ETHICAL CAPITAL OPPORTUNITY ADVISORS
NEWSLETTER — Q1 2020

March 31st, 2020

FUND PERFORMANCE SUMMARY — Q1 2020

PROTEA UCITS II – ECO ADVISORS ESG ABSOLUTE RETURN FUND	March 2020	QTD	YTD	Since Inception
F Class EUR (net of fees)	1.70%	1.65%	1.65%	3.31%
F Class GBP (net of fees)	1.85%	1.96%	1.96%	4.08%
F Class USD (net of fees)	1.81%	2.10%	2.10%	-0.07%
P Class EUR (net of fees)	1.46%	1.33%	1.33%	1.33%

Monthly Performance (SI)	Jul 2019	Aug	Sep	Oct	Nov	Dec	Jan 2020	Feb	March
F Class EUR (net of fees)	0.28%	2.65%	0.73%	-0.29%	-0.07%	-1.64%	0.63%	-0.67%	1.70%
F Class GBP (net of fees)	0.33%	2.69%	0.80%	-0.17%	0.01%	-1.54%	0.72%	-0.60%	1.85%

Inception dates: F Class EUR and F Class GBP - July 8th, 2019
F Class USD - Oct 1st, 2019. P Class EUR - Jan 6th, 2020
Performance is shown net of all fees. Source: ECO Advisors, FundPartner Solutions Europe (SA)

ESG Portfolio Metrics

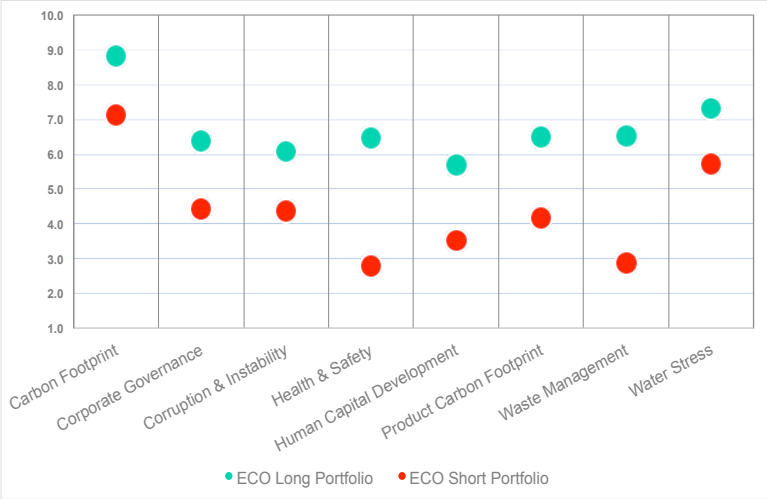


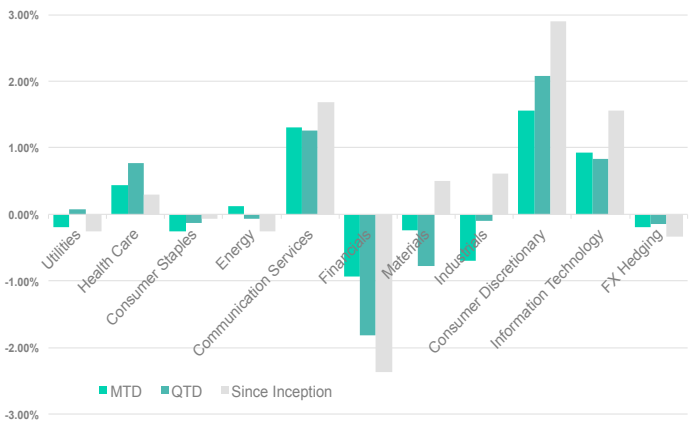
Chart illustrates weighted average score of selected MSCI ESG key issue scores for both our long and short portfolios.
Source: ECO Advisors, MSCI

Gross Performance Summary

PROTEA UCITS II – ECO ADVISORS ESG ABSOLUTE RETURN	MTD	QTD	YTD	Since Inception*
Gross Return	1.83%	1.95%	1.95%	4.28%
Long Contribution	-13.55%	-23.10%	-23.10%	-16.10%
Short Contribution	15.58%	25.20%	25.20%	20.71%
FX Hedging	-0.20%	-0.15%	-0.15%	-0.33%

