



## **PUBLIC TRANSPARENCY REPORT**

**2024**

### **European Stability Mechanism**

Generated 25-11-2024

# About this report

PRI reporting is the largest global reporting project on responsible investment. It was developed with investors, for investors.

PRI signatories are required to report publicly on their responsible investment activities each year. In turn, they receive a number of outputs, including a public and private Transparency Report.

The public Transparency Reports, which are produced using signatories' reported information, provide accountability and support signatories to have internal discussions about their practices and to discuss these with their clients, beneficiaries, and other stakeholders.

This public Transparency Report is an export of the signatory's responses to the PRI Reporting Framework during the 2024 reporting period. It includes the signatory's responses to core indicators, as well as responses to plus indicators that the signatory has agreed to make public.

In response to signatory feedback, the PRI has not summarised signatories' responses – the information in this document is presented exactly as it was reported.

For each of the indicators in this document, all options selected by the signatory are presented, including links and qualitative responses. In some indicators, all applicable options are included for additional context.

## Disclaimers

### Legal Context

PRI recognises that the laws and regulations to which signatories are subject differ by jurisdiction. We do not seek or require any signatory to take an action that is not in compliance with applicable laws. All signatory responses should therefore be understood to be subject to and informed by the legal and regulatory context in which the signatory operates.

### Responsible investment definitions

Within the PRI Reporting Framework Glossary, we provide definitions for key terms to guide reporting on responsible investment practices in the Reporting Framework. These definitions may differ from those used or proposed by other authorities and regulatory bodies due to evolving industry perspectives and changing legislative landscapes. Users of this report should be aware of these variations, as they may impact interpretations of the information provided.

### Data accuracy

This document presents information reported directly by signatories in the 2024 reporting cycle. This information has not been audited by the PRI or any other party acting on its behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented. The PRI has taken reasonable action to ensure that data submitted by signatories in the reporting tool is reflected in their official PRI reports accurately. However, it is possible that small data inaccuracies and/or gaps remain, and the PRI shall not be responsible or liable for such inaccuracies and gaps.

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# SENIOR LEADERSHIP STATEMENT (SLS)

## SENIOR LEADERSHIP STATEMENT

### SENIOR LEADERSHIP STATEMENT

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SLS 1	CORE	N/A	N/A	PUBLIC	Senior Leadership Statement	GENERAL

#### Section 1. Our commitment

- Why does your organisation engage in responsible investment?
- What is your organisation's overall approach to responsible investment, and what major responsible investment commitment(s) have you made?

As a public institution whose mandate is to mobilise funding and provide stability support when required to safeguard euro area financial stability, the ESM recognises the key role capital markets play in that mission. As a crisis resolution mechanism, the ESM both finances its assistance to its Members (i.e. the euro area member states) through capital markets, and invests the funds entrusted to it by its Members in those markets. With its funding and investment activities steeped in capital markets, the ESM understands that embedding ESG factors in its market dealings and internal operations will encourage more sustainable outcomes for the societies it serves.

In recent years, the ESM therefore ramped up its efforts to improve its ESG practices, launching a series of initiatives. This included signing the PRI in February 2020 and developing an ESG scoring approach for its €80.5 billion paid-in capital.

The ESG scoring approach remains compatible with the institution's key investment objectives and requirements, i.e. liquidity, constant availability of ESM's maximum lending volume, creditworthiness, and return. To compute the scores of its paid-in-capital, the ESM selected Moody's Vigeo Eiris as its ESG data provider, chosen for its scoring methodology, coverage of the ESM investment universe, focus on ESG performance, and balanced approach across ESG criteria. The ESM applies this score on the aggregate exposure to all sovereign, sub-sovereign, and agency issuers from a given country. It covers most of the eligible issuer base of ESM's paid-in capital and enables the assessment of those on all three dimensions of ESG. This approach allows the ESM to examine the ESG impact of each issuer's overall activity and evaluate the ESG profile of its investments. The ESM again published the weighted average ESG scores of its paid-in capital in 2023, as well as the average score per asset type. In addition, the ESM added a score for the ESM balance sheets' total assets, including outstanding loans to Members (See Section 2 for further detail). The ESM seeks to provide more granular information, as it further develops its monitoring tools.

Furthermore, the ESM also increased its allocation to ESG-labelled bonds. At the end of 2023 the ESM held €5.2 billion of such bonds in marked-to-market terms, up from €4.5 billion in 2022. Of these, €5.1 billion were compliant with the International Capital Market Association (ICMA) principles, with a predominant share dedicated to green bonds, while the remaining amount of €0.1 billion was evenly distributed between social and sustainability bonds.

In addition to the ongoing developments in investment practices, risk governance processes and policies are in place for the institution-wide management and oversight of financial and non-financial risks inherent in the ESM's mandate and operational activities. During 2023, the Risk Management division developed an internal methodology to perform a pilot climate risk materiality assessment to identify the potential effects of both physical and transition risks on the ESM's investment portfolios and counterparties. Details of this methodology are provided throughout this report. The ESM will continue to follow best practices and external guidelines to update and further enhance its methodologies and procedures for climate risk management.

Furthermore, ESM's compliance function undertakes a review for anti-money laundering, sanctions compliance, and conduct issues for financial institutions engaged with the ESM on market dealings (trading counterparts).

Additionally, an organisational strategic plan has been created to incorporate ESG best practices into the activities of the wider organisation. This includes the development of tools and metrics to formalise the identification, integration, and monitoring of climate risk in ESM's macro-financial and post-programme surveillance; financial assistance; and risk management frameworks. Given the importance of ESG for ESM investors and other stakeholders, the ESM also regularly engages with stakeholders by providing updates on its ESG activities and addressing investor community feedback. A recently established internal ESG and Climate Change Strategic Steering Group has been coordinating cross-divisional ESG initiatives since 2022. The group, which comprises several members of the ESM Management Board, guides a working-level liaison group to facilitate cross-divisional collaboration.

The ESM also contributes to policy discussions and promotes best practices. This is illustrated through its membership and active participation within the ICMA Social Bond Working Group since 2019. Additionally, the ESM has been an observer of the European Commission's Platform on Sustainable Finance since 2020 and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) since 2022. For further information, please refer to the ESG Summary Report on the ESM website.

## Section 2. Annual overview

- Discuss your organisation's progress during the reporting year on the responsible investment issue you consider most relevant or material to your organisation or its assets.
- Reflect on your performance with respect to your organisation's responsible investment objectives and targets during the reporting year. Details might include, for example, outlining your single most important achievement or describing your general progress on topics such as the following (where applicable):
  - refinement of ESG analysis and incorporation
  - stewardship activities with investees and/or with policymakers
  - collaborative engagements
  - attainment of responsible investment certifications and/or awards

The ESM became a PRI signatory in February 2020. Ever since, the ESM has been working to integrate relevant ESG best practices into its responsible investment activities. One of the key actions the ESM has embarked on concerning its investment activities was ensuring that the ESG incorporation into investment decision-making was compatible with its mandate and investment objectives.

As such, the ESM has focused on implementing an issuer-based ESG scoring approach for its €80.5 billion paid-in capital investments. The ESM monitors the ESG score of its paid-in capital using Moody's Vigeo Eiris as the data provider. The ESM's ESG weighted average score remained high at 75 out of 100 at the end of 2023, corresponding to Moody's advanced category, i.e. the highest category of its scale of ratings, defined for scores between 60 and 100. The favourable score reflects the large allocation of the paid-in capital to bonds by sovereign and supranational issuers, associated with weighted average scores of 79 and 73 respectively. The financials category, representing covered bond issuers, on average scored 55 (Moody's robust category, for scores from 50 and 60) and represents a smaller share of ESM's assets.

