GLOBAL SUSTAINABLE INVESTMENT POLICY SUMMARY

Date 10/03/2021

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1. SCOPE

This document summarises the Global Sustainable Investment Policy (hereafter “GSIP”) used by Bank Degroof Petercam SA (hereinafter referred to as “DP”) including its Belgian, French and Luxemburg activities.

In particular, this policy:

- Defines the principles established by DP to determine the sustainability risks and assess and manage the Principal Adverse Impacts on Sustainability Factors regarding its investment decision in the framework of discretionary portfolio services, fund management (including Patrimonial Funds and Funds administration DPAS) and client investment services in general.

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

2. SCOPE OF APPLICATION

The principles set out in this policy apply to the employees of DP including its Belgian, French and Luxemburg activities, specifically in it Private Banking activities, Asset Services (DPAS) and own fund management. The activities executed by DP’s Asset Manager, Degroof Petercam Asset Management, are covered by a separate policy. The GSIP is applicable to all relevant Group entities in order to have a common base for all DP entities.

The GSIP is written regarding DP’s obligations under the Sustainable Finance Disclosure regulation (see further) both for its activities as a Financial Market Participant and as Financial Adviser.

Unless otherwise stated in this policy, the definitions and descriptions here within are described as DP roles as a Financial Market Participant.

In specific cases the Financial Adviser setup will be clearly mentioned.

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.

What many studies have highlighted goes in the same direction. The cost of 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 support this 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 described above 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.

This regulation is applicable to[1]

- **Financial Market Participants (hereafter "FMP"):**
  Every entity that acts as a Fund Manager for a UCITS fund or an AIF
  Every Entity that manages in a discretionary way client portfolios (discretionary managed portfolios);

- **Financial Advisor (hereafter "FA"):**
  Every Entity that provides investment advice on financial Instruments.

The Regulation has also a specific product scope[2]:

(a) a portfolio in Discretionary Portfolio Management (DPM);

(b) an alternative investment fund (AIF);

(c) a UCITS;

So an SFDR product in the meaning of the GSIP is a Fund (UCITS or AIF) or a discretionary managed portfolio.

SFDR foresees a set of different new disclosure rules regarding sustainability and Environmental, Social and Governance matters (hereafter "ESG"). In a later phase, further client communication and reporting are brought in scope of SFDR.

[1] Only the scope that is relevant to DP is mentioned here.
[2] Only the scope that is relevant to DP is mentioned here.

The 2 main level of disclosure are:

- **<u>entity level</u>** where it would be acting as MiFID portfolio manager, MiFID financial adviser, UCITS Management Company / AIFM or as insurance undertaking / intermediary making available or advising on insurance-based investment products ("IBIPs"); and

- **<u>product level,</u>** in relation to UCITS / AIFs ("funds"), discretionary managed portfolios ("managed accounts") and IBIPs that promote 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 used further on in this policy.

SFDR introduces some new concepts in the investment world:

- <u>Sustainability risk[3]:</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>Principal 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/advices on sustainability factors and notify this to investors;

4. <u>Legal obligations of DP under SFDR</u>

4.1. Integration of sustainability risk

Sustainability risks can affect portfolios in a number of different ways. Consider the two following scenarios. First, a company that applies sub-standard governance practices, that ends up in the spotlight of regulators and auditors and become subject to a large fine. Or one that doesn't properly plan for the rising cost of Greenhouse gas- emissions and that ends up paying large sums for the right to emit. In both scenarios the sustainability risks affect profitability and could impact these companies' stock market performance. Monitoring sustainability risks and their impact on companies' financial performance has been part of DP's investment process for many years. More recently, DP has been complementing its investment process with an Extra-Financial Investment Process (EFIP). The policy provides our investments teams with an extra-financial classification methodology enabling them to identify companies' exposure to key sustainability issues and to monitor how these companies deal with these issues.

Under SFDR, DP has to disclose how it integrates potential sustainability risks in its investment decision processes.

<u>Both for its role as a FMP and a FA, DP has developed a screening and classification process of the underlying products that will be used to compose the SFDR products (being Funds (AIF & UCITS) and discretionary managed portfolios).</u>

DP manages the Sustainability risk by the execution of a systematic and in-depth ESG screening and classification of the financial instruments. This process relies on objective market data, provided by

[3] At DP, sustainability risks are taken into account by judging issuer's exposure to key sustainability issues both on environmental, social as governance topics) and monitoring how well the company manages these issues.

data providers specialised in ESG/sustainability matters. DP integrates clear Environmental and Social criteria for this, and also applies good corporate governance principles.