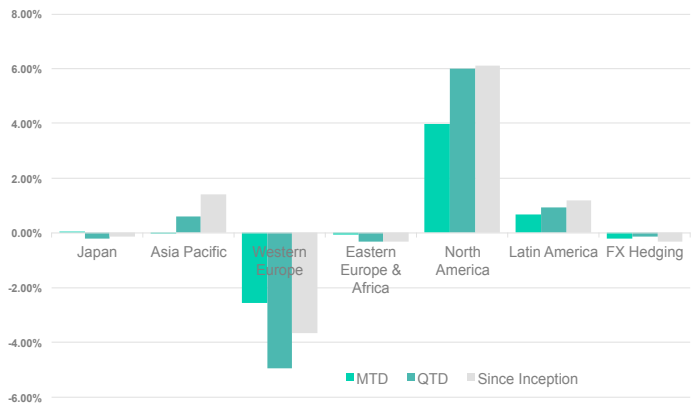
The above figures are gross estimates of the fund's (EUR class) performance. Components may not sum due to compounding and rounding effects.
*Inception date of the F Class EUR and F Class GBP - July 8th, 2019
Source: ECO Advisors

Gross Performance Attribution - Sectors



The above figures are estimates, gross of fees. Source: ECO Advisors

Gross Performance Attribution - Regions



The above figures are estimates, gross of fees. Source: ECO Advisors

OPERATIONAL UPDATE We are pleased to inform our investors that ECO Advisors' business continuity plan (BCP) has proven to be very effective amidst these exceptional conditions. Relying on our cloud based infrastructure and supported by our key operational partners and counterparties, we continue to seamlessly execute our strategy and manage the firm from our respective homes, ensuring the safety of our team.

We maintain frequent dialogues with existing and prospective investors through video conference and conference calls, and we would invite you to get in touch if you would like to continue your due diligence process or get a fund update from us in the coming days.

Finally, we wish everyone the best of health amidst this challenging period. Stay safe.

GROSS FACTOR ATTRIBUTION SUMMARY	QTD
ESG Selection	1.97%
Styles	0.95%
Industry	1.71%
Countries	-0.76%
Residual Beta Exposure	-1.76%
FX Hedging	-0.15%
Total	1.95%

PERFORMANCE AND ATTRIBUTION SUMMARY In a quarter where major global equity markets declined sharply, the GBP F class gained +2.0%, the EUR F class gained +1.7% and the USD F class gained +2.1%, driven by strong stock selection alpha and robust risk management.

In early February, several of our risk indicators (both financial market and real economy based) were pointing to a number of potential market and economic stresses relating to the virus outbreak. By design, we entered the period with a robustly constructed portfolio carrying only modest beta and limited style factor exposures as well as having VAR & CVAR estimates well within our typical ranges. Driven by our risk management process, we reduced gross exposure levels and carried out some relatively minor portfolio adjustments as markets declined and the volatility regime shifted.

As market conditions became more extreme, we switched away from applying standard risk models (which adapt too slowly in such periods) and focused emphasis on stress testing to guide portfolio adjustments and risk evaluations. Simulating extreme dislocations similar to 2008, 9/11, the Eurozone crisis and various Emerging Market crises we have experienced in the past helped us quickly isolate and minimise exposures driving portfolio tail risk (including exposure to certain Emerging Markets and to 'crowded trades' which showed signs of increased factor risk sensitivity). A key part of our portfolio management process is the ongoing, disciplined use of analytical tools such as stress tests to help us navigate extreme market conditions.

Stock selection alpha showed a materially positive contribution over the quarter (+197bps). We discuss ESG alpha in the current environment and the drivers for the increasing importance of ESG in security selection in the post COVID-19 world in the ESG Research Spotlight section of this document below.

From a factor perspective, we saw tailwinds from some of the small residual risk factor exposures (e.g. short leverage, long size, short airlines), which were offset by headwinds from country net exposures (e.g. long Canada, short China/Hong Kong) and modest residual beta exposure to the equity market.