During 2023, the ESM made further efforts to incorporate the impact of climate risk on its activities. During the year, the Risk Management division developed an internal methodology to perform a pilot climate risk materiality assessment. The exercise aims to build institutional knowledge and capacity to understand the relevance of climate risks for the ESM's balance sheet (i.e. identify investment portfolios and counterparties that may be materially impacted by climate-related risk drivers). Financial assistance risks linked to lending activities to beneficiary member states (i.e. risks inherent to the ESM mandate are out of the scope of this assessment). Further analysis and monitoring of climate-related risks will continue in 2024 and beyond. The ESM will also continue to follow best practices and external guidelines to update and further enhance its methodologies for climate risk assessments.

In parallel, the ESM continued investing in use-of-proceeds bonds. Building awareness of ESG and facilitating discussion was also at the forefront of ESM's PRI commitments. During the reporting period, the ESM hosted the 5th Annual Capital Markets Seminar jointly with the European Investment Bank and the European Commission, gathering international financial institutions. The main focus of the seminar was Europe's transition to a sustainable and digital economy, and market and regulatory developments in this context. In addition, the ESM had several one-to-one meetings with peers and investors to share its approach to ESG or key lessons learned on its ESG integration journey.

Furthermore, by being a member of the International Capital Market Association (ICMA) Social Bond Working Group since 2019, the ESM actively contributes to the promotion of the subgroup and underlying policy work. Additionally, the ESM has been part of the European Commission's Platform on Sustainable Finance as an observer in 2020. The ESM also joined the Network for Central Banks and Supervisors for Greening the Financial System (NGFS) as an observer in 2022, contributing to the development and promotion of best practices and strengthening environmental considerations and climate risk management.

### Section 3. Next steps

■ What specific steps has your organisation outlined to advance your commitment to responsible investment in the next two years?

As an international financial institution with a public mandate, the ESM strives to implement environmental, social, and governance best practices within its activities. As such the ESM is continuously developing and endeavouring to improve its ESG practices.

□ In the context of its investment activities, the primary objective for the ESM is to further refine its ESG incorporation approach. The ESM has already made progress in this regard by the introduction of ESG-quality scoring:

- a) All paid-in capital assets except cash holdings are scored;
- b) Scores are applied at the issuer level to measure the ESG quality of the portfolio;
- c) Scores are based on three ESG pillars based on a broad range of indicators.

□ The incorporation of ESG considerations into investment decision-making is done in compliance with the key objectives set in the Investment Guidelines, namely liquidity of the investment portfolios, constant availability of ESM's maximum lending volume, the ESM's creditworthiness, and the return. Following the advances made so far, the ESM continues to work on further enhancing and formalising its ESG incorporation approach through policy documentation, building on this experience.

□ With regard to its internal operations, the ESM will continue to update relevant internal policy/procedures and governance processes to incorporate ESG best practice provisions. Recent examples of such efforts are in the updated Procurement Policy (applicable as of 1 May 2023), which now includes ESG principles for future public procurement procedures. The ESM also formalised in an internal operating procedure its approach for a pilot climate risk materiality assessment to identify the institution's investment portfolios and counterparties that can be vulnerable to climate risk (see PGS 41 for further detail). This internal operating procedure documents the methodology, as well as the roles and responsibilities of the Risk Management division. In a later stage, the ESM is planning to review the relevant internal procedures, as well as implement processes and tools for monitoring and reporting climate risk metrics and scenario analyses.

□ Furthermore, the ESM is committed to integrating ESG considerations into its market operations while deepening its analysis of the implications of climate change. The ESM therefore continues to work towards embedding climate-change-related considerations into its:

- a) Macro-financial and post-programme surveillance;
- b) the ESM's financial assistance;
- c) the ESM's risk management framework (see PGS 41 for further detail).

As such, in 2023, the ESM also completed a pilot climate risk analysis for one of the beneficiary member states. The ESM is planning to gradually extend such analysis to all other beneficiaries, conditional on data availability. When countries face both climate change and economic vulnerabilities, such as high debt-to-GDP ratios, integrating climate risk assessment is particularly relevant for the ESM. The ESM's analysis of climate-related risks leverages existing work, including the work of other international organisations and networks.

The ESM made further efforts to incorporate the impact of climate risk on its activities. During the year, Risk Management developed an internal methodology to perform a pilot climate risk materiality assessment as outlined above. The exercise aims to build institutional knowledge and capacity to understand the relevance of climate risks for the ESM's balance sheet (i.e. identify investment portfolios and counterparties that may be materially impacted by climate-related risk drivers). Financial assistance risks linked to lending activities to beneficiary member states (i.e. risk inherent to the ESM mandate) are out of the scope of this assessment. Further analysis and monitoring of climate-related risks will continue in 2024 and beyond. The ESM will also continue to follow best practices and external guidelines to update and further enhance its methodologies for climate risk.

All, these efforts are in line with the overall work of the ESM which has always been strongly linked to the improvement of governance. The ESM seeks to build on this experience and the lessons learned in also working on other dimensions, particularly climate change-related factors, to the extent that they affect financial stability and market access.

The ESM intends to continuously strengthen its ESG practices, and it endeavours to communicate about them as the provision of transparency, accountability, integrity, and ESG disclosure remain in focus.

Lastly, the ESM aims to remain in close cooperation with peers and the PRI to contribute to policy efforts such through participation in the European Commission Platform on Sustainable Finance, the Network of Central Banks and Supervisors for Greening the Financial System and the International Capital Market Association (ICMA) Social Bond Working Group.

#### Section 4. Endorsement

**'The Senior Leadership Statement has been prepared and/or reviewed by the undersigned and reflects our organisation-wide commitment and approach to responsible investment'.**

Name

Kalin Anev Janse, and Nicola Giammarioli

Position

Chief Financial Officer, and Secretary General

Organisation's Name

European Stability Mechanism

A

**'This endorsement applies only to the Senior Leadership Statement and should not be considered an endorsement of the information reported by the above-mentioned organisation in the various modules of the Reporting Framework. The Senior Leadership Statement serves as a general overview of the above-mentioned organisation's responsible investment approach. The Senior Leadership Statement does not constitute advice and should not be relied upon as such. Further, it is not a substitute for the skill, judgement and experience of any third parties, their management, employees, advisors and/or clients when making investment and other business decisions'.**

B

# ORGANISATIONAL OVERVIEW (OO)

## ORGANISATIONAL INFORMATION

### REPORTING YEAR

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 1	CORE	N/A	N/A	PUBLIC	Reporting year	GENERAL

What is the year-end date of the 12-month period you have chosen to report for PRI reporting purposes?

	Date	Month	Year
Year-end date of the 12-month period for PRI reporting purposes:	31	12	2023

## SUBSIDIARY INFORMATION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 2	CORE	N/A	OO 2.1	PUBLIC	Subsidiary information	GENERAL

Does your organisation have subsidiaries?

- (A) Yes
- (B) No



# ASSETS UNDER MANAGEMENT

## ALL ASSET CLASSES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 4	CORE	OO 3	N/A	PUBLIC	All asset classes	GENERAL

What are your total assets under management (AUM) at the end of the reporting year, as indicated in [OO 1]?

### USD

(A) AUM of your organisation, including subsidiaries, and excluding the AUM subject to execution, advisory, custody, or research advisory only

US\$ 101,123,245,300.00

(B) AUM of subsidiaries that are PRI signatories in their own right and excluded from this submission, as indicated in [OO 2.2]

US\$ 0.00

(C) AUM subject to execution, advisory, custody, or research advisory only

US\$ 0.00

### Additional information on the exchange rate used: (Voluntary)

91,930,223,000 EUR (with conversion from 31.12.2023 at 1 EUR= 1.10 USD)

## ASSET BREAKDOWN

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5	CORE	OO 3	Multiple indicators	PUBLIC	Asset breakdown	GENERAL

Provide a percentage breakdown of your total AUM at the end of the reporting year as indicated in [OO 1].

