Global sustainable investment policy

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1. Scope of the document

This document presents a summary of the Global Sustainable Investment Policy (hereinafter "GSIP") used by Bank Degroof Petercam SA.

This policy defines:

- ✓ The principles that Degroof Petercam has established to identify sustainability risks and to assess and manage the principal adverse impacts on sustainability factors in connection with its investment decisions within the framework of discretionary management services, investment advisory services, fund management (including wealth funds), its life insurance activities and its investment services for clients in general.

- ✓ The process of selection and extra-financial classification of all the financial instruments in Degroof Petercam's investment universe, as well as the definition of products that promote ESG or sustainable characteristics and how they can be used to meet clients' sustainability preferences.

2. Scope of the policy

The principles set out in this policy apply to Bank Degroof Petercam Belgium, in particular its Private Banking and equity management activities. A separate policy applies to the activities carried out by the asset manager of Degroof Petercam (DPAM).

The GSIP has been drawn up in accordance with Degroof Petercam's obligations under the Sustainable Finance Disclosure Regulation (SFDR), with respect to both its activities as a financial market participant and its activities as a financial adviser.

This policy describes the selection and classification process applied to all instruments used in Degroof Petercam's range of financial services. It also sets out the process for classifying all the sustainable instruments that can be used to meet client sustainability preferences.

Unless otherwise specified herein, the definitions and descriptions contained in this policy apply to Degroof Petercam's role as an actor in the financial markets.

The role of financial adviser will be clearly stated in specific cases.

3. Background information

3.1. Historical Introduction

The Paris Climate Agreements, signed in 2015 at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21), were negotiated by representatives of 196 nations. The objective of these agreements is to limit the increase in global average temperature to less than 2 degrees Celsius above pre-industrial levels to mitigate the irreversible impacts of climate change.

Public and private investors must take urgent action to meet this target. The Paris Agreements led to the launch of the European Union Action Plan, which is designed to support these objectives through sustainable finance, by redirecting capital flows towards sustainable investments. Managing the financial risks arising from climate change, resource depletion, environmental degradation and social issues is also important. Finally, the objective is to promote transparency and a long-term vision for financial and economic activity.

Europe has introduced a raft of regulations to support this ambitious plan. The first step involves standardising how companies integrate sustainability-related aspects into their activities. This means that companies are required to disclose a range of ESG and sustainability-related information. The purpose of this reporting requirement is to enable financial institutions to use this information to classify products and develop an appropriate framework. As a result, investors will be provided with more transparent information on ESG factors and sustainability, be able to express their objectives and preferences in this area, and direct more capital towards sustainable activities.

3.2. Sustainable Finance Disclosure Regulations (referred to as the “SFDR”)

In line with the EU Action Plan and with a view to addressing the importance of sustainability issues and the impact of not managing sustainability risks, in 2019 the EU adopted the Sustainable Finance Disclosure Regulation (“SFDR” - Regulation 2019/2088). The SFDR is intended to increase the transparency of ESG and sustainable investments.

This regulation applies to:

- **Actors in the financial markets:**
  Any entity that acts as fund manager for a UCITS fund or an AIF.
  Any entity that manages client portfolios on a discretionary basis.

- **Financial Adviser (hereinafter “FA”):**
  Any entity that provides investment advisory services in respect of financial instruments.

The Regulation also provides for a specific scope of application for:

1. a discretionary portfolio management portfolio;

2. an alternative investment fund (AIF);

3. an insurance-based investment product;

4. a UCITS;

An SFDR product within the meaning of the GSIP is either a fund (UCITS or AIF) or a discretionary management portfolio.

Products falling within the scope of SFDR, such as funds and discretionary managed portfolios, are referred to in this policy as “SFDR products”. Underlying investments, such as shares, bonds, and funds, are referred to in this policy as “instruments”. SFDR introduces a series of new disclosure rules concerning sustainability and environmental, social, and governance (hereinafter “ESG”) issues. Pre-contractual communications and periodic reporting to clients are also included within the scope of the SFDR regulation.

The two main levels of disclosure will be:

- **at entity level,** when acting as a MiFID portfolio manager, MiFID financial adviser, ManCo UCITS/AIFM or insurance company/intermediary providing or advising on insurance-based investment products (“IBIP”); and
- **at the product level**, with respect to UCITS/AIFs (“funds”), discretionary managed portfolios (“managed accounts”) and IBIPS that have environmental (“E”) or social (“S”) characteristics or whose investment objective is to target sustainable investments (“SI”) (as defined in the SFDR).

