GLOBAL SUSTAINABLE INVESTMENT POLICY

Scope:	DPAS
Author: **Pre review:** **Approval:** **Approval date:** **Second level approval:** **Approval date:** **Entry into force:**	SFDR Project Team Legal and Business DIRECTOIRE 09/03/2021 NA NA 10/03/2021
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Version History

Version	Date	Trigger of the changes	Approved by
V1.0	09/03/2021	Creation of the policy	DIRECTOIRE

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1. SCOPE

The document summarises the Global Sustainable Investment Policy (hereafter "GSIP") used by Degroof Petercam Asset Management ("DPAS).

In particular, this policy:

- Defines the principles established to determine the sustainability risks regarding investment decisions and client investment services in general.

- Defines the extra-financial selection and qualification process for all financial instruments and how these instruments can be used to define ESG-promotion or impact products.

2. SCOPE OF APPLICATION

Degroof Petercam Asset Services ("DPAS") acts as Alternative Investment Fund Manager and Management Company under chapter 15 of the Law of 17 December 2010 concerning Undertakings for Collective Investments. Consequently, DPAS qualifies as Asset manager within the meaning of SRD II. DPAS services cover the entire value chain of an investment vehicle, either Home funds or Third-Parties funds, Domiciliary Agent, Administrative Agent, Registrar and Transfer Agent, Portfolio Management. Under Article 2 of the Sustainable Finance Disclosure Regulation, DPAS qualifies as a Financial Market Participant

The high-level principles set out in this policy are referring to Degroof Petercam SA ("DP")'s GSIP to have a common base for all DP entities, but have been adapted to take the specificities of DPAS into account.

3. BACKGROUND INFORMATION

3.1. Historical Introduction

The Paris Agreement reached in 2015 was negotiated by representatives of 196 state parties during the COP 21 of the United Nations Framework Convention on Climate Change (UNCCC). The goal of the Paris agreement is to keep the increase in global average temperature to well below 2 Celsius degrees above pre-industrials levels in order to limit irreversible impacts of climate change.

Reaching the goal has serious implications and requires urgent action both from public and private investors. The Paris agreement led to the launch of the EU action plan which aims to support objectives through Sustainable Finance and reorient capital flows towards sustainable investments in order to achieve sustainable inclusive growth. It is also important to manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues. Finally, it is time to foster transparency and long-termism in financial and economic activity.

3.2. Why Sustainability matters

The Stockholm Resilience Centre led a group of 28 internationally renowned scientists to identify and quantify a set of priorities relating to human-induced change to the environment that regulate the stability and resilience of the earth system. Based on a research published in the journal, Science, in 2015, it appears that four of nine planetary boundaries have been crossed as a result of human activity. These are climate change, loss of biosphere integrity, land-system change and altered biogeochemical cycles. It is time to act to limit human's impact on the remaining boundaries.

On September 29th 2015, the Governor of the Bank of England and chairman of the Financial Stability Board, Mark Carney, made a speech which became a cornerstone for the integration of climate change to financial regulators (see "Breaking the Tragedy of the Horizon – climate change and financial stability"):

> *"Climate change is the tragedy on the horizon. We don't need an army of actuaries to tell us that the catastrophic impacts of climate change will be felt beyond the traditional horizons of most actors – imposing a cost on future generations that the current generation has no direct incentive to fix…The horizon for monetary policy extends out to two to three years. For financial stability it is a bit longer, but typically only to the outer boundaries of the credit cycle – about a decade. In other words, once climate change becomes a defining issue for financial stability, it may already be too late".*

What many studies have highlighted goes in the same direction. The cost of not acting today may be far below the costs society will have to bear in the future if nothing is done.

For financial markets, this means some companies will face significant challenges which may deteriorate their financial balance sheets. But it may also create opportunities for the companies which decide to transition and apply best practices towards climate change mitigation.