	(1) Percentage of Internally managed AUM	(2) Percentage of Externally managed AUM
(A) Listed equity	0%	0%
(B) Fixed income	>75%	0%
(C) Private equity	0%	0%
(D) Real estate	0%	0%
(E) Infrastructure	0%	0%
(F) Hedge funds	0%	0%
(G) Forestry	0%	0%
(H) Farmland	0%	0%
(I) Other	>10-50%	0%
(J) Off-balance sheet	0%	0%

**(I) Other - (1) Percentage of Internally managed AUM - Specify:**

Eurosystem cash balances

## ASSET BREAKDOWN: INTERNALLY MANAGED FIXED INCOME

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.3 FI	CORE	OO 5	Multiple	PUBLIC	Asset breakdown: Internally managed fixed income	GENERAL

**Provide a further breakdown of your internally managed fixed income AUM.**

(A) Passive – SSA 0%

(B) Passive – corporate 0%

(C) Active – SSA >75%

(D) Active – corporate 0%

(E) Securitised >10-50%

(F) Private debt 0%

## GEOGRAPHICAL BREAKDOWN

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 7	CORE	Multiple, see guidance	N/A	PUBLIC	Geographical breakdown	GENERAL

**How much of your AUM in each asset class is invested in emerging markets and developing economies?**

### AUM in Emerging Markets and Developing Economies

(B) Fixed income – SSA (2) >0 to 10%

(D) Fixed income – securitised (1) 0%

## STEWARDSHIP

### STEWARDSHIP

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 8	CORE	Multiple, see guidance	Multiple indicators	PUBLIC	Stewardship	GENERAL

Does your organisation conduct stewardship activities, excluding (proxy) voting, for any of your assets?

	(3) Fixed income - active	(11) Other
(A) Yes, through internal staff	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) Yes, through service providers	<input type="checkbox"/>	<input type="checkbox"/>
(C) Yes, through external managers	<input type="checkbox"/>	<input type="checkbox"/>
(D) We do not conduct stewardship	<input type="radio"/>	<input type="radio"/>

## ESG INCORPORATION

### INTERNALLY MANAGED ASSETS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 11	CORE	Multiple, see guidance	Multiple indicators	PUBLIC	Internally managed assets	1

For each internally managed asset class, does your organisation incorporate ESG factors, to some extent, into your investment decisions?

	(1) Yes, we incorporate ESG factors into our investment decisions	(2) No, we do not incorporate ESG factors into our investment decisions
(E) Fixed income - SSA	<input checked="" type="radio"/>	<input type="radio"/>
(G) Fixed income - securitised	<input checked="" type="radio"/>	<input type="radio"/>
(V) Other: Eurosystem cash balances	<input type="radio"/>	<input checked="" type="radio"/>

## ESG NOT INCORPORATED

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 16	CORE	OO 11, OO 12–14	N/A	PUBLIC	ESG not incorporated	1

Describe why your organisation does not currently incorporate ESG factors into your investment decisions and/or in the selection, appointment and/or monitoring of external investment managers.

Internally managed  
(O) Other

Cash is held with Eurosystem central banks, which are not in scope of the ESM's ESG scoring approach.

## ESG STRATEGIES

### FIXED INCOME

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 17 FI	CORE	OO 5.3 FI, OO 11	Multiple, see guidance	PUBLIC	Fixed income	1

Which ESG incorporation approach and/or combination of approaches does your organisation apply to your internally managed active fixed income?

	(1) Fixed income - SSA	(3) Fixed income - securitised
(A) Screening alone	>75%	>75%
(B) Thematic alone	0%	0%
(C) Integration alone	0%	0%
(D) Screening and integration	0%	0%
(E) Thematic and integration	0%	0%
(F) Screening and thematic	0%	0%
(G) All three approaches combined	0%	0%
(H) None	0%	0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 17.1 FI	CORE	OO 17 FI	N/A	PUBLIC	Fixed income	1

**What type of screening does your organisation use for your internally managed active fixed income where a screening approach is applied?**

	(1) Fixed income - SSA	(3) Fixed income - securitised
(A) Positive/best-in-class screening only	0%	0%
(B) Negative screening only	>75%	>75%
(C) A combination of screening approaches	0%	0%

## ESG/SUSTAINABILITY FUNDS AND PRODUCTS

### LABELLING AND MARKETING

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 18	CORE	OO 11–14	OO 18.1	PUBLIC	Labelling and marketing	1

**Do you explicitly market any of your products and/or funds as ESG and/or sustainable?**

- (A) Yes, we market products and/or funds as ESG and/or sustainable
- (B) No, we do not offer products or funds explicitly marketed as ESG and/or sustainable
- (C) Not applicable; we do not offer products or funds

**Additional information: (Voluntary)**

ESM Pandemic Crisis Support - Social Bond

The ESM social bond framework, developed during the pandemic crisis to finance the Pandemic Crisis Support credit line, demonstrated that the ESM is well equipped for mandates requiring or allowing dedicated use-of-proceeds financing. The Pandemic Crisis Support credit line was designed to support the financing of direct and indirect healthcare, cure, and prevention-related costs stemming from the Covid-19 crisis. This framework – maintained between June 2020 and December 2022 – was compliant with the four components of ICMA's social bond principles: (i) use of proceeds; (ii) project evaluation and selection; (iii) management of proceeds; and (iv) reporting. Furthermore, the ESM received an independent Second Party Opinion from Sustainalytics, which provided a positive assessment of the alignment of the framework with the four social bond principles.

The Pandemic Crisis Support expired in December 2022 without being requested by any member state and the social bond framework was therefore discontinued. Nevertheless, the ESM has laid the groundwork for any potential future mandate that requires specific use-of-proceeds issuance in the social bond category.

## SUMMARY OF REPORTING REQUIREMENTS

### SUMMARY OF REPORTING REQUIREMENTS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 21	CORE	Multiple indicators	Multiple indicators	PUBLIC	Summary of reporting requirements	GENERAL

The following table shows which modules are mandatory or voluntary to report on in the separate PRI asset class modules. Where a module is voluntary, indicate if you wish to report on it.

Applicable modules	(1) Mandatory to report (pre-filled based on previous responses)	(2.1) Voluntary to report. Yes, I want to opt-in to reporting on the module	(2.2) Voluntary to report. No, I want to opt-out of reporting on the module
Policy, Governance and Strategy	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Confidence Building Measures	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

## SUBMISSION INFORMATION

### REPORT DISCLOSURE

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 32	CORE	OO 3, OO 31	N/A	PUBLIC	Report disclosure	GENERAL

How would you like to disclose the detailed percentage figures you reported throughout the Reporting Framework?

- (A) Publish as absolute numbers
- (B) Publish as ranges

# POLICY, GOVERNANCE AND STRATEGY (PGS)

## POLICY

### RESPONSIBLE INVESTMENT POLICY ELEMENTS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 1	CORE	OO 8, OO 9	Multiple indicators	PUBLIC	Responsible investment policy elements	1, 2

#### Which elements are covered in your formal responsible investment policy(ies)?

- (A) Overall approach to responsible investment
- (B) Guidelines on environmental factors
- (C) Guidelines on social factors
- (D) Guidelines on governance factors
- (E) Guidelines on sustainability outcomes
- (F) Guidelines tailored to the specific asset class(es) we hold
- (G) Guidelines on exclusions
- (H) Guidelines on managing conflicts of interest related to responsible investment
- (I) Stewardship: Guidelines on engagement with investees
- (J) Stewardship: Guidelines on overall political engagement
- (K) Stewardship: Guidelines on engagement with other key stakeholders
- (M) Other responsible investment elements not listed here

Specify:

While ESM does not yet have a formal responsible investment policy, several elements are already applied in practice. ESM is applying ESG incorporation through an issuer-based ESG scoring of its paid-in-capital while complying with ESM Investment Guidelines. See SLS 1 for further detail. Furthermore, ESM is also a long-standing investor in ESG-labelled bonds. In addition to the ongoing developments in investment practices, risk governance policies are in place. See PGS 2 for further detail.