These concepts will be referred to later in this policy.

The main SFDR rules have been set out in detail in Regulatory Technical Standards (RTS)[1].

The SFDR introduces a few new concepts to the investment world:

- **Sustainability risk**: “an environmental, social or governance event or condition which, if it occurs, could cause an actual or a potential material negative impact on the value of the investment”. These risk elements are linked to ESG factors that could have an impact on the investment products.
- **Principal Adverse Impacts on sustainability (“PAI”)**: “Environmental, social and employee issues, respect for human rights, anti-corruption and anti-bribery issues.” This involves quantifying the risk impact of investments/decisions/advice on sustainability factors, and notifying investors.

1 Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088

3.3. Taxonomy Regulation

The European Taxonomy aims to create a unified classification system at European Union level that provides companies and investors with a common language for determining which economic activities can be considered environmentally sustainable.

The Taxonomy Regulation provides a list of activities that are covered by and eligible for the Taxonomy.

To be aligned with the Taxonomy, the activity must also meet 4 cumulative conditions:

1. The activity must meet the specific technical review criteria

2. The activity must make a substantial contribution to at least one environmental objective

   Environmental objectives:

   - Mitigation of climate change
   - Adaptation to climate change
   - Sustainable use and protection of water and marine resources
   - Transition to a circular economy
   - Pollution prevention and control
   - Protection and restoration of biodiversity and ecosystems

3. The activity must not do significant harm to any of the other five environmental objectives

4. The activity must be consistent with minimum social guarantees

In addition, the Taxonomy requires SFDR products to disclose information on their alignment with the Taxonomy in their pre-contractual information sheet and periodic report. Both of these documents are based on EU models.

4. Legal obligations of Degroof Petercam under the SFDR

4.1. Integration of sustainability risk

Sustainability risks can affect portfolios in different ways. Let's consider the following two scenarios:

- ✓ First scenario: a company with sub-standard governance practices comes under fire from regulators and auditors, and faces a stiff fine.
- ✓ Second scenario: a company that fails to anticipate the rising cost of greenhouse gas emissions and ends up paying large sums for emissions rights.

In both cases, sustainability risks have an impact on profitability and could affect the stock market performance of these companies. Monitoring sustainability risks and their impact on a company's financial performance has been part of Degroof Petercam's investment process for many years.

Since 2021, Degroof Petercam has expanded its investment process to include an extra-financial investment process ("EFIP"). This policy equips our investment teams with a methodology for extra-financial classification that enables them to identify a company's exposure to key sustainability issues, and to monitor how these issues are being addressed.

The SFDR regulation requires that Degroof Petercam disclose how it integrates potential sustainability risks into its investment decision-making processes.

Degroof Petercam has developed a process for selecting and classifying the underlying products used to create SFDR products - which are funds (AIFs and UCITS) and portfolios managed on a discretionary basis - both in its role as an actor in the financial market and as an FA.

Degroof Petercam manages the sustainability risk through a systematic and thorough ESG selection and classification of the financial instruments. This process is based on objective market data that is provided by data providers specialised in ESG/sustainability issues. Degroof Petercam has integrated clear environmental and social criteria to this end, and closely monitors the good governance principles of the companies it analyses.

All of the financial instruments used in Degroof Petercam's investment services process, whether for fund management, investment advisory services or discretionary portfolio management, are screened and classified following a process of analysis from three different angles:

- Eligibility of the financial instrument,
- The financial instrument's ESG integration, which measures how the issuer is exposed to ESG risks and manages ESG issues,
- The sustainability impact of the financial instrument, which measures how the issuer's products and services contribute to the achievement of the environmental and social objectives,

Financial instruments that do not meet certain minimum standards may be excluded from our investment services.

Degroof Petercam believes that the higher the risk exposure and the higher the unmanaged portion of this risk, the greater the potential impact on reputation and finances. By excluding or reducing the proportion of these risky investments in our SFDR products, we effectively manage the ESG risk of our clients' investments. In addition, our normative screening ensures that our ESG and sustainable products are even less exposed to these sustainability risks.