3.3. Sustainable Finance Disclosure Regulation (referred as "SFDR" in the document)

As part of the EU action plan and in order to address the importance of Sustainability matters and the impact of non-managing it correctly the EU adopted in 2019 the Sustainable Finance Disclosure Regulation (Reg 2019/2088). Moreover, SFDR wants to enhance the transparency regarding ESG and sustainable investments and avoid greenwashing.

This regulation is applicable to Financial Market Participants (hereafter "FMP") and Financial Products. The meaning of a Fund under this GSIP is a UCITS or an AIF.

SFDR introduces some new concepts in the investment world:

- <u>Sustainability risk:</u> *"an environmental, social, or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment."* These are risk elements linked to ESG that could have an impact on investment products.

- <u>Principle adverse sustainable factors:</u> *"environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters."*
  In layman's terms, this means quantifying the impact, from a risk perspective, presented by the investments/decisions on sustainability factors and notify this to investors;

4. Legal obligations of DPAS under SFDR

4.1. Integration of sustainability risk

Sustainability risks can affect funds in different ways. There are growing evidence of direct linkage between climate-derived catastrophes and business risks.

Physical risks resulting from climate change (like floods or hurricanes) can affect companies revenues, profits, increase insurance costs and deteriorate balance sheet structurally.

Transition risks are the result of changes in climate and energy policies while shifting to a low-carbon economy, resulting in fines, higher taxation or stranded assets. The sustainability risks affect profitability and could impact these companies' stock market performance.

Under SFDR, DPAS has to disclose how it integrates potential sustainability risks in its investment decision processes. Based on the developments of DP's methodologies on the approach towards sustainability, DPAS has developed its own screening and classification process of financial products.

All financial instruments under the scope of DPAS are screened and categorized. Instruments that do not meet some minimum standards could end up being excluded from some investment services. DPAS considers that the higher the risk exposure and unmanaged part of this risk might become, the higher the potential reputational and financial impacts are. Depending on the classification of the different funds under SFDR, DPAS manages the ESG risk based on the methodology described in chapter 5.

Depending on the SFDR product typology (cfr. 4.4.1), DPAS has set different rules for each categories, the scope being detailed in chapter 5.

4.2. Impact assessment of PASI

Under SFDR, DPAS needs to assess the impact of its investment decisions on sustainability themes. This needs to be done by a yearly disclosure at entity level[1] based on the Principle Adverse Sustainability Indicators (so called "PASI"). These are a list of sustainability elements that show what impact the investment decision process of a FMP could have on for example climate change or deforestation.

DPAS will collect, from at least one data provider, data on the PASI's based on the required PASI list that will be issued in the final RTS. DPAS will monitor at entity level the PASI of investment decisions of all financial products based on a global approach and will develop more detailed criteria once the RTS text is finalised.

By 30 December 2022, additional disclosures are required to explain clearly and reasonably whether a financial product considers principal adverse impacts on sustainability factors. Detailed rules on monitoring, due diligence setup and PASI reporting development including data sourcing will be described later on in a procedure.

[1] At a later stage also on a product level the PASI disclosure should be done.

4.3. Integration of sustainability Risk in Remuneration policies

The integration of the sustainability risks, a part of the remuneration rules, is described in the DP relevant Remuneration policies. More information on this element can be found on www.dpas.lu.

4.4. Product Governance and relevant disclosure

4.4.1. *Product typologies*

Based on the legal definitions under SFDR, DPAS defines 5 types of products being in scope of SFDR and commercialised towards investors. These are described (together the "SFDR products") as :