On a gross sector basis, positive contributions came from Consumer Discretionary (+205bps) and Communication Services (+125bps), whilst Financials (-180bps) detracted. On a gross regional basis, North America (+600bps) and Latin America (+95bps) contributed, whilst Western Europe (-490bps) detracted. On a gross basis, the long book detracted ca. -2310bps, whilst the short book contributed ca. +2520bps.

We highlight below some of the major movers in the quarter within the portfolio.

LONG BOOK - SIGNIFICANT CONTRIBUTORS & DETRACTORS

> GILEAD SCIENCES (+16%) The US pharmaceutical company announced that it is currently testing its Remdesivir Ebola drug in multiple human trials for efficacy against COVID-19. Our ESG data analysis shows Gilead to be a leader in its peer group in terms of HR and staff management policies, as well as being at the forefront of improving societal healthcare outcomes with its focus on infectious diseases and use of equitable pricing mechanisms.

> WORLEY (-59%) The Australian engineering services company declined along with the oil sector as investors worried about its exposure to energy projects. Long time CEO Andrew Wood also announced his retirement. Whilst Worley does have a significant exposure to the energy sector which will weigh on its immediate outlook, the company also continues to reorient its business towards renewables, carbon reduction technologies and other civil engineering services.

SHORT BOOK - SIGNIFICANT CONTRIBUTORS & DETRACTORS

> MARRIOTT INTERNATIONAL (-50%) The COVID-19 pandemic has hit the hotel operator's business worse than 9/11 and the 2008 crisis combined. As worldwide travel plummeted, the CEO announced that tens of thousands of employees would be furloughed. The situation was made worse in March as Marriott announced another data breach; two compromised employee logins were abused to siphon off guests' personal information. Our analysis shows the company lags peers in areas of staff management and labour relations (as well as having a history of data security breaches).

> AMERICAN AIRLINES (-57%) Airlines have naturally been a huge casualty of the virus due to the imposition of travel restrictions and collapse in air travel demand. For example, American's May flight schedule has been cut by 80%. The company confirmed they will seek up to $12bln of financial support from the US government's newly created bailout fund, although the conditions attached to government support remain unclear. The company, along with many others, has been criticised for its previous focus on rewarding shareholders via buybacks instead of building a financial contingency cushion.

MARKET COMMENTARY Q1 2020 witnessed declines and volatility in major equity benchmarks not seen since 2008, and in some cases not since 1987. The MSCI World TR $ Index fell -21% over the quarter and at one point in March had declined as much as -34% from its peak. Volatility, liquidity and other indicators of market stress also reached levels not seen since the global financial crisis, while the VIX index peaked at 82.

It became apparent to global equity markets in February that the new, highly contagious COVID-19 virus which took hold in China, and the resulting societal and economic disruptions, were not confined to Asia. The virus spread rapidly across Europe and the US, threatening to overwhelm healthcare systems and forcing governments to implement extreme social distancing measures.

The direct and indirect impacts on economic activity, corporate earnings and society as a whole are profound and unprecedented. In the short term, companies across the spectrum have announced profit warnings, dividend cuts, buyback suspensions, supply disruptions, worker furloughs and redundancies. Social distancing measures have meant that entire industries have essentially ground to a halt. The February China PMI falling to 28.9, March US initial jobless claims jumping to over 3m (having started the year at 212k) and the Eurozone services PMI falling to 28 all demonstrate the severity of the situation. As at the end of March, most countries in the world are effectively locked-down, with no clear end in sight.

Faced with this unprecedented scenario, the reaction of governments and central banks has been swift in comparison to previous crises. Starting in China and extending to most major central banks and governments, interest rate cuts, injections of liquidity, commercial bank support schemes, direct intervention in labour markets, job support programs, credit facilities and financial support packages for companies, small business loans and grants, increased social security payments and even so-called 'helicopter money' payments have all been swiftly implemented. Whilst certainly necessary to avoid a synchronous collapse in global aggregate demand, the size and scale of such interventions are unprecedented in peacetime and, we believe, will have ramifications for investors in the years to come.