- (N) Our organisation does not have a formal responsible investment policy and/or our policy(ies) do not cover any responsible investment elements

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 2	CORE	PGS 1	Multiple, see guidance	PUBLIC	Responsible investment policy elements	1

#### Does your formal responsible investment policy(ies) include specific guidelines on systematic sustainability issues?

- (A) Specific guidelines on climate change (may be part of guidelines on environmental factors)
- (B) Specific guidelines on human rights (may be part of guidelines on social factors)
- (C) Specific guidelines on other systematic sustainability issues

Specify:



Additionally to what is stated in PGS1, the following risk governance processes and policies exist for the management and oversight of financial and non-financial risks. ESM's internal credit risk policy states that in preparation and review of credit limits of eligible issuers or trading counterparts, ESG-related risks are incorporated to the extent they may influence their credit strength when information is available. This qualitative assessment of the issuers' credit performance is considered based on credit rating agencies' research and scores. Beyond the credit risk policy, ESM's credit risk and governance function may use sources from media, NGOs, multilateral development banks, and human rights organisations to complement the information from credit rating agencies. For sovereigns, as part of the credit risk assessment, the country's Worldwide Governance Indicators published by the World Bank are considered (namely, Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Corruption Control). Any severe concerns are considered in Risk Management's credit limit setting and raised at the Internal Risk Committee.

ESM's compliance function reviews anti-money laundering, sanctions compliance, and conduct issues of ESM trading counterparts. In case of material misconduct and non-compliance, ESM considers actions via escalation to the Internal Risk Committee, which may result in suspension of all trading activity or limitations on certain transactions.

Code of Conduct provisions and the Information Barriers Policy support compliance with obligations of the Market Abuse Regulation applicable to ESM.

In 2023, the Risk Management division developed an internal methodology for a pilot climate risk materiality assessment (see PGS41 for further detail). The assessment approach as well as the responsibilities of the Risk Management division are captured in an internal operating procedure.

- (D) Our formal responsible investment policy(ies) does not include guidelines on systematic sustainability issues

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 3	CORE	PGS 1, PGS 2	N/A	PUBLIC	Responsible investment policy elements	6

#### Which elements of your formal responsible investment policy(ies) are publicly available?

- (D) Guidelines on governance factors

Add link:

[https://www.esm.europa.eu/sites/default/files/migration\\_files/code\\_of\\_conduct\\_202100204.pdf](https://www.esm.europa.eu/sites/default/files/migration_files/code_of_conduct_202100204.pdf)

- (H) Specific guidelines on other systematic sustainability issues

- (J) Guidelines on exclusions

Add link:

[https://www.esm.europa.eu/system/files/document/2022-10/2022-10-07%20AML\\_and\\_Sanctions\\_Policy\\_extract.pdf](https://www.esm.europa.eu/system/files/document/2022-10/2022-10-07%20AML_and_Sanctions_Policy_extract.pdf)

- (P) Other responsible investment aspects not listed here

Add link:

[https://www.esm.europa.eu/sites/default/files/2019-05-02\\_investment\\_guidelines.pdf](https://www.esm.europa.eu/sites/default/files/2019-05-02_investment_guidelines.pdf)

- (Q) No elements of our formal responsible investment policy(ies) are publicly available

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 4	PLUS	PGS 1	N/A	PUBLIC	Responsible investment policy elements	1 – 6

**Does your formal responsible investment policy(ies) identify a link between your responsible investment activities and your fiduciary duties or equivalent obligations?**

- (A) Yes
- (B) No

Explain why:

No. There is no such explicit reference. However, the ESM invests the paid-in capital with which it was endowed by its shareholders, as well as its reserve fund, and other liquidity portfolios. All ESM's investment activities are explicitly subject to the ESM investment guidelines, approved by the ESM Board of Directors. According to Article 22 of the Treaty, the Managing Director shall implement a prudent investment policy for the ESM, following the ESM Investment Guidelines. The objectives of the investment guidelines are i) the liquidity of the investment portfolios, ii) the constant availability of the ESM's maximum lending capacity volume, iii) the creditworthiness of the ESM and the return. Any responsible investment activity is conducted within these parameters.

## RESPONSIBLE INVESTMENT POLICY COVERAGE

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 8	CORE	PGS 1	N/A	PUBLIC	Responsible investment policy coverage	1

**What percentage of your total AUM is covered by the below elements of your responsible investment policy(ies)?**

### Combined AUM coverage of all policy elements

(D) Guidelines on governance factors	(7) 100%
--------------------------------------	----------

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 9	CORE	PGS 2	N/A	PUBLIC	Responsible investment policy coverage	1

**What proportion of your AUM is covered by your formal policies or guidelines on climate change, human rights, or other systematic sustainability issues?**

**AUM coverage**

(C) Specific guidelines on other systematic sustainability issues

(3) for a minority of our AUM

## GOVERNANCE

### ROLES AND RESPONSIBILITIES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 11	CORE	N/A	Multiple indicators	PUBLIC	Roles and responsibilities	1

**Which senior level body(ies) or role(s) in your organisation have formal oversight over and accountability for responsible investment?**

- (A) Board members, trustees, or equivalent
- (B) Senior executive-level staff, or equivalent

Specify:

See PGS 12 for further detail

- (C) Investment committee, or equivalent

Specify:

See PGS 12 for further detail

- (D) Head of department, or equivalent
- (E) None of the above bodies and roles have oversight over and accountability for responsible investment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 11.1	CORE	PGS 1, PGS 2, PGS 11	N/A	PUBLIC	Roles and responsibilities	1, 2

Does your organisation's senior level body(ies) or role(s) have formal oversight over and accountability for the elements covered in your responsible investment policy(ies)?

(2) Senior executive-level staff, investment committee, head of department, or equivalent

(B) Guidelines on environmental, social and/or governance factors	<input checked="" type="checkbox"/>
(F) Specific guidelines on other systematic sustainability issues	<input type="checkbox"/>
(H) Guidelines on exclusions	<input checked="" type="checkbox"/>
(N) This role has no formal oversight over and accountability for any of the above elements covered in our responsible investment policy(ies)	<input type="radio"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 11.2	CORE	N/A	N/A	PUBLIC	Roles and responsibilities	1 – 6

Does your organisation have governance processes or structures to ensure that your overall political engagement is aligned with your commitment to the principles of PRI, including any political engagement conducted by third parties on your behalf?

(A) Yes

Describe how you do this:

In line with PRI Principle 5, i.e. “We will work together to enhance our effectiveness in implementing the Principles”, the ESM is committed to contributing to ESG-related policy discussions. The ESM organises its engagement efforts through a range of governance processes and structures. Internally, the ESM coordinates these efforts through a strategic ESG and Climate Change Strategic Steering Group established in 2022 to prioritise and coordinate numerous cross-divisional ESG initiatives as well as external engagement efforts. The group includes several members of the ESM Management Board to guide a working-level liaison group to facilitate cross-divisional alignment, discussion, and collaboration.

By being a member of the International Capital Market Association’s (ICMA) Social Bond Working Group since 2019, the ESM actively contributes to the promotion of the subgroup and its work. Additionally, the ESM has been part of the European Commission’s Platform on Sustainable Finance as an observer since 2020. The ESM also joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) as an observer in 2022, contributing to the development and promotion of best practices aimed at strengthening environmental considerations and climate risk management.

Furthermore, building awareness on ESG matters and facilitating discussions is at the forefront of the ESM’s PRI commitments. During the reporting period, the ESM hosted the 5th Annual Capital Markets Seminar jointly with the European Investment Bank and the European Commission, gathering international financial institutions. The main focus of the seminar was Europe’s transition to a sustainable and digital economy, and market and regulatory developments in this context. In addition, the ESM had several one-to-one meetings with peers and investors to share its approach to ESG or key lessons learned on its ESG integration journey.