- **Article 6 Products not integrating Sustainability in their Investment Process**
    - So called "Non-ESG products"
    - Investment process is specific and or cannot integrate sustainability or ESG criteria due to its specific nature (be it short-term, based on technical analysis,…);
    - Does not make publicly any reference to ESG
    - Disclose why integration of sustainability risks are not relevant with a clear and concise explanation of the reasons thereof;
- **Article 6 : Products not commercialized as ESG/Sustainable:**
    - So called "Neutral products";
    - Cannot be promoted as an ESG product;
    - Disclose how sustainability risks are integrated into investment process
- **Article 8 SFDR product:**
    - So called "ESG promoted products"; Can be promoted as integrating ESG criteria;
    - This product holds financial instruments based on pre-defined rules.
    - ESG integration need to be binding with firm commitments in order to avoid greenwashing;
- **Article 8plus SFDR product:**
    - Sub-category of the Article 8 SFDR products; so called "ESG promoted products with impact"
    - Can be promoted/marketed as integrating ESG criteria and making some Impact investments
    - Will contain a selection of underlying investments (see further) that have an sustainability objective. These specific investments need to comply with the "Do Not Significantly Harm"[2] principle;

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[2] This principle intend to guarantee that when an underlying investment is marked as having an sustainable investment and want to positively improve a social or environmental criteria, this positive push is not detrimental to other environmental or social characteristics.

  - This product holds financial instruments based on pre-defined rules.
  - The ESG integration and the sustainable investment objectives need to be binding and firm commitments in order to avoid greenwashing;

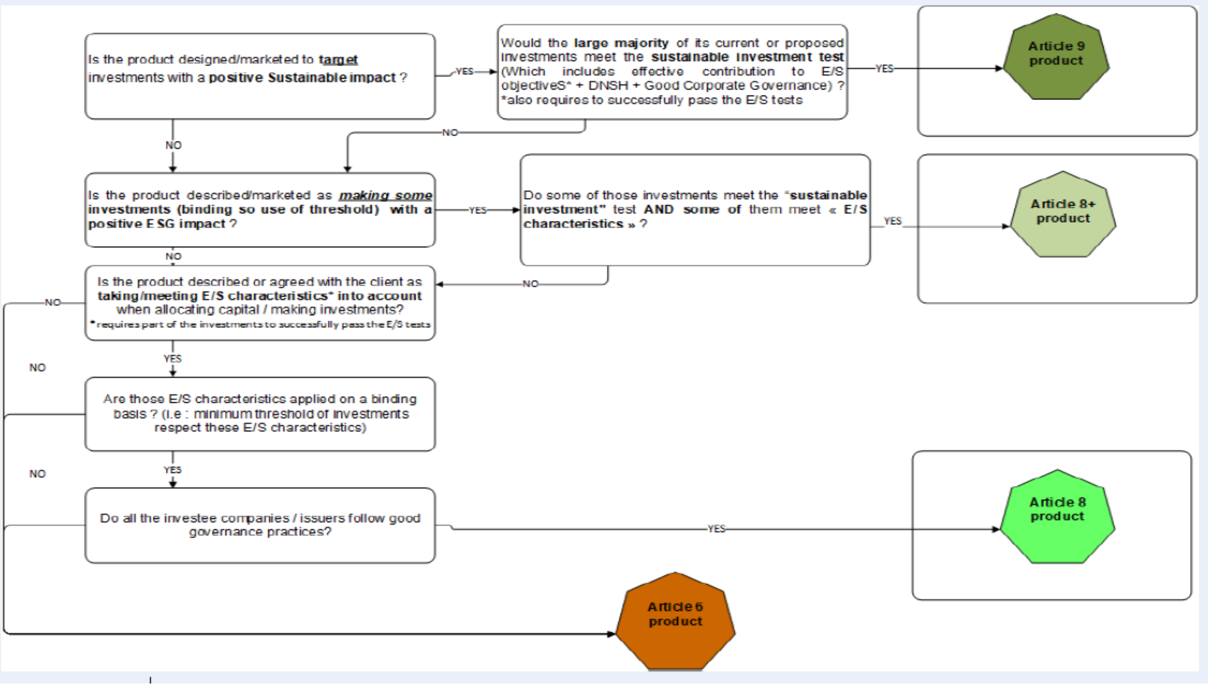
- **<u>Article 9 SFDR product:</u>**

  - So called “Impact products”;
  - Can be promoted/marketed as having an sustainable investment objective, meaning that the product strives to have a positive impact on one or more environmental or social characteristics;
  - All underlying investments needs to be aligned with good corporate governance practices and need to comply with the “Do Not Significantly Harm” principle ;
  - This product holds financial instruments based on pre-defined rules;
  - The ESG integration and the sustainable investment objectives need to be binding with firm commitments in order to avoid greenwashing;

For the avoidance of doubt, products that are in scope of SFDR, are referred to in this policy as “**SFDR product**”. The underlying investments, like equity, bonds, funds are referred to in this policy as “**SFDR categories**”.