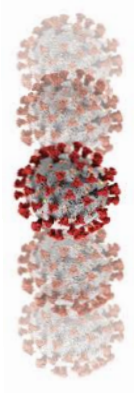
INVESTMENT OUTLOOK As alluded to above, we believe the aftermath of the COVID-19 virus may have profound societal and economic impacts in the coming months and years. These will also have important implications for equity investors. In the short term it is clear that corporate earnings and guidance will be under severe pressure in many sectors and that many businesses are in fight for survival as they are faced with an evaporation in end demand. Whilst government support will help some firms navigate this difficult period, we expect corporate failures, particularly amongst excessively leveraged companies. In the short term, we therefore maintain our stance of caution and downside vigilance.

However, in the medium term, we are wary of the effects of a potential rise in inflation after the lockdowns are lifted and economic recovery ensues. Whilst this may not seem immediately apparent amidst an oil price war and the current huge rises in unemployment, recent policy interventions are injecting cash flows that will directly raise broader measures of money. Furthermore, the speed with which the global economy recovers may be faster than in previous downturns. Finally, the extent to which the public sector has intervened in this crisis may make it politically difficult for governments to allow further falls in the real incomes of workers.

The coronavirus pandemic, the supply shock and the resulting economic and political power shift, away from companies towards workers and governments in the wake of huge public sector rescues of private companies, may prove to be a pivotal point in the change to a more inflationary regime. We believe this could have important implications for the performance of equity style factors. A key risk management focus for us in the coming weeks and months is to ensure our portfolio can withstand a very different and more inflationary backdrop, including associated factors such as a weaker USD, rising commodity prices and outperformance of value equity styles.

A second important component of this outlook comes from bottom up stock selection and understanding how such themes can manifest at the company level. We explore the implications of COVID-19 on security selection in the ESG Research Spotlight below.

ESG RESEARCH SPOTLIGHT:
COVID-19, ESG & INVESTING IN A CRISIS



ESG investing and performance in challenging markets The coronavirus crisis, and the reaction of governments, business, and individuals to the virus, are likely to have profound effects on virtually every aspect of our lives. The nature of relationships between governments, businesses, employees, consumers and investors are undergoing a process of realignment and reevaluation, and at this stage the long term outcome is far from clear. However, we can already see the emergence and development of particular themes that relate to ESG investing, and in this section we discuss how we view the benefits of an ESG focused investment process in the current investment landscape.

Addressing the critics Prior to the crisis, we had heard criticism from ESG skeptics that ESG investment was a "nice to have", but would likely be abandoned by "hard nosed" investors in a time of crisis. Needless to say, so far, nothing has been further from the truth. In fact, this crisis has very much helped to demonstrate the benefits of an ESG investment approach. In a recent article, the WSJ highlighted that "the recent volatility in financial markets due to the coronavirus pandemic could provide investors with more of an incentive to grill companies on nonfinancial [i.e., ESG] risks."[1] As such, **we strongly believe that ESG issues are becoming more, not less relevant**, as investors look to assess how companies react and respond to the crisis.

We associate ESG with company-specific superior long term operational risk management, and believe the market will assess companies on this basis and price further differentiation. We have always maintained that companies who excel at ESG tend to be better managed, both operationally and financially. We also find that they tend to have superior corporate risk management as well as stronger balance sheets, and consequently are typically better able to withstand unexpected shocks. In contrast, those companies that ignore ESG considerations tend to be less operationally robust, often use more "financial engineering" to deliver shareholder returns and are often more vulnerable to legal, political and other external shocks. COVID-19 has offered a powerful test of this thesis.

COVID-19 & workplace inequality: a life and death issue The COVID-19 pandemic has brought to the surface a number of important ESG themes. Analysis of S pillar issues, including labour practices and HR policies, forms a key input in our ESG security selection process. One area where we can see important impacts is general employment practices and specifically the "gig economy".

