



PUBLIC TRANSPARENCY REPORT

2023

European Stability Mechanism

Generated 15-12-2023

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 2023 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

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 2023 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 it is to mobilise funding and provide stability support when required to safeguard euro area financial stability, the ESM also 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 ultimately encourage better, more sustainable outcomes for the societies it serves.

Over the past years, the ESM therefore ramped up its efforts to improve its ESG practices, launching a series of initiatives across the organisation. This included the signing of the PRI in February 2020 and the development of an ESG scoring approach for its €80.5 billion paid-in capital. In line with our mandate, this 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 paid-in-capital, the ESM selected Moody's Vigeo Eiris as its ESG data provider, chosen for the quality of its scoring methodology, its broad coverage of the ESM investment universe, its focus on ESG performance, and its 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 has published the first weighted average ESG scores of its paid-in capital in its 2022 Annual report, alongside providing key highlights to explain the ESG scoring methodology (e.g. broad factors used in assessing each of the three ESG dimensions, major asset types used to categorise the ESM's eligible issuers and the proxies used for issuers not having ESG scores from the data provider), as well as average score per asset type. Going forward, the ESM will endeavour to provide more granular information about ESG quality of its assets, as it further develops its monitoring tools.

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.

Furthermore, ESM's compliance function also 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 practices among ESM investors and other stakeholders, the ESM also regularly engages with stakeholders by providing updates on its ESG activities and addressing investor community feedback. Furthermore, in 2022 the ESM established an internal ESG Strategic Steering Group to prioritise and coordinate cross-divisional ESG initiatives. The group, which comprises several members of the ESM Management Board, provides guidance to a working-level liaison team to facilitate cross-divisional alignment, discussion, and collaboration.

Lastly, the ESM also contributes to policy discussions. This is illustrated through its membership and active participation within the International Capital Market Association's (ICMA) Social Bond Working Group since 2019. 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. For further information on ESM's ESG practices, please refer to the ESG Summary Report available 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 various activities. One of the key actions the ESM has embarked on in relation to 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 selected Moody's Vigeo Eiris as its ESG data provider to support this approach. Applying the ESG scores for the end of 2022, the ESM obtained an ESG weighted average score of 73 out of 100, corresponding to Moody's advanced category i.e. the highest category of its scale of ratings, defined for scores between 60 and 100. When analysing the score per asset class, it is noticed that on average, the allocation of sovereign and supranational issuers is also in the advanced category, with scores of respectively 79 and 71, while financial institutions – representing covered bond issuers – on average scored 54, associated with Moody's robust category, for scores between 50 and 60.

In parallel, the ESM continued investing in use-of-proceeds bonds. At the end of 2022, the ESM held €4.5 billion use-of-proceeds bonds, of which €4.3 billion are compliant with the ICMA's principles and split nearly equally between social, green, and sustainability bonds. The remaining €0.2 billion are 'pandemic bonds' whose proceeds financed part of the response to the Covid-19 crisis.

Building awareness on ESG and facilitating discussion was also at the forefront of ESM's PRI commitments. During the reporting period, the ESM hosted the 4th Annual Capital Markets Seminar jointly with the European Investment Bank and the European Commission, gathering international financial institutions on the 13 and 14 June 2022. The main focus was on Europe's transition to a sustainable and digital economy, and market and regulatory developments in this context. In addition, the ESM had a number of 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 significant 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 issuer level to measure 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 in 2022, the ESM is aiming to further enhance and formalise 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 for such efforts are in the updated Procurement Policy (applicable as of 1 May 2023), which now includes ESG principles for future public procurement procedures.

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 is therefore working 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.

These efforts are in line with the overall work of the ESM which has always been strongly linked to the improvement of governance. We can build on this experience and the lessons learned thereof 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 it 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 as the European Commission platform on sustainable finance. It would also consider other networks on sustainable finance as far as they are compatible with our already ongoing commitments.

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	2022

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\$ 105,200,791,000.00

(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)

98,594,931,000 EUR (with conversion from 31.12.2022 at 1 EUR= 1.0670 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	>50-75%	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 >50-75%

(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



(B) Yes, through service providers



(C) Yes, through external managers



(D) We do not conduct stewardship



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 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.

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 dedicated 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 Module 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 the outlined developments in investment practices in PGS1 which address this question, the following risk governance processes and policies exist for the institution-wide management and oversight of financial and non-financial risks inherent in ESM's mandate and operational activities. 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 and preparedness 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 taken into account (namely, Voice & Accountability, Political Stability & 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.

Furthermore, ESM's compliance function undertakes a review for anti-money laundering, sanctions compliance, and conduct issues for financial institutions engaged with ESM on market dealings (trading counterparts). In case of material misconduct and non-compliance, ESM considers relevant 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 are in place to support compliance with obligations of the Market Abuse Regulation applicable to ESM's investment activities.