- (B) No
- (C) Not applicable, our organisation does not conduct any form of political engagement directly or through any third parties

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 12	CORE	N/A	N/A	PUBLIC	Roles and responsibilities	1

**In your organisation, which internal or external roles are responsible for implementing your approach to responsible investment?**

(A) Internal role(s)

Specify:

The Investment Management Committee is regularly consulted on ESG-related investment activities, including PRI implementation and investments in ESG-labelled bonds. The Head of Investment and team implement the ESG investment strategy. An ESG and Climate Change Strategic Steering Group exists (See SLS 1) as well as institution-wide risk governance structures (See PGS 2). Lastly, the Corporate Governance and Internal Policies team coordinates institutional ESG initiatives including PRI.

- (B) External investment managers, service providers, or other external partners or suppliers
- (C) We do not have any internal or external roles with responsibility for implementing responsible investment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 14	CORE	PGS 11	N/A	PUBLIC	Roles and responsibilities	1

**Does your organisation use responsible investment KPIs to evaluate the performance of your senior executive-level staff (or equivalent), and are these KPIs linked to compensation?**

- (A) Yes, we use responsible investment KPIs to evaluate the performance of our senior executive-level staff (or equivalent)
- (B) No, we do not use responsible investment KPIs to evaluate the performance of our senior executive-level staff (or equivalent)

Explain why: (Voluntary)

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 15	PLUS	PGS 11	N/A	PUBLIC	Roles and responsibilities	1

**What responsible investment competencies do you regularly include in the training of senior-level body(ies) or role(s) in your organisation?**

**(2) Senior executive-level staff, investment committee, head of department or equivalent**

(A) Specific competence in climate change mitigation and adaptation	<input type="checkbox"/>
(B) Specific competence in investors' responsibility to respect human rights	<input type="checkbox"/>
(C) Specific competence in other systematic sustainability issues	<input checked="" type="checkbox"/>
(D) The regular training of this senior leadership role does not include any of the above responsible investment competencies	<input type="radio"/>

## EXTERNAL REPORTING AND DISCLOSURES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 16	CORE	N/A	N/A	PUBLIC	External reporting and disclosures	6

**What elements are included in your regular reporting to clients and/or beneficiaries for the majority of your AUM?**

- (A) Any changes in policies related to responsible investment
- (B) Any changes in governance or oversight related to responsible investment
- (C) Stewardship-related commitments
- (D) Progress towards stewardship-related commitments
- (E) Climate-related commitments
- (F) Progress towards climate-related commitments
- (G) Human rights-related commitments
- (H) Progress towards human rights-related commitments
- (I) Commitments to other systematic sustainability issues
- (J) Progress towards commitments on other systematic sustainability issues
- (K) We do not include any of these elements in our regular reporting to clients and/or beneficiaries for the majority of our AUM

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 17	CORE	N/A	N/A	PUBLIC	External reporting and disclosures	6

**During the reporting year, did your organisation publicly disclose climate-related information in line with the Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations?**

- (A) Yes, including all governance-related recommended disclosures
- (B) Yes, including all strategy-related recommended disclosures
- (C) Yes, including all risk management-related recommended disclosures
- (D) Yes, including all applicable metrics and targets-related recommended disclosures

**(E) None of the above**

Explain why: (Voluntary)

The ESM has already committed to a range of ESG frameworks and best practice networks. As such, the ESM is currently focusing on fulfilling these existing commitments. Nevertheless, the ESM may evaluate expanding its commitments going forward.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 18	PLUS	N/A	N/A	PUBLIC	External reporting and disclosures	6

**During the reporting year, to which international responsible investment standards, frameworks, or regulations did your organisation report?**

- (A) Disclosures against the European Union's Sustainable Finance Disclosure Regulation (SFDR)
- (B) Disclosures against the European Union's Taxonomy
- (C) Disclosures against the CFA's ESG Disclosures Standard
- (D) Disclosures against other international standards, frameworks or regulations
- (E) Disclosures against other international standards, frameworks or regulations
- (F) Disclosures against other international standards, frameworks or regulations

**(G) Disclosures against other international standards, frameworks or regulations**

Specify:

PRI Reporting framework

Link to example of public disclosures

[https://www.esm.europa.eu/system/files/document/2024-07/2024.02042%20ESG%20Summary%20Report%202023\\_V3.pdf](https://www.esm.europa.eu/system/files/document/2024-07/2024.02042%20ESG%20Summary%20Report%202023_V3.pdf)

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 19	CORE	N/A	N/A	PUBLIC	External reporting and disclosures	6

**During the reporting year, did your organisation publicly disclose its membership in and support for trade associations, think tanks or similar bodies that conduct any form of political engagement?**

(A) Yes, we publicly disclosed our membership in and support for trade associations, think tanks, or similar bodies that conduct any form of political engagement

Add link(s):

<https://www.esm.europa.eu/how-we-work/environmental-social-and-social-governance-esg-practices-esm>

[https://www.esm.europa.eu/system/files/document/2024-07/2024.02042%20ESG%20Summary%20Report%202023\\_V3.pdf](https://www.esm.europa.eu/system/files/document/2024-07/2024.02042%20ESG%20Summary%20Report%202023_V3.pdf)

<https://www.esm.europa.eu/system/files/document/2024-06/esm-annual-report-2023-zxcv.pdf>

- (B) No, we did not publicly disclose our membership in and support for trade associations, think tanks, or similar bodies that conduct any form of political engagement
- (C) Not applicable, we were not members in or supporters of any trade associations, think tanks, or similar bodies that conduct any form of political engagement during the reporting year

## STRATEGY

### CAPITAL ALLOCATION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 20	CORE	N/A	N/A	PUBLIC	Capital allocation	1

**Which elements do your organisation-level exclusions cover?**

- (A) Exclusions based on our organisation's values or beliefs regarding particular sectors, products or services
- (B) Exclusions based on our organisation's values or beliefs regarding particular regions or countries
- (C) Exclusions based on minimum standards of business practice aligned with international norms such as the OECD Guidelines for Multinational Enterprises, the International Bill of Human Rights, UN Security Council sanctions or the UN Global Compact
- (D) Exclusions based on our organisation's climate change commitments
- (E) Other elements

Specify:

The ESM considers ESG risks in its credit risk assessment of issuers in which the ESM invests to the extent that these affect the credit quality of the counterparty.

The ESM has risk governance processes and policies in place for the institution-wide management and oversight of financial and non-financial risks. More specifically, the ESM's Risk management function incorporates ESG-related risks into their analysis to the extent they might influence the credit quality of ESM's eligible issuers of trading counterparts. It should be noted however that this screening based on the ESM credit risk policy consists of a standard credit risk approach focusing on assessing credit worthiness of the counterparties/issuers.



The ESM began incorporating climate considerations into its risk management framework in 2023. For this purpose, the ESM conducted a pilot materiality assessment (see PGS41 for further detail).

The ESM's compliance function also undertakes a review for anti-money laundering, sanctions compliance, and conduct issues of financial institutions engaged with the ESM on market dealings (trade counterparts). In case of material misconduct and non-compliance, the ESM considers relevant actions via an escalation to the Internal Risk Committee, which may result in a suspension of all trading activity, or limitations of certain types of transactions. Find further details on the implemented measures within the following extract of the ESM Policy on the Prevention of Money-laundering, Terrorism Financing and Sanctions Violations files (europa.eu). The purpose of the policy is to assess the money laundering risk inherent in ESM's operations and to implement appropriate procedures to protect the ESM against being used for money laundering or terrorist financing. In addition, the AML and Sanctions Policy also assesses the sanctions risk that ESM is exposed to by virtue of its operations.

