable institutions in a well-regulated environment. This definition sits well with our overall mission to reduce poverty in the world's 49 least developed countries (LDCs), and the promotion of financial inclusion is one of our key strategies in doing so.

Under its unique financial mandate in the UN system, UNCDF provides seed capital – grants and loans – as well as technical support to ensure that more households and small businesses gain access to credit, savings, insurance and other financial services that expand economic opportunities and reduce vulnerabilities. Our ability to provide risk capital directly to the private sector allows to bring new financial products to underserved and hard to reach markets and spurs innovation. Through its flexible grant and loan instruments, UNCDF supports a wide range of financial services providers (e.g. MFIs, banks, cooperatives, money-transfer companies) and financial products and services (e.g. savings, credit, insurance, payment services, remittances). UNCDF also follows closely the new drivers of financial inclusion, most notably innovative distribution channels and technology for mobile money.

UNCDF's traditional country programmes have recently been reinforced by the development of Making Access Possible (MAP), a diagnostic and programmatic framework to expand access to financial services. The in-depth diagnostics and their related stakeholder processes are powerful catalysts for donor coordination and financing for national financial inclusion strategies. Our global programmes are designed to complement the country programmes by promoting product and institutional innovations that push the frontiers of financial inclusion.

On the background of low or even receding levels of traditional sources of financing for development, UNCDF is pleading for a smarter use of Official Development Assistance (ODA), leveraging both local resources and private sector engagement.

In a well structured South-South cooperation approach, UNCDF's financial incentives have for example prompted microfinance leaders from the South to invest with their own capital in the more challenges markets in the LDCs, generating local savings at unexpectedly high rates.

With regard to the private sector, new sources of financing for sustainable development are today available with investors who share with us the double concern for economically viable projects and duly documented social and environmental impact. At UNCDF, we are actively exploring the pertinence and feasibility of launching an investment vehicle to channel funding from responsible investors and impact investors to investment opportunities with social and environmental development results in LDCs. Our ability to provide pre-investment and seed capital will help to create the enabling environment and to de-risk the field for like-minded financial partners.

A financial structure of that kind, as well as proactive promotion of local savings and resources, will allow to respond with adequate tools to development finance needs, including for microfinance funding.

www.uncdf.org/fipa

Marc Bichler, *Executive Secretary, UNCDF*

Luxembourg: Centre of excellence for MIVs

Over the past fifteen years, Luxembourg has gained a reputation as the center of choice for microfinance investment vehicles (MIVs) and is also now becoming the domicile of choice of impact investment funds. Thanks to its flexible legal and regulatory framework, Luxembourg has seen the creation of securitisation vehicles, publicly offered funds, equity funds, and debt funds that have enabled public investors, institutional investors but also private individual investors to support the development of microfinance throughout the world. All this experience is now being used to develop even more innovative vehicles to the benefit of impact finance projects. The Luxembourg fund industry is the place where the development world and the traditional funds' world is meeting. Just as microfinance at its core is traditional finance tailored to micro-entrepreneurs, MIVs and other impact investment funds are traditional investment funds tailored to the needs and specificities of providing funding to microfinance institutions (MFIs) and social or environmental impact projects.

Therefore before examining the structures, domicile, legal form or any other features to select when setting up an impact investment fund, it is essential to carefully design a clear and robust investment strategy. Such exercise can be challenging due to the dual objectives of an impact investment fund, combining financial and social objectives and, in some cases, environmental goals. The importance of a strong strategy and related business plan cannot be overestimated as it is the strongest determinant of success. The development of such strategy is a cyclical process of testing the concept of the fund with the target investee market and with the investors identified by the fund's developer. The success of a new fund lies indeed in its ability to meet the needs of the impact sector to be supported and the demands of its targeted investors.

The impact finance sector is not a homogeneous sector and, therefore, the demands of the investors and the investees in this sector are very diverse. In particular, to clearly position its fund in the universe of available funding, the promoter of an impact investment fund will need to identify the geographic focus (e.g. Asia, Africa, Southeast Europe or worldwide), the targeted end-clients (e.g. rural SMEs) and the type of investees (e.g. early stage, growth stage or mature investees). This is even more important for MIVs as the provision of funding to MFIs has considerably matured over the last 10 years and new funds need to clearly distinguish themselves from existing MIVs already present in the market. Finally the instruments that the fund would offer, such as debt, equity or guarantees, in hard or in local currencies, with short or long tenors, would need to be aligned with the investment focus of the fund and the actual needs and cash flow models of its investees. For example, some funds already integrate from day one in their investment strategy the fact that a significant portion of its debt portfolio will have to be restructured at some point in time of its tenor in order to cater for potential cash flow issues of its target investees.