- (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

- (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

- (P) Other responsible investment aspects not listed here

Add link:

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 an 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 in accordance with 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 response to question PGS 12

- (C) Investment committee, or equivalent

Specify:

See response to question PGS 12

- (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 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 provide guidance to 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 4th annual Capital Markets Seminar jointly with the European Investment Bank and the European Commission during a conference gathering international financial institutions on 13 and 14 June 2022. The main focus was on Europe’s transition to a sustainable and digital economy, and market and regulatory developments in this context. In addition, the ESM had a number of one-to-one meetings with peers and investors to share its ESG approach or key lessons learned on its ESG integration path.

- (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. Additionally an ESG & Climate Change Steering Group exists (details in SLS1) as well as institution-wide risk governance structures (details in PGS2). Lastly, the Corporate Governance & 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

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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/2023-07/2023.07.03%20ESG%20Summary%20Report_FINAL_1.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/system/files/document/2023-07/2023.07.03%20ESG%20Summary%20Report_FINAL_1.pdf

<https://www.esm.europa.eu/system/files?file=document/2023-06/esm-annual-report-2022.pdf>

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

(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 (namely supranationals, sovereigns, sub-sovereigns, government-related agencies, and financial institutions) 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 inherent in the ESM's mandate and operational activities. 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 the screening based on the ESM credit risk policy consists of a standard credit risk approach focusing on assessing credit worthiness of the counterparties/issuers.

Furthermore, the ESM's compliance function also undertakes a review for anti-money laundering, sanctions compliance, and conduct issues for 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 placed on certain types of transactions. Please 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 the purposes of 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 given the nature of its activities. The ESM mainly engages on responsible matters through its participation to 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 Platform for Sustainable Finance.

- (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 the 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 a number of one-to-one meetings with peers and investors to share its approach to ESG or key lessons learned on its ESG integration effort.

Through these initiatives the ESM aims to contribute to progress in wider policy discussions and 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 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: ESCALATION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 37	CORE	Multiple, see guidance	N/A	PUBLIC	Stewardship: Escalation	2

For your corporate fixed income assets, what escalation measures did your organisation, or the external investment managers or service providers acting on your behalf, use in the past three years?

- (A) Joining or broadening an existing collaborative engagement or creating a new one
- (B) Publicly engaging the entity, e.g. signing an open letter
- (C) Not investing
- (D) Reducing exposure to the investee entity
- (E) Divesting
- (F) Litigation

(G) Other

Specify:

Not applicable.

- (H) In the past three years, we did not use any of the above escalation measures for our corporate fixed income assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 38	PLUS	OO 8, OO 5.3 FI	N/A	PUBLIC	Stewardship: Escalation	2

Describe your approach to escalation for your internally managed 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 assessment done by the risk management division and might lead to limit reductions, limit freeze, 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 joined the Network for Central Banks and Supervisors for Greening the Financial System (NGFS) as an observer. The NGFS contributes to a better understanding of climate-related risks and helps 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 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). Taxonomy Regulation While publicly available these are however joint publications not directly affiliated to 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.

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 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
 - o (1) Internally led
 - o (2) External service provider led
 - o (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
- (B) Yes, beyond our standard planning horizon
- (C) **No, we have not identified climate-related risks and/or opportunities affecting our investments**

Explain why:

In the context of its investment activities, ESM's Risk Management division takes into account climate-related risks in its assessment of sovereign and financial institution issuers and trading counterparts within a dedicated ESG section in the credit assessment reports. The information included in the dedicated ESG chapter is based on credit rating agencies' considerations of material ESG risks impacting the credit quality of the entity. This includes environmental scores with indicators such as carbon transition, physical climate risks, water management, or waste; they 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, Risk Management has increased awareness and concern for both physical and transition climate-related risks from an outside-in perspective. As such, the Risk Management division is in the process of preparing tools and risk metrics to formalise the identification and monitoring of climate risks and opportunities affecting the credit quality of investments at multiple time horizons. The ESM will update and further enhance its practices over time.

Currently, Risk Management assesses ESG-related risks impacting the credit quality of counterparties during their periodic review (supranational entities, sovereigns, government-related agencies, and financial institutions). The ESG risk information is provided by credit rating agency reports. However, ESM's Risk Management aligns with the growing sustainable finance best practices, and therefore is in the preparatory stages of integrating climate change related risks into its risk management framework. Based on international guidelines, the ESM is developing internal methodologies and metrics to identify physical and transition climate risks and opportunities for counterparties along different time horizons. The scope of this exercise is to first clarify the extent of the ESM's climate risk exposure. Once established, the climate risk assessment will be conducted on an annual basis. The ESM expects to have a limited low-to-moderate exposure to climate related risks given that the ESM does not have significant exposure to high carbon emitting 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.

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.

Describe your strategy:

- o (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 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 on a periodic basis. 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.

- (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 on a periodic basis. 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. 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 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 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 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/2021-07/2020%20ESM%20Carbon%20Footprint.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/2021-07/2020%20ESM%20Carbon%20Footprint.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/2021-07/2020%20ESM%20Carbon%20Footprint.pdf>

(D) Our organisation did not 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