4.4.2. *SFDR Product overview Scheme*

Following scheme indicates the decision process to define to which category an SFDR product belongs:



5. DPAS's Extra-Financial Investment Process

5.1. Global description

DPAS has chosen to comply with the SFDR requirements (sustainability risks and principal adverse impacts) through ESG integration with an Extra-Financial Investment Process (EFIP) that provides an extra-financial classification methodology.

This process applies to all financial instruments under the scope of DPAS and consists in exclusion criteria and qualification elements. The instruments considered are:

- Equities
- Bonds or other fixed income products, issued by corporate issuers or states
- Funds, both in-house funds as funds of third party fund providers

Following instruments or products however are not rated or screened, these will be classified under a “No category” value :

- Cash or plain deposits
- Derivatives / Structured Products
- Physical gold
- Instruments without relevant data: e.g small caps

All screened and classified instruments (the **underlying instruments**) form together the underlying instruments categories.

5.2. Data Providers

In order to support its extra-financial classification methodology, DPAS will use information and data sets defining ESG criteria and scorings from at least one third party data provider.

5.3. DPAS's Monitoring of Sustainability Risk

As many different investment strategies may coexist at DPAS, the criteria's will apply differently across the range of funds. Sustainable risks are long-term oriented while some strategies may have shorter time horizons. The monitoring of the sustainability risks in the decision-making process may vary depending on the strategy of each fund and the targeted product policy (see 4.4.1.).

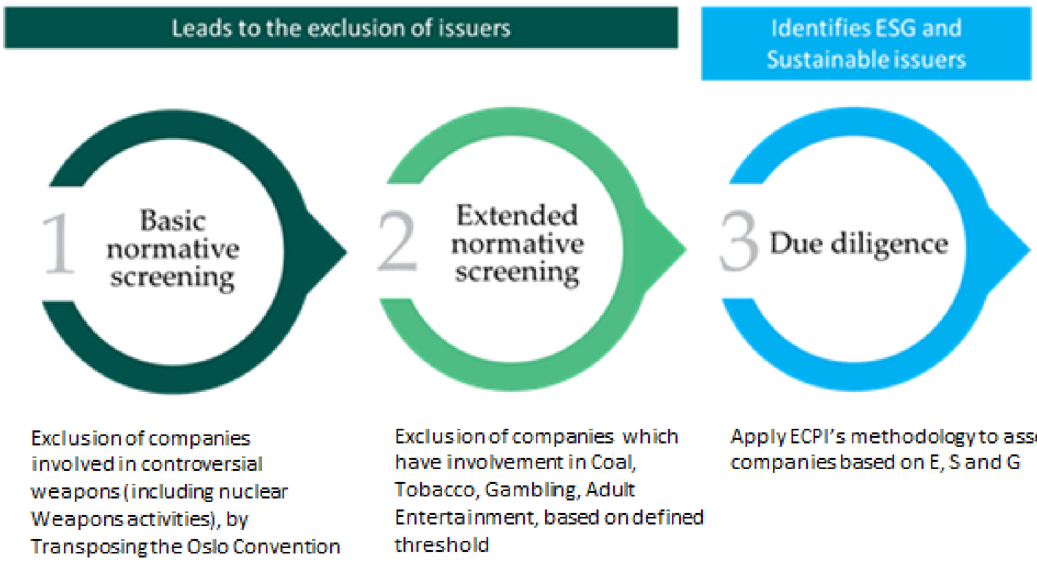
As long as funds are not promoting environmental or social characteristics (good governance practices being a minimum request), sustainable risks may or may not be integrated into investment decision-making processes without any binding results once those risks are assessed at the portfolio construction level.