On the other side, the portfolio strategy needs to be attractive to the investors targeted. From past experience, the identification of the targeted investors, and gauging their level of interest, tends to be the weakest aspect of the business plan development, as developers of funds may have a "build it and they will come" attitude. The key therefore is to develop deep market knowledge of investors, including their risk appetite, their liquidity and return expectations, and the key understanding of why they are investing in such a market. A benefit to setting up a structure in Luxembourg is that fund developers do not need to focus on just one type of investor. Funds can be set-up so that different types of investors take different levels of risk with some investors taking the first-loss risk, while others would invest in mezzanine or senior tranches. Therefore, it is possible to target more than one type of investor, such as institutional investors, high net-worth individuals, donors (for example, foundations), and development finance institutions within a single fund. The Luxembourg regulatory framework enables fund designers to fully tailor investments funds to the needs of their targeted investors. This has been successfully developed since 2005 with the establishment of several structured investment funds, such as the European Fund for Southeast Europe, the Rural Impulse Fund II, the Microfinance Enhancement Facility or REGMIFA for MIVs but also other impact finance funds such as the Global Climate Partnership Fund, the Green for Growth Fund and the Africa Agriculture and Trade Investment Fund.

Once a general strategy has been decided upon, the feasibility of the chosen fund structure needs to be more formally tested, with a focus on quantitative testing, through a precise financial modeling and scenario and stress testing. Combining the strategy, the feasibility and the structure of the fund is a cyclical process whereby the idea of the fund is tested and revised as necessary and the legal and financial structure gradually adjusted to the investment strategy. The structure of the fund needs to reflect the choice of the promoter in terms of social goals as well as in terms of financial aspects, such as the time frame of the investments, target investees or the risk factors.

One of the benefits of establishing such a fund in Luxembourg is the deep knowledge base of experts in the field. In addition to one or several investment managers, MIVs and other impact investment funds are required as any other funds to have a custodian, an administrative agent, and auditors. There is now in Luxembourg a large group of firms to choose from, including legal advisors and specialised consulting firms, with a strong expertise in the microfinance and impact finance fields and which have developed their expertise in response to the requirements of investors, investment managers and promoters active in the impact finance world. Choosing those strong partners who are knowledgeable in this new area of the Luxembourg investment fund industry is a key component of creating a successful impact investment fund.

Arnaud Gillin, Patrick Goodman, *Partner, Innpact*

EMIR, AIFMD: What's new?

EMIR (European Market Infrastructure Regulation) and AIFMD (Alternative Investment Fund Managers Directive) have been hot topics for some years now. But over the last few months, there has been a shift from theory to practice.

AIFMD

The Alternative Investment Fund Managers Directive (AIFMD) sets out obligations for AIFMs (Alternative Investment Fund Managers) to report extended portfolio data and risk measures on a regular basis to their national competent authorities. It is clear that the European legislator seeks to improve transparency towards regulators as well as to provide the European Systemic Risk Board with tangible means for monitoring systemic risks.

On 1 October 2013, the European Securities and Markets Authority (ESMA) published its long-awaited final report setting out detailed guidelines for those reporting obligations.

One good thing is that the ESMA final report brought clarity on content and on the timelines of the reporting regime. Nevertheless there is still a lack of certainty concerning the first reporting date obligation.

First of all, it is important to bear in mind that the all AIFMs, being authorised or registered, have to comply with reporting requirements. Thus registered AIFMs have less stringent obligations in terms of data to be provided and applicable reporting frequencies.

For registered AIFMs, the reports have to be produced at the end of every calendar year. The first reporting obligation for those funds will be end of 2014.

For authorised AIFMs, the reporting can either be quarterly, half-yearly or yearly. The frequency will be quarterly for any AIFM managing more than EUR 1 billion assets and half-yearly for those with less than EUR 1 billion. Nevertheless, for AIFs of more than EUR 500 million assets under management, the reporting to be produced at the AIF level (being the sub-fund for an umbrella fund) shall remain quarterly in any case. These generic rules do not apply for AIFMs managing only unleveraged AIFs investing in non-listed companies in order to acquire control or for such AIFs. The reporting frequency will be yearly for such entities.

The first reporting obligation starts the first day of the quarter following the AIFM's agreement. For instance, an AIFM having half-yearly reporting obligations which has been authorised the 15th of February 2014, will need to produce its first report as at June 30, 2014 for the second quarter only and on a half-yearly basis thereafter.