Unfortunately, some of the most severe economic impacts of COVID-19 are falling on the part of the economy which is least able to afford them.[2] For example, approximately 70% of US workers do not have the luxury of working from home, including factory workers, grocery staff, and those who work in industries such as waste disposal, retail and health care.[3] Many gig economy workers such as taxi and delivery drivers, cleaners and events staff who do not receive company sick pay are speaking out about concerns over not being able to pay bills and put food on the table.[4] Almost 36% of Americans participate in the gig economy in some way.[5] Making matters worse, some countries, including the USA, do not mandate paid sick leave. About a quarter of US workers currently get no paid sick leave at all.[6]

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[1] https://www.wsj.com/articles/coronavirus-pandemic-could-elevate-esg-factors-11585167518

[2] https://www.nytimes.com/2020/03/15/world/europe/coronavirus-inequality.html?action=click&module=RelatedLinks&pgtype=Article

[3] https://www.bloombergquint.com/onweb/virus-is-exposing-worker-inequalities-as-corporate-offices-empty

[4] https://www.theguardian.com/business/2020/mar/17/the-government-has-abandoned-us-gig-economy-workers-struggle-to-cope

[5] https://www.gallup.com/workplace/240929/workplace-leaders-learn-real-gig-economy.aspx

[6] https://www.washingtonpost.com/business/2020/03/16/paid-sick-leave-coronavirus-house-bill/

COVID-19 as a catalyst for change In our view, recent events may well be acting as a catalyst for fundamental changes in a number of countries in the area of employment practices, instigating a pushback against companies offering precarious employment conditions. For companies that employ or rely on questionable labour practices, these changes are likely to have material effects that are not necessarily included in financial forecasts, earnings estimates or equity market pricing. Companies that already employ best-in-class labour standards, on the other hand, are much more likely to be resilient to this change and will have already incorporated these upfront costs in their business models.

In the UK, the government has announced that it will pay the wages of employees unable to work due to the pandemic. In a radical move aimed at protecting people's jobs, lasting three months, but potentially longer if necessary, it will pay 80% of salary for staff who are kept on by their employers, covering wages of up to £2,500 a month.[7] Other governments have announced similar measures to mitigate the employment impact of social distancing. We expect that governments who have shouldered the burden of protecting workers during this crisis will seek to ensure that in the future the costs of such interventions are shared with employers. In our view, ESG leaders in this area are likely to have the advantage over their peers.

In the US, the federal government signed the biggest economic support package since the 2008 financial crisis, estimated to be $2.2tn, focussed on industries hardest hit by the coronavirus pandemic, including airlines, steel, cement and tourism.[8] A bailout is not strictly free money from the government, and can come in the form of loans or grants with limitations, such as conditionality based on company-employee relations.[9] Again, we expect that corporate welfare will likely need to be associated with changes in the employee relationship, and governments may expect a quid-pro-quo in exchange for aid and support.

Beyond regulatory pressure, there is also general societal pressure to provide extended sick pay and a higher standard of benefits for employees. Elizabeth Warren asking Uber and InstaCart CEOs to reclassify their workers as employees[10] does not have regulatory teeth (yet), however it sends a strong signal to these brands. Walmart announced a new emergency-leave policy for its hourly workers after a store employee tested positive for the virus.[11] Uber, which largely operates in the gig economy, will expand its policy on sick pay so drivers placed in quarantine or asked to self-isolate by public health officials will be eligible for up to 14 days of paid sick leave.[12]

Emergency policies, conditional bailouts, other government policies and societal or employee-level pressure are likely to be expensive. This is evidenced by the fact that McDonald's is pushing for changes to the Families First Act that would require its restaurants across the US — 95% which are owned by franchisees — to give workers two weeks of paid sick leave, describing it as an effort to protect franchisees' financials.[13]

We believe companies that implement best practices in labour management, including flexible policies or paid leave, are better prepared to manage in this period and will be less impacted by this crisis or future disruptions. These companies are less likely to need to rely on conditional loans or grants, or be regulated into bearing unexpected (and unbudgeted) costs.

One example of corporate leadership in this area is Novo Nordisk, which we believe implements best practice in all labour management categories, including compensation and non-compensation benefits. These benefits cover all employees. In seven years, the company has been granted 16 awards as an employer, and enjoys low employee turnover rates. It is unlikely that Novo Nordisk will have to assemble an ad hoc extended sick leave policy, for example, to deal with the current crisis.