- (F) Not applicable; our organisation does not have any organisation-level exclusions

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 21	CORE	N/A	N/A	PUBLIC	Capital allocation	1

**How does your responsible investment approach influence your strategic asset allocation process?**

- (A) We incorporate ESG factors into our assessment of expected asset class risks and returns
- (B) We incorporate climate change–related risks and opportunities into our assessment of expected asset class risks and returns
- (C) We incorporate human rights–related risks and opportunities into our assessment of expected asset class risks and returns
- (D) We incorporate risks and opportunities related to other systematic sustainability issues into our assessment of expected asset class risks and returns
- (E) We do not incorporate ESG factors, climate change, human rights or other systematic sustainability issues into our assessment of expected asset class risks and returns
- (F) Not applicable; we do not have a strategic asset allocation process

## STEWARDSHIP: OVERALL STEWARDSHIP STRATEGY

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 22	CORE	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

**For the majority of AUM within each asset class, which of the following best describes your primary stewardship objective?**

### (2) Fixed income

(A) Maximise our portfolio-level risk-adjusted returns. In doing so, we seek to address any risks to overall portfolio performance caused by individual investees' contribution to systematic sustainability issues.



(B) Maximise our individual investments' risk-adjusted returns. In doing so, we do not seek to address any risks to overall portfolio performance caused by individual investees' contribution to systematic sustainability issues.



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 23	PLUS	OO 5, OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

**How does your organisation, or the external service providers or external managers acting on your behalf, prioritise the investees or other entities on which to focus its stewardship efforts?**

N/A

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 24	CORE	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

**Which of the following best describes your organisation's default position, or the position of the external service providers or external managers acting on your behalf, concerning collaborative stewardship efforts?**

- (A) We recognise the value of collective action, and as a result, we prioritise collaborative stewardship efforts wherever possible
  - (B) We collaborate on a case-by-case basis
  - (C) Other
- Specify:

The ESM does not have any stewardship policy in place. The ESM mainly engages in collaborative stewardship efforts through its participation in networks or public policy forums, such as the Network for Central Banks and Supervisors for Greening the Financial System (NGFS), the International Capital Market Association (ICMA), or the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

- (D) We do not join collaborative stewardship efforts

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 24.1	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

**Elaborate on your organisation's default position on collaborative stewardship, or the position of the external service providers or external investment managers acting on your behalf, including any other details on your overall approach to collaboration.**

N/A

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 25	PLUS	OO 5, OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

**Rank the channels that are most important for your organisation in achieving its stewardship objectives.**

- (A) Internal resources, e.g. stewardship team, investment team, ESG team, or staff
- Select from the list:
- 1
  - 3
  - 4
  - 5
- (B) External investment managers, third-party operators and/or external property managers, if applicable
  - (C) External paid specialist stewardship services (e.g. engagement overlay services or, in private markets, sustainability consultants) excluding investment managers, real assets third-party operators, or external property managers
  - (D) Informal or unstructured collaborations with investors or other entities

Select from the list:

- 2
- 3
- 4
- 5

- (E) Formal collaborative engagements, e.g. PRI-coordinated collaborative engagements, Climate Action 100+, or similar
- (F) We do not use any of these channels

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 27	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

**How are your organisation’s stewardship activities linked to your investment decision making, and vice versa?**

The ESM’s policy engagements on sustainability considerations are primarily linked to its strategic priority of “integrating ESG and climate change considerations in all of its activities”. Over the past few years, the ESM has increased its external engagement and membership in ESG networks and policy forums. The ESM’s ESG initiatives, including external engagements, are coordinated through the internal ESG and Climate Change Strategic Steering Group. The group includes several members of the ESM Management Board to provide guidance and a working-level liaison group to facilitate cross-divisional alignment, discussion, and collaboration.

The ESM is committed to contributing to discussions towards the transition to a low-carbon economy in Europe. By being a member of the International Capital Market Association’s (ICMA) Social Bond Working Group since 2019, it actively contributes to the promotion of the subgroup and its work. Additionally, the ESM has been part of the European Commission’s Platform on Sustainable Finance as an observer since 2020. The ESM also joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) as an observer in 2022, contributing to the development and promotion of best practices aimed at strengthening environmental considerations and climate risk management. In addition, the ESM had several one-to-one meetings with peers and investors to share its approach to ESG or key lessons learned from its ESG integration efforts.

Through these initiatives, the ESM aims to contribute to progress in wider policy discussions and the development of credible and mature reporting frameworks. In addition, the ESM seeks to leverage the expertise gained in its investment decision-making and provision of informal feedback to issuers.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 28	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

**If relevant, provide any further details on your organisation's overall stewardship strategy.**

Over the past few years, the ESM has increased its external engagement and membership in ESG networks. Updates on these efforts are regularly published in the ESM’s annual report, on its website, through press releases, or other means of communication with the public.

As a member of the International Capital Market Association’s (ICMA) Social Bond Working Group since 2019, the ESM actively contributes to the promotion of the subgroup. Additionally, the ESM has been part of the European Commission’s Platform on Sustainable Finance as an observer since 2020.

The ESM is also an observer in the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) since 2022, contributing to the development and promotion of best practices aimed at strengthening environmental considerations and climate risk management. These involvements show the ESM's commitment to contribute towards the transition into a low-carbon economy in Europe, through leadership and policy discussions.

Updates on these efforts are regularly made available to the public via the ESM's annual report, ESM's annual ESG summary report, website, press releases, or other means.

## STEWARDSHIP: ESCALATION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 38	PLUS	Multiple, see guidance	N/A	PUBLIC	Stewardship: Escalation	2

### Describe your approach to escalation for your SSA and/or private debt fixed income assets.

#### (A) SSA - Approach to escalation

The escalation in relation to ESG considerations is primarily limited to internal actions. The issuers as well as trading counterparts of the ESM are periodically reviewed for any compliance concerns or ESG risks that may affect their credit quality. Any material risk findings are incorporated into periodic credit limit assessments done by the risk management division and might lead to limit reductions, limit freezes, trading suspension, and/or similar actions. Those decisions become effective once approved by the Internal Risk Committee.

The ESM does not escalate those concerns to the issuers directly, except for informal feedback given during the issuer visits to the ESM premises. Trading counterparts might be informed on trading limit adjustments or freeze of activities informally if deemed relevant.

## STEWARDSHIP: ENGAGEMENT WITH POLICY MAKERS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 39	CORE	OO 8, OO 9	PGS 39.1, PGS 39.2	PUBLIC	Stewardship: Engagement with policy makers	2

### Did your organisation, or the external investment managers or service providers acting on your behalf, engage with policy makers as part of your responsible investment approach during the reporting year?

- (A) Yes, we engaged with policy makers directly
- (B) Yes, we engaged with policy makers through the leadership of or active participation in working groups or collaborative initiatives, including via the PRI
- (C) Yes, we were members of, supported, or were in another way affiliated with third party organisations, including trade associations and non-profit organisations, that engage with policy makers, excluding the PRI
- (D) We did not engage with policy makers directly or indirectly during the reporting year beyond our membership in the PRI

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 39.1	CORE	PGS 39	N/A	PUBLIC	Stewardship: Engagement with policy makers	2

During the reporting year, what methods did you, or the external investment managers or service providers acting on your behalf, use to engage with policy makers as part of your responsible investment approach?

- (A) We participated in 'sign-on' letters
- (B) We responded to policy consultations
- (C) We provided technical input via government- or regulator-backed working groups

Describe:

The ESM has obtained observer status for both the European Commission's Platform on Sustainable Finance, and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) since 2020 and 2022 respectively. Moreover, it has a membership in the International Capital Market Association's (ICMA) Social Bond Working Group since 2019. These sustainable finance platforms contribute to a better understanding of climate-related risks and help to support green finance.

- (D) We engaged policy makers on our own initiative
- (E) Other methods

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 39.2	CORE	PGS 39	N/A	PUBLIC	Stewardship: Engagement with policy makers	2

During the reporting year, did your organisation publicly disclose details of your engagement with policy makers conducted as part of your responsible investment approach, including through external investment managers or service providers?