As these reporting obligations are rapidly approaching, it is now important for AIFMs to quickly define the solution they will rely on, taking into consideration that the timeline is not the only challenge ahead

EMIR

EMIR is a new EU Regulation on OTC Derivatives, adopted on 4 July 2012 that comprises four main chapters:

- Reporting to trade repositories;
- Clearing obligations;
- Risk mitigation requirements for non-centrally cleared trades (incl. Timely confirmation, daily valuation, dispute resolution and porfolio reconciliation);
- Requirements for central clearing counterparties (CCPs) and trade repositories (TRs).

One could think that responsible funds, generally not resorting to OTC derivates in their investment strategy, are not really concerned with EMIR.. That is not exactly the case. According to EMIR, forex forward contracts, often used by responsible funds to hedge their currency exposure, are considered as OTC derivatives. A large number of them will be then actually impacted.

New requirements linked to the risk mitigation are now gradually being implemented. Two of them may have significant impact: the portfolio reconciliation and the daily valuation.

- Since 15 March 2013, all OTC counterparties who are established in the EU, are required to mark-to-market or mark-to-model where market conditions prevent marking-to-market, on a daily basis, the value of outstanding non-cleared OTC derivatives. This could be an issue for OTC derivatives in exotic currencies.

- Since 15 September 2013, these counterparties must also have in place arrangements with each of their counterparties for the reconciliation of their portfolio of OTC derivatives.

  The frequency of portfolio reconciliation will depend on how many OTC derivative contracts are outstanding between counterparties. Daily reconciliations will be required when the number of outstanding OTC derivative contracts between counterparties is greater than 500. Weekly reconciliations will be required when the number of outstanding OTC derivative contracts between counterparties is greater than 50 and less than 500. Quarterly reconciliations will be required when the number of OTC derivative contracts between counterparties is less than 50.

  The identity of the party with responsibility for conducting the portfolio reconciliation is a function of each party's elected status as either a "Portfolio Data Sending Entity" (a "Sender") or a "Portfolio Data Receiving Entity" (a "Receiver").

  Three scenarios are possible:
  - Both counterparties have opted for Data sender status: the reconciliation will be then performed by both
  - One counterparty is data sender, the other data receiving: the data receiver performs reconciliation
  - Both counterparties are Data Receiver: parties have to agree an alternate reconciliation process

  OTC counterparties without the desire or the infrastructure necessary to perform a portfolio reconciliation, may decide to delegate the reconciliation function to a third party. Knowing that portfolio reconciliation is also a part of the NAV control process, one can imagine that a delegation to fund administrator could be an appropriate alternative option.

Even if AIFM and EMIR do not impact directly the NAV calculation process, we think at EFA that the fund administrator will have a key role to play in supporting funds and investment managers in their new AIFMD reporting obligations and EMIR reconciliation and valuation processes.

Christine Gregoire, *Business Development Manager, EFA*

The development of Shariah-compliant funds in Luxembourg

Luxembourg has a long history in Islamic finance. It first appeared in the Grand-Duchy in 1978 with the arrival of the first Islamic finance institution to set up in a western country. Five years later, the first Shariah-compliant insurance company in Europe was established in Luxembourg and, in 2002, Luxembourg was the first European stock exchange to list a sukuk. The pace has picked up sharply in the past few years with 2012 and the first half of 2013 being an especially active period for the Luxembourg Islamic finance community with several new Shariah-compliant funds launched. Luxembourg currently ranks No. 5 worldwide and first in Europe in the number of Shariah-compliant domiciled funds, at 41 funds with €4 billion in assets under management. This article looks at the main drivers behind the recent acceleration of the development of Shariah-compliant funds activities in Luxembourg.

UCITS and its distribution passport

Luxembourg's strengths in conventional investment funds make Shariah-compliant investment funds a natural next step. Over the past 25 years, the Grand Duchy has become the leading centre for global fund distribution and Europe's number one fund domicile in terms of assets. While Luxembourg's success in the fund industry is a result of its business model, it is above all the success story of a truly European idea: the UCITS framework, which was implemented in Luxembourg 25 years ago.

UCITS stands for "Undertaking for Collective Investment in Transferable Securities", and derives from a European Directive of 20 December 1985 that introduced a single EU-wide regulatory regime for open-ended funds investing in transferable securities such as shares, or bonds. This Directive is aimed at ensuring high levels of investor protection; it regulates the organisation, management and oversight of UCITS funds, and sets rules for diversification, liquidity and risk management.