All financial instruments that are used in the investment services process of DP, for Fund Management, investment advice as discretionary portfolio management are thus screened and categorized. Instruments that do not meet some minimum standards could end up being excluded from some investment services.

DP considers that the higher the risk exposure and unmanaged part of this risk might become, the higher the potential reputational and financial impact are. By excluding or lowering the proportion of those risky investments in our SFDR products we do manage the ESG risk posed on our clients investments. Additionally by doing normative screening we make sure that our ESG & Sustainable products are even less exposed to those Sustainability risks.

Regarding Discretionary Portfolio Management and Fund Management, the underlying instruments will be screened on both positive and negative ESG criteria and exclusion criteria are foreseen. Depending on the SFDR product typology (cfr 4.4.1) rules have been defined on the use of the underlying financial instruments categories which are authorized or not and potentially in which proportion these can be used. This will be later detailed in the document.

As a financial Advisor, the commercialised Funds are benefiting from the same level of screening. As Advisory portfolios are as such no SFDR product, the rules on the eligibility and proportion to be used are not applicable to them.

Therefore, all SFDR products commercialised and advised upon, have gone through that ESG screening whereby sustainability risks have played an important role to control if the product can be eligible to the Investment universe of DP.

4.2. Impact assessment of PASI

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

At the date of the adoption of this Policy, DP takes into consideration as PASI, for the Environment pillar themes such as climate change, natural resources, pollution and environmental opportunities. And for the Social pillar themes such as human capital, product safety and social opportunities. DP collects data form Data providers in order to manage these PASI.

The DP due diligence is based on clear Environmental and Social elements and takes further into account good corporate governance principles.

Both for its role as a FMP and a FA, DP has developed a screening and classification process of the underlying products that will be used to compose the SFDR products whereby –to the extend known and possible- significant negative impacts are avoided or managed.

Regarding Discretionary Portfolio Management and Fund Management, the underlying instruments will be screened on both positive and negative ESG criteria and exclusion criteria are foreseen in order to minimize significant impacts. Depending on the SFDR product typology (cfr 4.4.1) rules have been defined on the use of the underlying financial instruments categories which are authorized or not and potentially in which proportion these can be used.

As an Financial Advisor, the commercialised Funds are benefiting from the same level of screening. As Advisory portfolios are as such no SFDR products, the rules on the eligibility and proportion to be used are not applicable to them.

By doing so, DP intends to limit at entity level the PASI of its investment decisions based on a global approach. In the same philosophy as for Sustainability risks, DP believes that choosing issuers, companies with a lower ESG risk exposure and/or a better management of this exposure allows to lower the impact on the PASI. Furthermore during our Due Diligence we give priority to a large proportion of companies that outperform their peers (within an industry) on the Environmental and/or Social themes and we strongly limit the number of bad performers. By doing this we try to limit our impact on the PASI.

In order to limit negative impact within third party Funds, DP will work with an engagement policy towards these external fund managers.

4.3. Integration of sustainability Risk in Remuneration policies

The integration of the sustainability risks, a part of the remuneration rules and defined in the DP remuneration policies, is described in the DP relevant Remuneration policies.

4.4. Product Governance and relevant disclosure

4.4.1. *Product typologies*

DP needs to take into account the new SFDR product rules regarding products in scope and to what extend sustainability elements matters for these products.

Based on the legal definitions, DP defines 4 types of products being in scope of SFDR and commercialised towards investors. These are described (together the "SFDR products") as :

- **Article 6 SFDR product:**
  - So called "Neutral products";
  - Can't be promoted as an ESG product;

- **Article 8 SFDR product:**
  - So called "ESG integration products";
  - Can be promoted/marketed as integrating ESG criteria;
  - This product holds financial instruments based on pre-defined rules.
    ESG integration need to be binding and based on firm commitments

- **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"[4] principle;
  - This product holds financial instruments based on pre-defined rules.

[4] 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.

The ESG integration and the sustainable investment objectives need to be binding and based on firm commitments

- **Article 9 SFDR product:**
    - 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 all need to comply with the "Do Not Significantly Harm" principle ;
    - Will contain a selection of underlying investments (see further) that follow one or multiple sustainability objectives;
    - This product holds financial instruments based on pre-defined rules.
    - The ESG integration and the sustainable investment objectives need to be binding and based on firm commitments in order to avoid green washing;

For the avoidance of doubt, products that are in scope of SFDR, like Funds and Discretionary managed portfolios 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**".

The specific rules on how these SFDR products will be composed by the underlying screened and selected instruments is detailed in chapter 5.

5. DP's Extra-Financial Investment Process

5.1. Global description

DP has chosen to comply through an ESG integration using an Extra-Financial Investment Process (EFIP) that provides investments teams with an extra-financial classification methodology.