Accordingly, Degroof Petercam assesses the likely impact of sustainability risks on the various products as follows:

SFDR Articles 9 and 8[2] products: low

SFDR Article 8[3] products: medium

Other products (SFDR Article 6 products): high

The underlying instruments used in discretionary portfolio management and fund management are screened on the basis of positive and negative ESG criteria, and exclusion criteria are included.

Depending on the type of SFDR product, specific rules apply to the categories of underlying financial instruments that may or may not be used, and potentially the extent to which they may be used. This will be explained in more detail below.

As a financial adviser, the funds we market benefit from the same level of control.

Lastly, although investment advisory portfolios are not SFDR products as such, the rules relating to the eligibility and proportion of underlying instruments to be used in an Article 8 SFDR product are also applied to these portfolios in the internal sustainable investment strategy.

This means that all SFDR products marketed and for which we provide guidance are subject to an ESG review, in which sustainability risks play an important role in determining whether the product is eligible for Degroof Petercam's investment universe.

Degroof Petercam applies these rules independently of the investor's sustainability profile defined in the context of the collection of "sustainability preferences" under MiFID II, as Degroof Petercam's global strategy is to limit the sustainability risks for all the portfolios it manages and advises.

As a result, the sustainable investment strategy rules defined by Degroof Petercam are applied to all "investment decisions and recommendations". These rules also apply to "neutral profiles", with the exception of "reactive investment advisory services".

[2] Products that promote ESG characteristics and make sustainable investments.

[3] roducts that promote ESG characteristics.

4.2. Impact assessment of PASI

The SFDR regulations require Degroof Petercam to assess the impact of its investment decisions on sustainability issues. This involves annual disclosures at the entity level based on the principal adverse impacts on sustainability (known as "PAIs").

PAIs (Principal Adverse Impacts) are indicators used to measure the most significant negative impacts of investments on the environment, society and governance (ESG).

Degroof Petercam produces a "PAI Statement" and publishes it on a dedicated sustainability page on its website.

The PAI report is published before the end of June each year and satisfies the requirements set out in Annex I of Delegated Regulation 2022/1288.

The report includes the 14 PAIs applicable to investments in companies, the two PAIs specific to investments in real estate assets, and the two PAIs applicable to investments in sovereign and supranational issuers.

Degroof Petercam selects at least one additional indicator relating to climate and other environmental issues and one additional indicator relating to social issues and employees, respect for human rights, anti-corruption and bribery, as defined in table 2 of Annex I of Delegated Regulation 2022/1288.

For these purposes, Degroof Petercam collects PAI data from data providers based on the required PAIs as mentioned in Annex I of the Delegated Regulation.

To support its sustainability strategy, Degroof Petercam has established a global approach to the management of adverse impacts by applying, within its due diligence process, a more active analysis of a pre-selected list of PAI indicators that will influence its investment and advisory decisions. However, Degroof Petercam will closely monitor its potential impact on other indicators and make corrections if necessary.

Degroof Petercam bases its due diligence process on clear environmental and social criteria that also take into account corporate governance principles.

Degroof Petercam has developed a process for selecting and classifying the underlying products used to create SFDR products (which are funds (AIFMs and UCITS) and portfolios managed on a discretionary basis), both in its role as an actor in the financial market and as an FA.

The underlying instruments used in discretionary portfolio management and fund management will be selected on the basis of positive and negative ESG criteria, and exclusion criteria will be applied in order to minimise significant impacts. Depending on the type of SFDR product, specific rules apply to the categories of underlying financial instruments that may or may not be used, and potentially the extent to which they may be used. This will be explained in greater detail later in the document.

As a financial adviser, the funds we market benefit from the same level of analysis.

Lastly, although investment advisory portfolios are not SFDR products as such, the rules relating to the eligibility and proportion of underlying instruments to be used in an Article 8 SFDR product are also applied to these portfolios in the internal sustainable investment strategy.

Degroof Petercam applies these rules independently of the investor's sustainability profile defined in the context of the collection of "sustainability preferences" under MiFID II, as Degroof Petercam's global strategy is to limit the sustainability risks for all the portfolios it manages and advises. As a result, the sustainable investment strategy rules defined by Degroof Petercam are applied to all "investment decisions and recommendations". These rules also apply to "neutral profiles", with the exception of "reactive investment advisory services".

Degroof Petercam's intention in adopting this approach is to limit, at the entity level, the PAIs of its investment decisions based on a global approach. Following the same philosophy as for sustainable development risks, Degroof Petercam believes that choosing issuers and companies with lower ESG risk exposure and/or better management of this exposure can reduce the impact on PAIs.