This is in contrast to companies with poor labour management policies and company-employee relations, and a reliance on precarious work. We feel that such companies are at higher risk of being pressured, either by regulation, employees, or society, into scrambling to put together emergency policies or relying on government handouts.

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[7] https://www.bbc.co.uk/news/business-51982005

[8] https://www.theguardian.com/world/2020/mar/23/coronavirus-us-bailout-what-you-need-to-know

[9] https://www.businessinsider.com/what-is-a-bailout-coronavirus-stimulus-package-explained-2020-3?r=US&IR=T#what-a-bailout-is-and-isnt-1

[10] https://www.vice.com/en_us/article/jge9w8/elizabeth-warren-calls-on-uber-instacart-to-reclassify-workers-as-employees

[11] https://www.bloombergquint.com/onweb/virus-is-exposing-worker-inequalities-as-corporate-offices-empty

[12] https://www.theverge.com/2020/3/16/21181387/uber-driver-paid-sick-time-expand-coronavirus-covid19-pandemic

[13] https://www.businessinsider.com/mcdonalds-pushes-back-against-aspects-coronavirus-sick-leave-bill-2020-3?fbclid=IwAR3oSQfepyExXWzxHOWi0R0YMtsnKDD3tS6iyyudOTVc0md4cZhCTAgd_C8&r=US&IR=T

Conclusion The coronavirus crisis, and our society's reaction to it, is still at an early stage. The long term ramifications for investors are still to be fully understood. However, at ECO Advisors we are confident that the importance of ESG in the investment process and as an alpha driver has never been greater.

We end this section with the recent words of Mark Cuban, billionaire investor and entrepreneur, on corporate management and the current crisis.

"If you're a great company, your shareholders will understand and will expand their P/E out of respect, because they're all dealing with the same circumstances ... If you get branded as a company that acted in bad faith, laid off all your employees, or really cut back and you took a bonus or whatever, you're going to get crushed and your brand is going to go straight into the toilet."[14]

Well said, Mark.

[14] https://markets.businessinsider.com/news/stocks/mark-cuban-to-ceos-shareholders-come-last-amid-coronavirus-pandemic-2020-3-1029041805

POSITION CALL-OUTS:
COVID-19 & ESG SOCIAL EXTERNALITIES

NOVO NORDISK (LONG) **ESG LEADER:**

Novo Nordisk is a global healthcare company with more than 90 years of innovation and leadership in diabetes care. Headquartered in Denmark, Novo Nordisk employs approximately 42,100 people in 79 countries, and markets its products in more than 170 countries.

- ✔ Offers an employee stock ownership plan (ESOP) / employee stock purchase plan (ESPP)
- ✔ Sector-leading number of employees eligible for ESOP and/or ESPP
- ✔ A leader in non-compensation benefits including pension and retirement
- ✔ Best practice: benefits cover all employees
- ✔ No ESG controversies detected

G4S (SHORT) **ESG LAGGARD:**

G4S plc is a British multinational security services company headquartered in London, England. The company offers a range of services, including the supply of security personnel, monitoring equipment, response units and secure prisoner transportation.

- ✘ G4S' detention centers in the UK and its labor relations across its international security services operations remain subject to intense scrutiny
- ✘ The company has an extensive history of labour relation controversies across its operations
- ✘ Under investigation for abuse of migrant workers in Qatar
- ✘ The company has also been questioned for its unethical business practices (it overcharged the UK government in an electronic tagging contract)

APPENDIX:
Q1 2020 PORTFOLIO OVERVIEW - EXPOSURES

GICS SECTOR EXPOSURE	LONG	SHORT	NET	GROSS
Communication Services	7.1%	-8.4%	-1.3%	15.5%
Consumer Discretionary	7.4%	-10.5%	-3.1%	17.9%
Consumer Staples	1.6%	-2.3%	-0.6%	3.9%
Energy	3.6%	-1.0%	2.6%	4.6%
Financials	10.5%	-7.2%	3.3%	17.7%
Health Care	9.0%	-4.4%	4.6%	13.5%
Industrials	12.5%	-9.4%	3.1%	21.8%
Information Technology	6.9%	-8.2%	-1.3%	15.1%
Materials	7.0%	-3.8%	3.2%	10.8%
Utilities	1.9%	-1.5%	0.4%	3.4%
TOTAL	**67.6%**	**-56.7%**	**10.9%**	**124.3%**