This process applies systematically to the following asset categories :

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

The ESG methodology that will be described below consists in exclusion criteria and qualification elements. This process is executed on the financial instruments in scope of the DP investment services universe and leads to the identification of the **adequate Sustainable label** for each issuer.

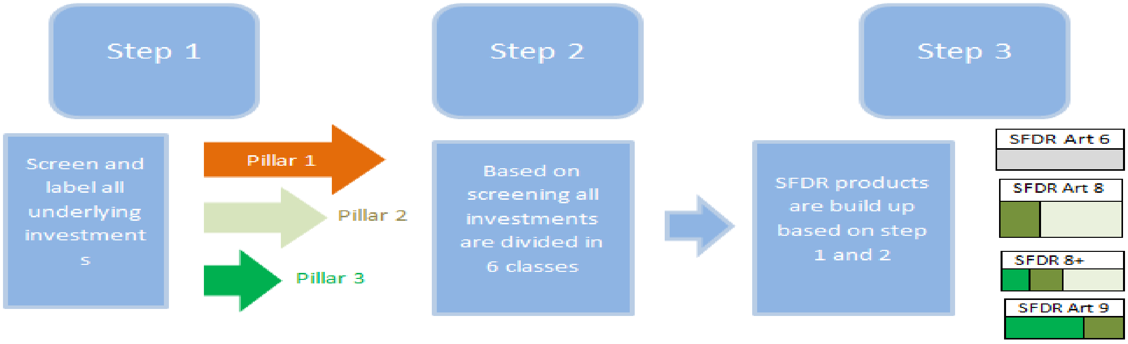
Following instruments however are not rated or screened because by nature ESG integration would be difficult to determine for them or because we couldn't collect enough data to perform a correct screening. These will be categorized under "no category" :

- Derivatives / Structured Products
- Physical gold

- Instruments without relevant data: e.g some small caps equity

The Extra-Financial Investment Process is realized in 3 steps :

- The screening of the financial instruments ("Screening")
- The Sustainability labelling of the financial instruments ("Attaching correct label to every financial instrument")
- The product construction using pre-defined rules ("Composing")

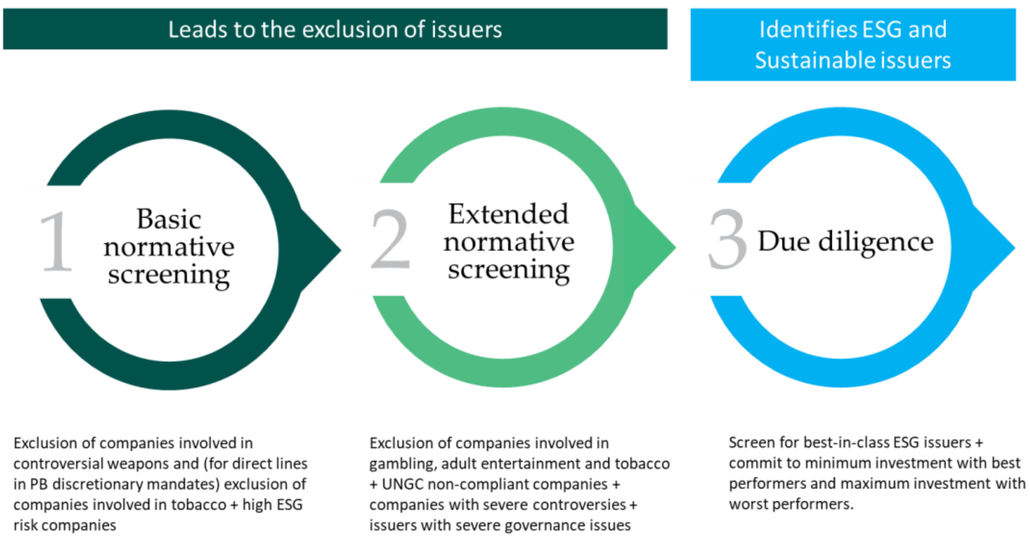


Extra-financial Investment Process

5.2. Step 1 - Screening with the help of data coming from ESG Data Providers

In order to support its extra-financial classification methodology, DP will use information and data sets defining ESG criteria and scorings from third party Data Providers. DP own analysis of key sustainability issues at issuer level is limitative.

The "screening" is based on a 3 pillars approach.



- On the first pillar we do some basic normative screening by excluding Controversial weapons for all financial securities and furthermore for direct lines under discretionary management we exclude Tobacco and issuers having a Severe ESG risk scoring. Financial instruments that are excluded on this pillar will be black listed in our Universe.