- (A) We publicly disclosed all our policy positions
- (B) We publicly disclosed details of our engagements with policy makers
- (C) No, we did not publicly disclose details of our engagement with policy makers conducted as part of our responsible investment approach during the reporting year

Explain why:

Through its involvement as an observer since 2020 in the European Commission's Platform on Sustainable Finance, the ESM has contributed to several publications in line with the mandate to set up a permanent expert group in line with the Article 20 of the Taxonomy Regulation (EU 2020/8521). While publicly available these are however joint publications not directly affiliated with the ESM. Having said this, the ESM has increased its external engagement and membership in ESG networks over the past years. Updates on these efforts are regularly published in the ESM's annual report, on its website, through press releases, or other means of communication with the public. Additionally, as a member of the International Capital Market Association's Social Bond Working Group since 2019, the ESM participates in various sub-working groups such as the Impact Reporting of Green and Social Projects and the Sustainability-Linked Bonds working groups.

The ESM also joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) as an observer in 2022, contributing to the development and promotion of best practices aimed at strengthening environmental considerations and climate risk management. These involvements show the ESM's commitment to contribute towards the transition into a low-carbon economy in Europe, through leadership and policy discussions. Updates on these efforts are regularly made available to the public via the ESM's annual report, website, press releases, or other means.

## STEWARDSHIP: EXAMPLES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 40	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Examples	2

**Provide examples of stewardship activities that you conducted individually or collaboratively during the reporting year that contributed to desired changes in the investees, policy makers or other entities with which you interacted.**

(A) Example 1:

Title of stewardship activity:

Not Applicable.

(1) Led by

- (1) Internally led
- (2) External service provider led
- (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- (1) Environmental factors
- (2) Social factors
- (3) Governance factors

(3) Asset class(es)

- (1) Listed equity
- (2) Fixed income
- (3) Private equity
- (4) Real estate
- (5) Infrastructure
- (6) Hedge funds
- (7) Forestry
- (8) Farmland
- (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

Not Applicable.

(B) Example 2:

Title of stewardship activity:

Not Applicable.

(1) Led by

- (1) Internally led
- (2) External service provider led
- (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- (1) Environmental factors
- (2) Social factors
- (3) Governance factors

(3) Asset class(es)

- (1) Listed equity
- (2) Fixed income
- (3) Private equity
- (4) Real estate
- (5) Infrastructure
- (6) Hedge funds

- (7) Forestry
- (8) Farmland
- (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

Not Applicable.

(C) Example 3:

Title of stewardship activity:

Not Applicable.

(1) Led by

- (1) Internally led
- (2) External service provider led
- (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- (1) Environmental factors
- (2) Social factors
- (3) Governance factors

(3) Asset class(es)

- (1) Listed equity
- (2) Fixed income
- (3) Private equity
- (4) Real estate
- (5) Infrastructure
- (6) Hedge funds
- (7) Forestry
- (8) Farmland
- (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

Not Applicable.

(D) Example 4:

Title of stewardship activity:

Not Applicable.

(1) Led by

- (1) Internally led
- (2) External service provider led
- (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- (1) Environmental factors
- (2) Social factors
- (3) Governance factors

(3) Asset class(es)

- (1) Listed equity
- (2) Fixed income
- (3) Private equity
- (4) Real estate
- (5) Infrastructure
- (6) Hedge funds
- (7) Forestry
- (8) Farmland
- (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.



Not Applicable.

(E) Example 5:

Title of stewardship activity:

Not Applicable.

(1) Led by

- (1) Internally led
- (2) External service provider led
- (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- (1) Environmental factors
- (2) Social factors
- (3) Governance factors

(3) Asset class(es)

- (1) Listed equity
- (2) Fixed income
- (3) Private equity
- (4) Real estate
- (5) Infrastructure
- (6) Hedge funds
- (7) Forestry
- (8) Farmland
- (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

Not Applicable.

## CLIMATE CHANGE

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 41	CORE	N/A	PGS 41.1	PUBLIC	Climate change	General

**Has your organisation identified climate-related risks and opportunities affecting your investments?**

**(A) Yes, within our standard planning horizon**

Specify the risks and opportunities identified and your relevant standard planning horizon:

In the context of its investment activities, ESM's Risk Management division takes into account climate-related risks in its assessment of issuers (supranational entities, sovereigns, government-related agencies, and financial institutions) and trading counterparts during their periodic reviews. The information included in the dedicated ESG section is based on credit rating agencies' considerations of material ESG risks impacting the credit quality of the entity. This also includes environmental scores with indicators such as carbon transition, physical climate risks, water management, or waste. These reflect the impact of environmental risks on the entities' credit profile. These credit risk assessments serve to analyse the issuer and trading counterparty and set a credit limit towards it.

In addition, the Risk Management division has increased awareness and concern for both physical and transition climate-related risks and opportunities from an outside-in perspective. As such, the ESM made progress in its efforts during 2023 to incorporate the impact of climate risk on its Risk Management framework. During the year, Risk Management developed an internal methodology to perform a pilot materiality assessment to identify investment portfolios and counterparties that may be materially impacted by climate-related risk drivers. This methodology is based on in-depth research that builds upon the latest literature, well-known open-source data, regulatory guidelines, and market best practices (see PGS 44 for further detail). A pilot materiality assessment was performed in 2023, with subsequent updates on an annual basis. The methodology for this materiality assessment will also be reviewed regularly as relevant guidelines, counterparty-level data, and other best practices become increasingly available. The ESM has limited exposure to climate-related risks, as the ESM's investment portfolio includes only highly rated issuers that have strong mitigation and adaptation capacities to climate change. The ESM's investments have credit ratings of at least A, with the majority of investments having a rating of at least AA-. Moreover, the ESM does not have direct exposure to high carbon emitting corporates susceptible to transition risks. As a next step, the institution is working on better capturing the ESM's long-term exposure to climate risks through scenario analysis.

- (B) Yes, beyond our standard planning horizon
- (C) No, we have not identified climate-related risks and/or opportunities affecting our investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 41.1	CORE	PGS 41	N/A	PUBLIC	Climate change	General

**Does your organisation integrate climate-related risks and opportunities affecting your investments in its overall investment strategy, financial planning and (if relevant) products?**

- (A) Yes, our overall investment strategy, financial planning and (if relevant) products integrate climate-related risks and opportunities
- (B) No, our organisation has not yet integrated climate-related risks and opportunities into its investment strategy, financial planning and (if relevant) products

Explain why:

See PGS 41 for further details.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 42	PLUS	N/A	N/A	PUBLIC	Climate change	General

**Which sectors are covered by your organisation's strategy addressing high-emitting sectors?**

- (A) Coal
- (B) Gas
- (C) Oil
- (D) Utilities
- (E) Cement
- (F) Steel
- (G) Aviation
- (H) Heavy duty road

- (I) Light duty road
- (J) Shipping
- (K) Aluminium
- (L) Agriculture, forestry, fishery
- (M) Chemicals
- (N) Construction and buildings
- (O) Textile and leather
- (P) Water
- (Q) Other

Specify:

The ESM does not have direct exposure to carbon-emitting sectors or corporates susceptible to transition risks. The ESM's investment portfolio is composed of issuers with credit ratings of at least A, and the majority of investments of at least AA- with limited exposure to climate risk. Most of these issuers have strong mitigation and adaptation capacities to climate change.