Source: ECO Advisors. Data as of March 31, 2020

REGIONAL EXPOSURES	LONG	SHORT	NET	GROSS
Japan	7.0%	-7.0%	0.0%	13.9%
Asia Pacific	7.0%	-9.6%	-2.6%	16.7%
Western Europe	23.1%	-8.9%	14.1%	32.0%
Eastern Europe & Africa	1.9%	-0.3%	1.5%	2.2%
North America	27.8%	-28.7%	-0.9%	56.6%
Latin America	0.8%	-2.1%	-1.3%	2.9%
Total	**67.6%**	**-56.7%**	**10.9%**	**124.3%**

Source: ECO Advisors. Data as of March 31, 2020

APPENDIX:
Q1 2020 PORTFOLIO OVERVIEW - KEY METRICS

KEY PORTFOLIO METRICS	LONG	SHORT
No. of positions	116	94
Largest position size	1.1%	-1.2%
Top 10 positions weight	10.3%	-9.3%

Source: Bloomberg, ECO Advisors. Data as of March 31, 2020

STRATEGY VALUATION METRICS (WEIGHTED AVERAGE)	LONG	SHORT
P/E (1FY)	12.2	11.4
P/B	1.4	1.2
Net Debt / EBITDA	1.0	1.6
Dividend Yield	3.7%	2.9%
Free Cash Flow Yield	6.3%	3.9%
Return on Equity	10.1%	9.0%
Beta Adj Exposure (vs MSCI World)	0.04	
Ann. volatility (ex-ante)	3.9%	
1 day VAR (99% monte carlo)	-0.62%	
1 month VAR (99% monte carlo)	-2.9%	

Source: Bloomberg, ECO Advisors. Data as of Mar 31, 2020

Note: Strategy valuation metrics are weighted averages, and not all metrics are necessarily comparable across companies in different sectors. Outliers can have a material impact on aggregate statistics.

KEY FUND INFORMATION

TERMS	PROTEA UCITS II - ECO ADVISORS ESG ABSOLUTE RETURN FUND
Founder's (F) share class	0.60% management fee (in perpetuity)
Performance Fee (P) share class	0.60% mgt. fee, 15% perf. fee (HWM + rate hurdle)
Management Fee (M) share class	1.1% management fee
Administration and other fees	0.39%
Investor liquidity	Daily
Share class currencies	EUR, GBP, CHF, SEK, USD
Domicile	Luxembourg
Launch date	July 8th, 2019
Vehicle	Protea UCITS II SICAV
Distribution type	Accumulation
SERVICE PROVIDERS	
Administrator	FundPartner Solutions (Europe) S.A.
UCITS management company	FundPartner Solutions (Europe) S.A.
Depositary	Pictet & Cie (Europe) S.A.
Prime brokers	JP Morgan, Goldman Sachs

SHARE CLASS	ISIN	HEDGED
F Class EUR	LU2002381171	n/a
F Class GBP	LU2002381254	Yes
F Class USD	LU2002381502	Yes
P Class EUR	LU2002382492	n/a
P Class GBP	LU2002382575	Yes

OTHER INFORMATION	
Corporate engagement	ESG driven voting & engagement for longs
Fund AUM (USD)	$56.6m
ESG long book exclusion policy	Tobacco, weapons, adult entertainment, gambling, thermal coal, tar sands
Morningstar category	Alt - Market Neutral - Equity

German, UK, Austrian, Belgian tax reporting available upon request.

The Key Investor Information Document and Prospectus are available at www.ecoadvisors.eu and investors should read these documents prior to investing.

For further information, please contact ECO Advisors:
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WWW.ECOADVISORS.EU

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Applicant ESG LUXFLAG Label

UKSIF UK Sustainable Investment and Finance Association

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