Additionally, during our due diligence process, we give priority to a large proportion of companies that outperform their peers (within a sector) on environmental and/or social issues, and we strongly limit the number of 'underperformers'. This allows us to limit our impact on PAIs.

In order to limit the negative impact within the third-party funds in which we invest on behalf of our clients, Degroof Petercam has an engagement policy with external fund managers to allow them to modify their investments, to provide any additional explanations they may have or, if they do not react accordingly, to exclude these funds from our selection.

Degroof Petercam has selected a list of PAIs to be monitored as a matter of priority from among the 14 PAIs that are mandatory for issuing companies.

The following PAIs are prioritised:

- ✓ Greenhouse gas emissions,
- ✓ Carbon footprint,
- ✓ Breaches of the principles of the United Nations Global Compact and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises,
- ✓ Exposure to controversial weapons (landmines, cluster munitions, chemical and biological weapons).

In addition, the two PAIs for sovereign and supranational issuers ("greenhouse gas intensity" and "investment countries subject to social breaches") will also be part of Degroof Petercam's priority list.

4.3. Integration of sustainability Risk into the Remuneration policies

Degroof Petercam's remuneration policy includes information on the integration of sustainability risks. The policy is published on the website.

4.4. Product Governance and relevant disclosure

4.4.1. Product types

Degroof Petercam takes into account the new product rules defined by the SFDR and indicates to what extent sustainability elements are relevant for these different products.

Products with a sustainable investment objective

- SFDR reference: Article 9
- Products that have one or more defined sustainability goals and aim to have a positive impact in relation to these goals.
- Provide the most detailed sustainability information, acknowledging their focus on underlying sustainable positions which all take into account the principle of "do no significant harm."

Products that promote ESG characteristics

- SFDR reference: Article 8
- Products that integrate ESG elements (exclusions, ESG analyses, integration of PAIs, etc.) into their investment policy without making additional sustainable investments.
- Provide information on their ESG policy when the underlying investments respect the principles of good governance, but also indicate that they do not make sustainable investments. This information is specified on the first page of the mandatory pre-contractual documents and the periodic report.

Products that promote ESG characteristics and make sustainable investments

- SFDR reference: Article 8
- Products that integrate ESG elements (exclusions, ESG analyses, integration of PAIs, etc.) into their investment policy while making sustainable investments.

- Provide information on their ESG policy when the underlying investments respect the principles of good governance. In addition, this product also includes references to its sustainable investments (these investments must also comply with the principle of "do no significant harm").
  This information is specified on the first page of the mandatory pre-contractual documents and the periodic report.

Products that do not promote sustainable objectives and ESG characteristics

- SFDR reference: Under Article 6, these products are required to define their sustainable development risk policy.
- Products that have no ambition in this area and do not promote ESG characteristics
- May not advertise ESG or sustainability characteristics, but they must indicate how they integrate sustainability risks.

Products such as investment funds and discretionary management mandates are commonly classified under typologies "6, 8 and 9" of the SFDR. However, these typologies or levels do not constitute labels, meaning that they do not imply any commercial connotation or quality assessment. The various typologies serve primarily as a reference framework for market participants to place the products offered in the appropriate transparency structure. Depending on the typology of the product, other documents, warnings, and mandatory information must be provided to the investor. The more the investment policy of the product is geared towards sustainability, the greater the transparency requirements.

Chapter 5 sets out the specific rules on how the SFDR products will be structured using the selected underlying instruments.

5. Degroof Petercam's Extra-Financial Investment Process (EFIP)

5.1. Global description

Degroof Petercam has chosen to comply with the regulations by using an extra-financial investment process (EFIP) which provides investment teams with an extra-financial classification methodology.

This process is systematically applied to the following financial instruments:

- ✓ Funds (internal funds and funds from third-parties)
- ✓ Bonds or other fixed income products issued by companies or governments
- ✓ Equities

Derivative instruments, structured instruments, and physical gold are not assessed, however, because by their nature, extra-financial classification is difficult to determine for these instruments, or because we have not been able to collect sufficient data to carry out a proper categorisation. They will be classified as "no category".