One key aspect of UCITS is the "European passport," which makes it easy for a fund domiciled in one EU country to be sold to investors in all the others. Over the years, UCITS has become a strong global brand, and these funds are now well accepted in many non-European jurisdictions. Today Luxembourg-domiciled investment structures are distributed in more than 70 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

Over time, Luxembourg has also become the leading centre for global distribution of investment funds. By the end of 2010, 70% of all funds sold in at least three countries were domiciled in the Grand Duchy, and its leadership in cross-border fund distribution has made a decisive contribution to its growth, attracting fund promoters from around the world. More recently, these have included promoters of Shariah-compliant funds - a natural development, since the UCITS structure is well suited to the principles of Islamic finance. Because UCITS funds are designed primarily for retail investors, their main concern is safety, and their rigorous investment policies are consistent with Shariah law's prohibition of *gharar* (uncertainty). UCITS funds are therefore especially appropriate for Shariah-compliant fund promoters targeting retail or institutional investors worldwide.

The list of fund promoters with Shariah-compliant vehicles in Luxembourg shows that prominent international names in conventional investment funds have been quick to climb aboard. In most cases, these promoters already had a conventional range domiciled in Luxembourg and simply added a Shariah-compliant fund. More recently, players from the Middle East have also begun setting up funds in the Grand Duchy. These promoters usually already operate funds for domestic investors in their home countries but have difficulty selling them abroad. For them, Luxembourg's international reach has definite appeal. While this is still a recent trend, it is set to intensify in the coming months, with a number of projects now in the pipeline.

Though UCITS is the preferred structure for Islamic fund promoters targeting retail or institutional investors in different countries, SIFs (specialised investment funds) and other structures may be more appropriate, depending upon the promoter's investment strategy and targeted investor base. An example of local player using that structure is Jeddah based Sedco Capital which successfully launched its first SIF in spring 2012.

When SIFs were introduced in 2007, they paved the way for a new generation of regulated alternative investment funds targeting an international, qualified investor base. More than 1,500 SIFs have been launched since this option was created, and they are often used for Shariah-compliant real estate and private equity funds.

Developments at the institutional level

Islamic finance has also benefited from initiatives by Luxembourg's government, which is strongly committed to helping it grow. In early 2008, the government set up a taskforce to identify obstacles to the development of Islamic finance and suggest ways to promote its growth.

ALFI, the representative body of Luxembourg's fund industry, simultaneously launched a dedicated working group that conducted research into assets eligible for Shariah-compliant UCITS funds. The group's report concluded that Luxembourg was able to offer a range of vehicles (such as UCITS and SIFs) that are appropriate for Shariah-compliant investment, meeting the specific needs of both investors and promoters without additional legislation.

In a note published in May 2011, the CSSF, the Grand Duchy's financial regulator, took the same view, concluding that no specific legislation was required for Shariah-compliant investment funds, since Luxembourg's current law contains no obstacles to it. The CSSF also noted that the role of the Shariah Board would have to be described in each fund's prospectus.

Taxation was the only area in which special action has been taken. In January 2010, Luxembourg's direct tax authority published a circular on Islamic finance, clarifying the tax treatment of *murabaha* contracts and *sukuk* transactions, and in June 2010, a circular from the indirect tax authority clarified treatment of *murabaha* and *ijara* contracts.

Administration of Islamic funds raises another essential question. Administrators are naturally required to understand how Shariah-compliant funds work, but their systems must also be adapted to accommodate them. Shariah law bans usury and short selling, and prohibits investment in forbidden goods and services, and complying with these requirements affects administration of an Islamic fund. For example, in a long-only Shariah fund, the administrator will provide oversight on the fund manager by monitoring and checking for shariah compliance: if an improper trade is made (e.g., the shares of a company engaged in *haram* business are traded), the administrator will cancel the trade, with any losses covered by the manager and any gains donated to charity. Also, because a Shariah-compliant fund cannot earn interest on its investments, standard cash management services often cannot be used, since cash held by Shariah funds must be kept separate from cash held by all other funds. And because most commonly-used fund accounting platforms cannot provide Shariah-compliant fund accounting, service providers often have developed their own reporting method to comply with Shariah rules.

In July 2008, ALFI launched a working group to identify potential operational challenges linked to service Shariah-compliant funds, find solutions, and recommend standard practice for local players. In the course of their work, the group's members have built a shared understanding of the operational challenges faced by Shariah-compliant funds and their service providers. This work was the basis of what would become the "ALFI collection of best practices for setting-up and administering Shariah-compliant funds in Luxembourg" published in December 2012. These guidelines provide in-depth information and guidance on the legal framework, the fund set-up process, administration, custody and depository bank services for Islamic funds in Luxembourg. It also gives a high level indication of whether Islamic finance instruments are compatible with Luxembourg UCITS laws and should enable service providers who are already active in this field to align themselves with greater consistency and provide guidance to new entrants as to all the areas that need to be considered. Indeed, over the years, most service providers in Luxembourg have set-up dedicated teams looking at Shariah funds. This collection of best practices will further contribute to establish Luxembourg as the centre of reference for servicing Shariah compliant funds, whether they are domiciled here or elsewhere.