Describe your strategy:

- (R) We do not have a strategy addressing high-emitting sectors

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 43	CORE	N/A	N/A	PUBLIC	Climate change	General

**Has your organisation assessed the resilience of its investment strategy in different climate scenarios, including one in which the average temperature rise is held to below 2 degrees Celsius (preferably to 1.5 degrees Celsius) above pre-industrial levels?**

- (A) Yes, using the Inevitable Policy Response Forecast Policy Scenario (FPS) or Required Policy Scenario (RPS)
- (B) Yes, using the One Earth Climate Model scenario
- (C) Yes, using the International Energy Agency (IEA) Net Zero scenario
- (D) Yes, using other scenarios
- (E) No, we have not assessed the resilience of our investment strategy in different climate scenarios, including one that holds temperature rise to below 2 degrees

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 44	CORE	N/A	N/A	PUBLIC	Climate change	General

**Does your organisation have a process to identify, assess, and manage the climate-related risks (potentially) affecting your investments?**

- (A) Yes, we have a process to identify and assess climate-related risks
  - (1) Describe your process

The ESM has processes in place for the institution-wide identification, assessment, and management of financial and non-financial risks inherent in the ESM's mandate and operational activities. These processes are also applied to climate-driven credit risks. As mentioned in PGS 41, the ESM developed a pilot methodology for materiality assessment to identify how climate change effects may impact its investment activities across five traditional risk categories (credit, market, operational, reputational, and liquidity). Following an extensive literature review, the scope of this materiality assessment was refined to the ESM's investment portfolios and counterparty credit exposures. For this purpose, the ESM developed in-house country climate risk scores, which capture a country's physical and carbon transition exposure and resilience. Scores are derived through a relative ranking of different climate risk indicators provided by well-known publicly available sources such as the Inter-Agency Standing Committee Reference Group and the European Commission, the University of Notre Dame, the World Economic Forum, and the World Bank in collaboration with University College London. A materiality threshold defines those countries that are relatively more impacted by physical and transition risks. Issuers from the identified countries are further assessed via climate risk scenario analysis. A regular review of the country's climate risk scores and methodology for the materiality assessment will be performed to account for evolving guidelines and market best practices.

- (2) Describe how this process is integrated into your overall risk management

Climate-related risks affecting the creditworthiness of the ESM's issuers and trading counterparties are assessed periodically. These documents are prepared by the credit risk division and reviewed and signed off by the Head of Risk Management. ESG and climate-related risks impacting the counterparty's credit strength is therefore considered on a qualitative basis in the setting of credit limits. The materiality assessment aims to build institutional knowledge and capacity to understand the impact of climate risks on the ESM's balance sheet, excluding the financial assistance risks (lending to beneficiary member states). The results of this materiality assessment are discussed within the institution's Internal Risk Committee. The Risk Management division also established an internal operating procedure to document the methodology, as well as the roles and responsibilities of the Risk Management division for the climate risk materiality assessment. Given the dynamic nature of climate risk, this internal operating procedure will be updated regularly to account for best practices, supervisory guidance, and up-to-date indicator sources. In a later stage, the ESM is planning to update other relevant internal procedures, as well as implement processes and tools for monitoring and reporting these climate risk metrics and scenario analysis.

**(B) Yes, we have a process to manage climate-related risks**

(1) Describe your process

The ESM has processes in place for the institution-wide identification, assessment, and management of financial and non-financial risks inherent in the ESM's mandate, and operational activities. These processes are also applied to climate risks.

(2) Describe how this process is integrated into your overall risk management

Climate-related risks affecting the creditworthiness of the ESM's counterparties are assessed periodically. These documents are prepared by the credit risk division and reviewed and signed off by the Head of Risk Management. ESG and climate-related risks impacting the counterparty's credit strength are therefore considered on a qualitative basis in the setting of credit limits. Approval from the Internal Risk Committee is required in the event of deviation from the ESM's Credit Risk Policy.

- (C) No, we do not have any processes to identify, assess, or manage the climate-related risks affecting our investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 45	CORE	N/A	N/A	PUBLIC	Climate change	General

**During the reporting year, which of the following climate risk metrics or variables affecting your investments did your organisation use and publicly disclose?**

**(A) Exposure to physical risk**

(1) Indicate whether this metric or variable was used and disclosed, including the methodology

**(1) Metric or variable used**

- (2) Metric or variable used and disclosed
- (3) Metric or variable used and disclosed, including methodology

**(B) Exposure to transition risk**

(1) Indicate whether this metric or variable was used and disclosed, including the methodology

**(1) Metric or variable used**

- (2) Metric or variable used and disclosed
- (3) Metric or variable used and disclosed, including methodology

(C) Internal carbon price

(D) Total carbon emissions

(E) Weighted average carbon intensity

(F) Avoided emissions

(G) Implied Temperature Rise (ITR)

(H) Non-ITR measure of portfolio alignment with UNFCCC Paris Agreement goals

(I) Proportion of assets or other business activities aligned with climate-related opportunities

(J) Other metrics or variables

○ (K) Our organisation did not use or publicly disclose any climate risk metrics or variables affecting our investments during the reporting year

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 46	CORE	N/A	N/A	PUBLIC	Climate change	General

During the reporting year, did your organisation publicly disclose its Scope 1, Scope 2, and/or Scope 3 greenhouse gas emissions?

(A) Scope 1 emissions

(1) Indicate whether this metric was disclosed, including the methodology

○ (1) Metric disclosed

● (2) Metric and methodology disclosed

(2) Provide links to the disclosed metric and methodology, as applicable

<https://www.esm.europa.eu/system/files/document/2023-09/ESM%20carbon%20footprint%202022%20.pdf>

(B) Scope 2 emissions

(1) Indicate whether this metric was disclosed, including the methodology

○ (1) Metric disclosed

● (2) Metric and methodology disclosed

(2) Provide links to the disclosed metric and methodology, as applicable

<https://www.esm.europa.eu/system/files/document/2023-09/ESM%20carbon%20footprint%202022%20.pdf>

(C) Scope 3 emissions (including financed emissions)

(1) Indicate whether this metric was disclosed, including the methodology

○ (1) Metric disclosed

● (2) Metric and methodology disclosed

(2) Provide links to the disclosed metric and methodology, as applicable

<https://www.esm.europa.eu/system/files/document/2023-09/ESM%20carbon%20footprint%202022%20.pdf>

○ (D) Our organisation did not publicly disclose its Scope 1, Scope 2, or Scope 3 greenhouse gas emissions during the reporting year

## SUSTAINABILITY OUTCOMES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 47	CORE	N/A	Multiple indicators	PUBLIC	Sustainability outcomes	1, 2

Has your organisation identified the intended and unintended sustainability outcomes connected to its investment activities?

○ (A) Yes, we have identified one or more specific sustainability outcomes connected to our investment activities

● (B) No, we have not yet identified the sustainability outcomes connected to any of our investment activities

Explain why:

The ESM is still refining its ESG incorporation approach, and therefore sustainability outcomes are not identified at this stage. However, the ESM observes the impact of ESG developments on its paid in capital, through the monitoring of issuer-based ESG scores.

# CONFIDENCE-BUILDING MEASURES (CBM)

## CONFIDENCE-BUILDING MEASURES

### APPROACH TO CONFIDENCE-BUILDING MEASURES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
CBM 1	CORE	N/A	Multiple indicators	PUBLIC	Approach to confidence-building measures	6

#### How did your organisation verify the information submitted in your PRI report this reporting year?

- (A) We conducted independent third-party assurance of selected processes and/or data related to the responsible investment processes reported in our PRI report, which resulted in a formal assurance conclusion
- (B) We conducted a third-party readiness review and are making changes to our internal controls or governance processes to be able to conduct independent third-party assurance next year
- (C) We conducted an internal audit of selected processes and/or data related to the responsible investment processes reported in our PRI report
- (D) Our board, trustees (or equivalent), senior executive-level staff (or equivalent), and/or investment committee (or equivalent) signed off on our PRI report
- (E) We conducted an external ESG audit of our holdings to verify that our funds comply with our responsible investment policy
- (F) We conducted an external ESG audit of our holdings as part of risk management, engagement identification or investment decision-making
- (G) Our responses in selected sections and/or the entirety of our PRI report were internally reviewed before submission to the PRI
  - (H) We did not verify the information submitted in our PRI report this reporting year

## INTERNAL REVIEW

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
CBM 6	CORE	CBM 1	N/A	PUBLIC	Internal review	6

#### Who in your organisation reviewed the responses submitted in your PRI report this year?

- (A) Board, trustees, or equivalent
- (B) Senior executive-level staff, investment committee, head of department, or equivalent
  - Sections of PRI report reviewed
    - (1) the entire report
    - (2) selected sections of the report
  - (C) None of the above internal roles reviewed selected sections or the entirety of the responses submitted in our PRI report this year