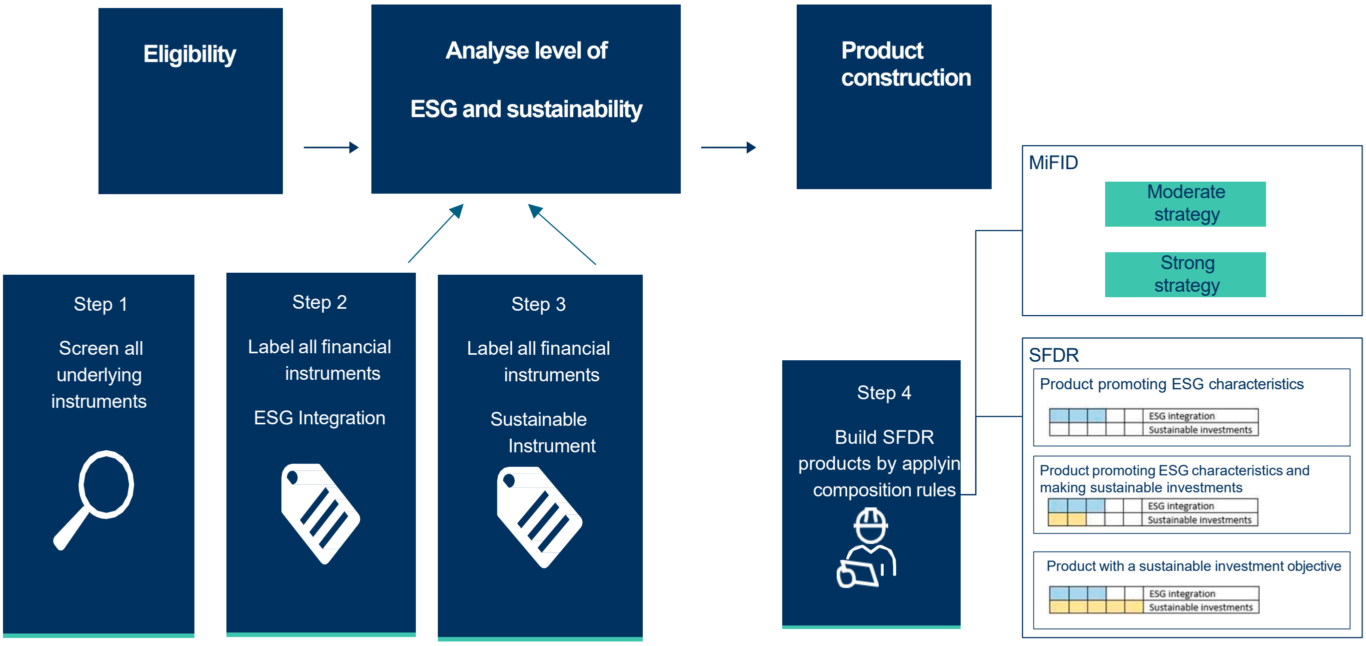
In the EFIP framework, issuers (whether companies or governments) are analysed from three different angles:

- The first is the eligibility of the financial instrument. In practice, DP makes basic and more extensive exclusions in addition to the commitment of funds.
- The second is the financial instrument's ESG integration, which measures how its issuer is exposed to ESG risks and manages environmental, social and governance issues.
- The third is the sustainability (impact) of the instrument, which measures how the issuer's products and services contribute to environmental and social objectives.

The analysis of financial instruments from the three perspectives described above enables the construction of SFDR products.

Depending on the typology of SFDR products, rules have been established regarding the use of underlying categories of financial instruments, specifying which are permitted and in what proportion they may be utilised. This will be detailed below (see section 5.5).

The diagram below provides a visual representation of the process for constructing SFDR products at Banque Degroof Petercam.



www.degroofpetercam.com/en-be/sustainable-financing

Note: Degroof Petercam uses criteria and ratings from external data providers to support its extra-financial classification methodology.

5.2. Step 1 – Screening & exclusions

In the first pillar of our analysis, we carry out a normative screening that excludes:

- Issuers involved in controversial activities;
- Issuers that do not comply with the principles of the United Nations Global Compact;
- Issuers exposed to serious environmental, social or governance controversies;
- Issuers with an unsatisfactory corporate governance score (see below).

This pillar of analysis allows us to assess the degree of eligibility of a financial instrument. For funds, we use this pillar to identify managers with whom we will enter into dialogue regarding underlying positions that we consider problematic (also known as Fund Engagement - please visit our website to find out more about our policy on this).