Today, Islamic Finance is still a niche activity in Luxembourg - but this is clearly only the beginning of the story. Key figures in both the public and the private sector see Shariah-compliant funds as a promising opportunity for growth, the infrastructure is in place and many new projects are in the pipeline.

Pierre Oberlé, *Business Development Manager, ALFI*

Networking activities

global media forum	Sachin Vankalas, Operations Officer of LuxFLAG was invited to participate in a panel on 'the Female Economic Factor: How Women's Access to Savings and Loans Fosters Development and Growth' at the Global media forum organized by Deutsche Welle in June 2013.
INVESTMENT EUROPE	Daniel Dax, General Manager of LuxFLAG gave a keynote speech on role of LuxFLAG in responsible investing in Investor Forum organized by the Investment Europe publication in Amsterdam in October 2013.
alfi association of the luxembourg fund industry	Sachin Vankalas, Operations officer of LuxFLAG took part in a panel discussion on Responsible Investing in ALFI roadshows in Zurich and Geneva in October 2013.
alfi association of the luxembourg fund industry	Anne Contreras, Co-Chairwoman of the ALFI Technical Committee on Responsible Investing took part in a panel discussion on Responsible Investing in ALFI roadshows in Frankfurt in November 2013.
EUROPEAN MICROFINANCE PLATFORM NETWORKING WITH THE SOUTH	Sachin Vankalas, Operations Officer of LuxFLAG participated in a panel discussion on 'How to support financial market infrastructure in the financial inclusion space' at the European Microfinance Week to be held in Luxembourg in November 2013.
Luxembourg Round Table on Microfinance	LuxFLAG actively participated in meetings of the Luxembourg Roundtable on Microfinance held in Luxembourg during 2013

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Microfinance

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MICROFINANCE

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Labelled Microfinance Funds as of October 2013

Name of the MIV	Legal form	Domicile	Labelled since
Access Africa Fund	*LLC*	*USA*	*May 2012*
Advans SA	*SICAR*	*LU*	*Oct 2010*
Azure Global Microfinance Fund	*SICAV-SIF*	*LU*	*Dec 2011*
Capital Gestion Microfinance Fund	*SICAV Part II*	*LU*	*Oct 2012*
Dexia Micro-Credit Fund- Blue Orchard Debt sub-fund	*SICAV Part II*	*LU*	*Feb 2007*
Dual Return Fund-Vision Microfinance	*SICAV Part II*	*LU*	*Oct 2008*
Dual Return Fund - Vision Microfinance Local Currency	*SICAV Part II*	*LU*	*Oct 2011*
Etimos Fund – Global Microfinance Debt	*SICAV-SIF*	*LU*	*Oct 2011*
Finethic Microfinance SCA	*SICAV-SIF*	*LU*	*Oct 2010*
Fonds Européen de Financement Solidaire (FEFISOL), S.A.	*SICAV SIF*	*LU*	*May 2012*
KCD Mikrofinanzfonds I	*SICAV-SIF*	*LU*	*Oct 2010*
KCD Mikrofinanzfonds II	*SICAV-SIF*	*LU*	*Oct 2010*
Luxembourg Microfinance and Development Fund	*SICAV Part II*	*LU*	*May 2011*
Microfinance Enhancement Facility SA,	*SICAV-SIF*	*LU*	*Oct 2011*
Regional MSME Investment Fund for Sub-Saharan Africa SA,	*SICAV-SIF*	*LU*	*May 2011*
responsAbility Global Microfinance Fund	*FCP Part II*	*LU*	*Feb 2007*
responsAbility Financial Inclusion Fund	*SICAV Part II*	*LU*	*Dec 2011*
responsAbility – Mikrofinanz-Fonds	*SICAV Part II*	*LU*	*May 2008*
responsAbility – Microfinance Leaders	*SICAV Part II*	*LU*	*May 2008*
Rural Impulse Fund S.A.	*SICAV-SIF*	*LU*	*May 2008*
Rural Impulse Fund II S.A.	*SICAV-SIF*	*LU*	*May 2011*
The European Fund for Southeast Europe SA,	*SICAV-SIF*	*LU*	*Feb 2007*
Triodos Microfinance Fund	*SICAV Part II*	*LU*	*Oct 2010*
Wallberg Global Microfinance Fund	*FCP Part II*	*LU*	*Oct 2010*
WWB ISIS Fund	*LLC*	*USA*	*July 2013*