Funds with an active promotion of environmental or social characteristics will have to comply in a way or another to the DPAS ESG integration process described below. Each fund managed by DPAS will be screened based on third-party data providers in order to monitor if portfolios are aligned with any sustainable objective described in their investment processes. This should help avoid greenwashing in full transparency for investors.

5.4. Description of DPAS's extra-financial classification methodology

Screening methods for Equities and Bonds : The Three pillars

For equities and bonds direct lines we perform a 3-pilars screening that allows us to categorize these financial instruments. The following chart shows the different steps – the 3 pillars- in the Screening process that will be used.



With this 1st pillar, a basic screening is realized to exclude companies that are involved in Controversial Weapons.

The 2nd pillar an extended normative screening is performed on different layers which exclude controversial issuers or sectors when their revenue reaches defined threshold.

These exclusions are only applicable to article 8 SFDR products, Article 8 plus SFDR products and Article 9 SFDR products[3]. Financial instruments excluded on the 2nd pillar will be labelled "Article 6 instruments".

The 3rd pillar applies to both ESG integration investments and Sustainable investments. The application of the ESG rating methodology will be carried out on a regular basis to ensure that, for funds classified in the category of Articles 8, article 8 plus and 9 of the Disclosure Regulation (SFDR), funds hold a minimum of investment above a defined level based on at least one third-party data provider.

[3] So for an Article 6 SFDR product the exclusions would not apply and the underlying investments can be used.

A sustainable test is required to consider investments which can be categorized as Article 8+ and Article 9 SFDR products. The Do Not Significantly Harm (DNSH) test will be reviewed qualitatively.

Furthermore Article 9 products will have to disclose its sustainable investment objective which will be measured on a qualitative basis at least annually.

6. Rules on SFDR products at DPAS

Based on screenings defined here above, the classified underlying investments will be determined within the SFDR categories. These criteria are defined by DPAS at global level and can't be overruled by Investment Managers.

6.1.1. *Article 6 SFDR products(both non-ESG and neutral products)*

As these SFDR products are not linked to ESG criteria and/or are not marketed as such, no specific rules do apply here (except the pillar 1).

6.1.2. *Article 8 SFDR products*

For an Article 8 SFDR product, DPAS will make sure that all the underlying investments respect the principles of good corporate Governance. An Article 8 SFDR product will also have at least 33,5% of underlying investments that are linked to an Environmental or Social characteristic.

6.1.3. *Article 8plus SFDR products*

For an Article 8plus SFDR product, DPAS will make sure that all the underlying investments respect the principles of good corporate Governance. An Article 8plus SFDR product will also have at least 33,5% of underlying investment that are linked to an Environmental or Social characteristic.

Moreover, an Article 8plus SFDR product will have a dedicated environmental or social objective. These specific investments will also respect the DNSH principle.

6.1.4. *Article 9 SFDR products*

For an Article 9 SFDR product, DPAS will make sure that all the underlying investments respect the principles of good corporate Governance. An Article 9 SFDR product will have a dedicated environmental or social objective based on underlying investments that internally are rated as sustainable. These specific investments will also respect the DNSH principle.

7. Review of the Global Sustainable Investment Policy

The integration of sustainability is a positive and on-going development for the financial industry and this will affect the whole value-chain of funds and managed portfolios with an objective of transparency towards investors. This is an on-going process which will require regular adaptations.

Depending on the development of the regulation and the best practices in the market, the current GSIP may be frequently reviewed and stakeholders are invited to regularly monitor this GSIP to take recent changes into account.

DPAS intends to review its Global Sustainable Investment Policy in order to be aligned with:

- The new requirements defined under the SFDR RTS and under the Taxonomy regulation;
- the announced changes to UCITS and AIFMD in the field of ESG integration in the investment decision of the Fund.

DPAS, by the relevant Business line, will further review its Global Sustainable Investment Policy on a yearly basis, or more frequently if deemed necessary.