5.3. Step 2 – ESG integration

In the second pillar of analysis, we carry out what we call "extra-financial risk analysis" or "ESG integration". We use a "best-in-class" approach to analyse investments, which means that we identify the best performers within a sector in terms of exposure to and management of environmental or social risks.

The instruments issued by these actors are called "ESG instruments". All others will be classified in the "neutral" category. Finally, instruments issued by the "worst performers" in their sector will be classified as "non-ESG".

In the composition of a discretionary management or investment advisory portfolio or a fund that promote environmental and/or social characteristics or have sustainable objectives, our rule is to hold **a minimum of 33.5% "ESG" instruments** and **a maximum of 10% "non-ESG" instruments**.

5.4. Step 3 – Sustainability impact

In the third pillar of analysis, we carry out what we call "extra-financial impact analysis". The purpose of this is to identify issuers of financial instruments that can be described as sustainable.

We consider a financial instrument to be sustainable if:

- More than 10% of the issuer's activities are aligned with the EU Taxonomy

  OR

- The issuer's activities are clearly aligned with the environmental or social objectives of the United Nations in terms of sustainable development

  OR

- The instrument is aligned with the principles of sustainable bonds (green, social or transition).

The proportion of sustainable or impact investments is a minimum of 20% or a minimum of 50%, depending on the sustainability preferences the client indicates in the sustainability questionnaire.

Points relating to the sustainability questionnaire and the management of suitability checks are not covered by this Sustainable Investment Policy ("GSIP"). These points are covered in our brochure "MiFID II: your sustainability preferences".

5.5. Step 4 – Construction of SFDR products

5.5.1. Article 6 SFDR products

No specific rules apply here, as these SFDR products do not promote ESG characteristics and are not marketed as such.

As a rule, Degroof Petercam does not offer this type of product for discretionary portfolio management, except in the case of a very limited number of existing portfolios.

5.5.2. Article 8 SFDR products

For Article 8 SFDR products, all of the underlying instruments comply with the principles of good corporate governance. This element is verified at steps 1 and 2 of the financial instrument screening and classification process.

A minimum of 33.5% of the underlying investments in an Article 8 SFDR product are ESG-integrated, i.e. they comply with environmental and/or social criteria, and a maximum of 10% are "non-ESG" instruments (instruments that are not the best in their sector in terms of ESG).

5.5.3. Article 8 SFDR products that make sustainable investments

For Article 8 SFDR products that make sustainable investments, all of the underlying instruments comply with the principles of good corporate governance. This element is verified at steps 1 and 2 of the financial instrument screening and classification process.

A minimum of 33.5% of the underlying investments in an Article 8 SFDR products that make sustainable investments are ESG-integrated, i.e. they comply with environmental and/or social criteria, and a maximum of 10% are "non-ESG" instruments (instruments that are not the best in their sector in terms of ESG).

In addition, a proportion of the investments of an Article 8 SFDR product that make sustainable investments are classified as sustainable, i.e. they contribute to environmental and/or social objectives. This sustainable investment allocation will be a minimum of 20% for clients with a moderate strategy (neutral or moderate sustainable profiles) and a minimum of 50% for clients with a strong strategy (strong sustainable profiles). These specific investments will also comply with the "do no significant harm" principle.

5.5.4. Article 9 SFDR products

SFDR Article 9 products are subject, at a minimum, to all the same rules as SFDR Article 8 products that make sustainable investments. Accordingly, Degroof Petercam ensures that all of the underlying instruments comply with the principles of good corporate governance. This element is verified at steps 1 and 2 of the financial instrument screening and classification process.

An Article 9 SFDR product has a specific environmental or social objective based on underlying investments that are internally rated as sustainable; these investments represent almost all of the investments made. These specific investments will also comply with the "do no significant harm" principle.

6. Review of the Global Sustainable Investment Policy

The integration of ESG and sustainability factors is a positive and ongoing development for the financial industry. It impacts the entire value chain of funds and portfolios managed with the aim of being transparent to investors. This ongoing process will require regular adjustments.

As the regulatory environment and best market practice evolve, the current GSIP may be adapted and stakeholders will be invited to review it regularly in order to stay informed of the most recent changes.

Degroof Petercam, acting via the relevant business line, will conduct an annual review of its global sustainable investment policy.