2ND USA domiciled fund received the LuxFLAG Microfinance Label

WWB Isis Fund, LP, a Delaware (USA) domiciled fund received the LuxFLAG Microfinance Label in June 2013. The fund has been established to make direct minority equity investments in high-performing, women-focused, microfinance institutions ("MFIs") worldwide in accordance with the investment program. The fund is promoted by the Women's World Banking (WWB) network which is a nonprofit organization that provides strategic support, technical assistance and information to a global network of 40 independent microfinance institutions (MFIs) and banks that offer credit and other financial services to low-income entrepreneurs in the developing world, with a particular focus on women. The WWB network serves 24 million micro-entrepreneurs in 28 countries worldwide, of which 80 percent are women. It is the largest global network of microfinance institutions and banks in terms of number of clients, and the only one that explicitly designates poor women as the focus of its mission. The investment program focuses on woman because WWB believes that:

Women represent a large, underserved market: although poverty data is not reported by sex in most countries, it is widely estimated that women make up the majority of the world's poor — owing to unequal access to resources and opportunities, discriminatory land and inheritance laws, and unequal distribution of household resources.

Women hold the key to advancement of families and societies: when women generate income, the entire family usually benefits. Evidence suggests that providing women access to financial services results in greater development benefits for poor families, as women tend to invest their resources in family priorities. 8 They typically focus on improving the lives of their children and families, as consumers of better food, clothing, shelter, health care and education. As a result, the impact of a woman's access to financial products and services is felt outside her immediate environment and can extend to her family, community and society.

Women also represent a profitable customer base: women tend to be cost-effective clients in that they are characterized by high customer loyalty. 9 Given that customer retention is more cost-effective than acquisition of new customers, women-focused institutions may realize cost savings in the maintenance of their existing customer bases.

Call for applications

LuxFLAG invites application for the LuxFLAG Microfinance Label around the year. The next application dates are as follows:

Submission of application along with the documents	3rd week of February 2014
Meeting of the LuxFLAG Microfinance Label Eligibility Committee	1st week of March 2014
Meeting of the Board of Directors	3rd week of March 2014
Final decision on the labels	3rd week of March 2014

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Environment

Ensuring peace of mind for investors

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ENVIRONMENT
LUXFLAG

Ocean Power: a promising complement to Green Energy

Globally, the market for renewable energy is continuing to grow sharply. The benefits of energy security and close to zero pollution make renewable energy a key answer to our future sustainable economic development.

To date, the ocean - an endless source of energy - only represents a fraction of electricity production from renewable sources. Nevertheless, the current development of several technologies, expected to accelerate and in some cases reach maturity as early as 2015, brings promising prospects. OES* estimates that ocean energy would represent 2% of global electricity production in 2050, about 1.2 million direct jobs and carbon savings of 1 GT of CO_2. The five main technologies currently in development are as follows:

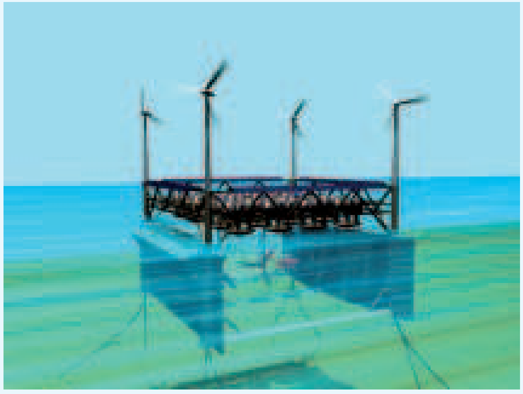
Floating offshore wind turbines are mounted on a floating structure while undersea cables are used to take the electricity onshore. This significant improvement over fixed-base turbines should be seen as a growth driver for the wind power sector.

Tidal current energy turbines are designed to convert the kinetic energy of ocean and tidal currents into electricity. Several prototypes which are now being developed, especially in the UK and France, point to an imminent market launch and commercial deployment as early as 2015.

Wave power offers a large source of energy that can be converted into electricity using either fixed devices or mobile devices at sea. Several projects have been implemented in the past two years. However, the diversity of concepts makes it currently difficult to assess their costs or market schedule.

Ocean thermal energy conversion technology relies on a temperature difference of at least 20°C between warm surface water and cold deep water which makes it mainly deployable in tropical waters. It has the advantage of producing renewable energy on a continuous basis. The development of the technology is still at the prototype phase.

Salinity gradient energy is generated through an osmotic process based on the difference in salt concentrations between seawater and freshwater (mainly found in estuaries and fjords). The technology is still in the early research and development stages. The world's first prototype osmotic power plant has been set up in Norway.



The key success factors to develop/implement such technologies cover three dimensions:

- Favorable natural environment such as large coastline and offshore territories;
- Dedicated national initiatives supported by Government;
- Ability to create synergies between the public, private and academic sectors;

To date, the GBP 200m Marine Energy program launched in 2011 by the United Kingdom resulted in the deployment of more wave and tidal stream devices than the rest of the world combined**. Similarly, the Irish government has committed to a target of 500 MW of ocean energy by 2020.

In Sweden, the government via its Energy Agency strongly supports research efforts in parallel with private capital and technological institutes and universities. Such collaboration recently resulted in the construction the world's largest wave energy plant on the west coast of the country.

While very encouraging, these recent initiatives - also deployed in South Korea, Canada and France - should not mask the main constraint of the industry which lies in its current high cost, given that the industry has currently not reached its critical mass. Large-scale deployment will thus depend on the sector's ability to address these technological and economic challenges.

Laurent Capolaghi, *Manager EY*
Christofer China, *Private Equity*

* Ocean Energy Systems (OES), the international technology collaboration initiative on ocean energy under the International Energy Agency (IEA)

** according to RenewableUK

Triodos Renewables Europe Fund; Going the extra mile

Triodos Renewables Europe Fund has been designed to offer investors the opportunity to actively contribute to the growth of renewable energy production in Europe. It invests in small to medium-sized European producers of green power, primarily wind farms and solar energy power plants. Triodos Renewables Europe Fund is an initiative of Triodos Bank NV. Long before climate change gained mass media attention, Triodos Bank was interested in energy production and consumption, and its impact on people and planet earth. It has been an active investor and financier of clean energy initiatives in Europe and developing countries for more than 25 years. Triodos Renewables Europe Fund was launched in June 2006 as a sub-fund of Triodos SICAV II, the first Luxemburg investment company to be launched by Triodos Bank.

The fund invests in small to medium-sized wind farms and solar energy power plants. In the development of these renewable energy projects Triodos Renewables Europe Fund does not only strive for a more sustainable world for mankind, but also for wildlife and vegetation. So, where possible the fund tries to take the environment into account when developing new projects. This has been done for instance with the development of wind farm Roggeplaat, which is located on the Eastern Scheldt storm surge barrier (Oosterscheldekering) in Zeeland, one of the windiest locations in the Netherlands. Last year four new turbines, that are expected to produce three times more renewable energy than the former 12 turbines, were installed. When planning the installation of the new turbines the breeding season was taken into account, as Roggeplaat also offers a refuge for a lot of birds. The four new turbines have now successfully become operational without having disturbed the breeding season. Another great example is a wind farm in Midlum, Germany. The project consists of 70 turbines. At this wind farm nine hectares of agricultural land were 'given back' to nature and we now see the return of several species and plants that have been absent in that area for many years.

For Triodos Renewables Europe Fund this is also part of the deal of being an impact investor; being sustainable in every aspect possible.

Labelled Environmental Funds as of October 2013

Name of the EIV	Legal form	Domicile	Labelled since
BNP Paribas Aqua	*SICAV SIF*	*LU*	*Dec2012*
BNPP L1 Equity World Aqua	*FCP*	*FR*	*April 2013*
Global Energy Efficiency and Renewable Energy Fund	*SICAV*	*LU*	*June 2013*
Green for Growth Fund, Southeast Europe SA,	*SICAV-SIF*	*LU*	*Dec 2011*
Living Planet Fund – Global Environment	*FCP Part I*	*LU*	*Oct 2012*
Lux-Equity Eco Global	*SICAV Part I*	*LU*	*Dec 2011*
Parvest Environmental Opportunities – SICAV	*SICAV Part I*	*LU*	*Dec 2011*
Parvest Global Environment – SICAV	*SICAV Part I*	*LU*	*Oct 2012*
Triodos Renewable Europe Fund	*SICAV Part II*	*LU*	*Jul 2013*

Call for applications

LuxFLAG invites application for the LuxFLAG Environment Label around the year. The next application dates are as follows:

Submission of application along with the documents	3rd week of February 2014
Meeting of the LuxFLAG Environment Label Eligibility Committee	1st week of March 2014
Meeting of the Board of Directors	3rd week of March 2014
Final decision on the labels	3rd week of March 2014

LuxFLAG
Associate Membership

Application Form*

Name of the entity

Address

Web-site

Number of employees

Nature of the business (*max. 135 characters incl. spaces*)

Activity or interest in the purpose of LuxFLAG

I/We therefore declare that:

- I/we want to apply for Associate Membership of LuxFLAG;
- I/we read the Statutes of the Association, and accept and agree to be bound thereby;
- I/we are qualified for Associate Membership under the Statutes of the Association;
- I/we allow LuxFLAG to place a link on its website to the website of my/our entity;
- I/we agree to pay its dues.

Request submitted by:

Name - Position | Signature

Name - Position | Signature

Place - Date

Contact person:

Name | E-mail

Phone | Fax

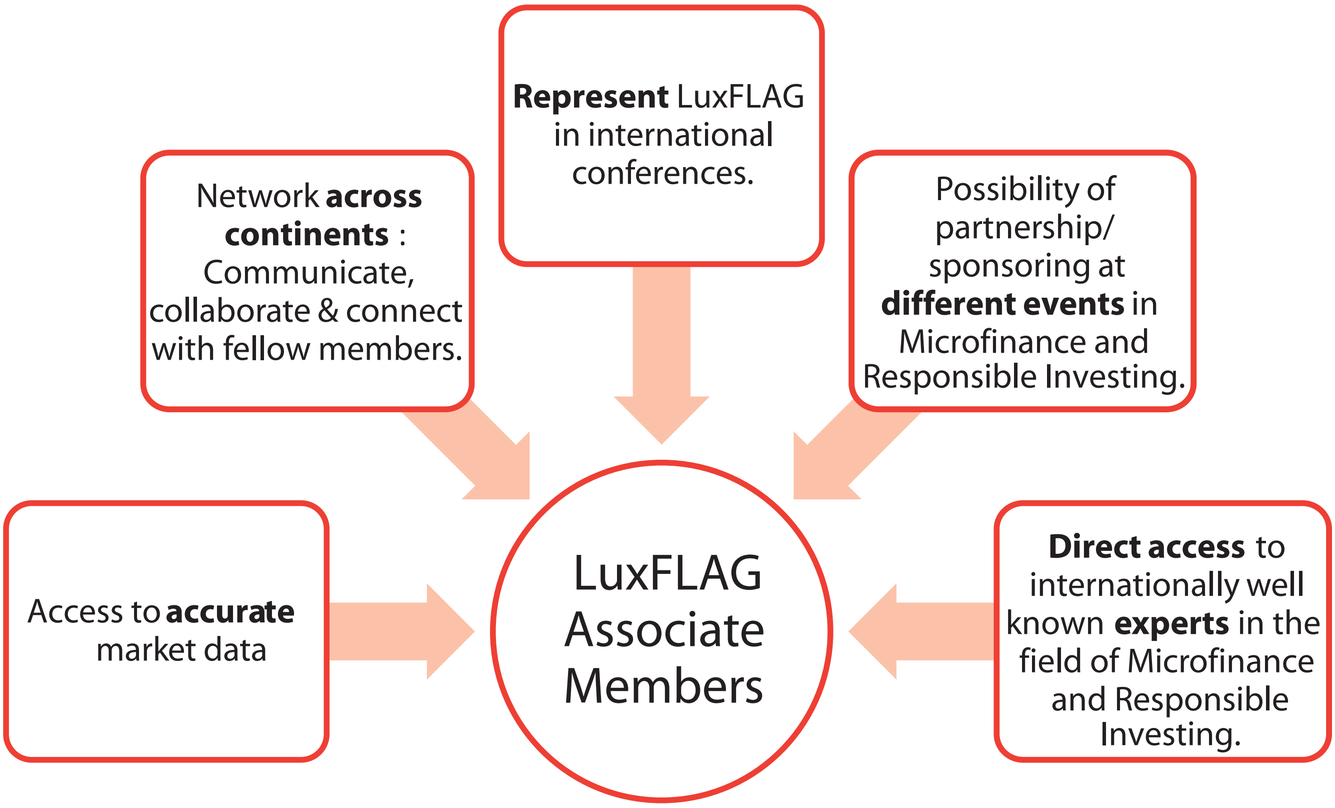
LUXFLAG
Supporting Sustainable Finance

* Please send this form to LuxFLAG (together with a copy of your latest Annual Report), to the following address:

Luxembourg Fund Labelling Agency (LuxFLAG)
12, Rue Erasme
L-1468 Luxembourg-Kirchberg
Mail address: B.P.206
L-2012 Luxembourg

To contact us:
Luxembourg Fund Labelling Agency (LuxFLAG)
12, Rue Erasme
L-1468 Luxembourg-Kirchberg
Tel: +352 22 30 26 - 1
Fax: +352 22 30 93
E-mail: info@luxflag.org
Web-site: www.luxflag.org

Benefits of Associate Membership of LuxFLAG



LUXFLAG
Supporting Sustainable Finance

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