- On the second pillar we perform an extended normative screening that will lead to :
    - the exclusion of investments whose activity is qualified as controversial (tobacco, gambling, pornography) ;
    - the exclusion of investments that do not comply with the principles of the United Nations Global Compact;
    - the exclusion of investments exposed to environmental, social or severe governance controversies;
    - the exclusion of investments with an unsatisfactory Corporate Governance score (see below).

  Instruments that do pass this second pillar will be eligible for article 8 products, others will not be accepted in products qualifying as promoting Environment and/Social characteristics or in products pursuing Sustainable objectives.

- On the third pillar we do what we call the "ESG integration Due Diligence". It is at the level of this 3rd pillar that the degree of sustainability of a financial instrument can be determined. In addition to passing the previous normative reviews, the investments are analysed using a best-in-class approach with regard to either environmental or social characteristics, or both. In doing so, we identify the instruments that rank best-in-class compared to their sector peers in terms of environmental or social characteristics and not worst-in-class on the other dimension. Such investment will be referred to as an "ESG Instrument". Others will be categorized as "neutral". Finally the instruments that rank worst-in-class for both Environment and Social pillars will be labelled as "non-ESG" instruments.

  Note that in the portfolio or fund composition of products promoting Environment and/or Social characteristics or having Sustainable objectives our rule is to hold a minimum of 33,5% of "ESG" instruments and no more than 10% of "Non-ESG". Finally note also that on this third pillar the good governance of the issuer is reanalysed with more strict rules than on the second pillar.

5.3. Step 2 – Sustainability labelling (define SFDR categories of financial instruments)

As described on the extra-financial process schema after the "Screening" carried out at step 1 we are now able to give each instrument the appropriate label.

Internally, DP will label all underlying investment products into one of the following categories, in order of increasing ESG/sustainable integration we have

- the "no-category" for not screened product;
- products that have just passed pillar 1 and can't be used within our ESG promoted products;
- the ones that have successfully passed pillar 1 and 2 but are not ESG enough to be classified so (composed of 2 categories : Non-ESG and neutral ones);
- instruments that have passed all screenings and thus will be used as the ESG vault (ESG instruments) of our ESG promoted products;

- Some instruments will be even classified as “sustainable instruments” and therefore are the “impact vault” of an Impact or Article 8plus product.

5.4. Step 3 – Products management

This final step corresponds to the management of the product. Depending on its SFDR classification different rules will be applicable ; these rules will influence the composition of the SFDR product.

Practically DP will impose the following binding and firm criteria (these criteria are defined by DP at global level and can’t be overruled as such by a PBO, PM or Fund manager).

5.4.1. *Article 6 SFDR products*

As these SFDR products are not linked to any ESG criteria and are not marketed as such, no specific rules do apply here.

5.4.2. *Article 8 SFDR products*

For an Article 8 SFDR product, all underlying instruments have passed pillars 1 and 2. DP will thus make sure that all the underlying investments respect the principles of good corporate Governance. This element is checked in Pillar 2 of the Screening and classification process.

An Article 8 SFDR product will also have at least 33,5% of underlying investments that are linked to an Environmental or Social characteristic and no more than 10% of “non-ESG” instruments (instruments that are not best-in class on ESG).

5.4.3. *Article 8plus SFDR products*

For an Article 8plus SFDR product, all underlying instruments have passed pillars 1 and 2. DP will thus make sure that all the underlying investments respect the principles of good corporate Governance. This element is checked in Pillar 2 of the Screening and classification process.

An Article 8plus SFDR product will also have at least 33,5% of underlying investment that are linked to an Environmental or Social characteristic and no more than 10% of “non-ESG” instruments (instruments that are not best-in class on ESG).

Moreover, an Article 8plus SFDR product will have a dedicated environmental or social objective based on underlying investments that internally are rated as sustainable. This part of sustainable investment will be minimum 25%. These specific investments will also respect the “do not significantly harm” principle.

5.4.4. *Article 9 SFDR products*

For an Article 9 SFDR product, these products will minimum follow all the same rules as for an article 8 SFDR product (so all underlying instruments have passed pillars 1 and 2). DP will thus make sure that all the underlying investments respect the principles of good corporate Governance. This element is checked in Pillar 2 of the Screening and classification process.

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 “do not significantly harm” principle.

6. 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.

DP 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 MiFID II, moreover:
    - integration of ESG criteria into the product governance process of investment firms. A to be implemented regulatory change will be that regarding Target Market, all firms involved in the development (manufacturer-side) and the distribution (distribution side) of financial instruments should define for each product a group of investors for who such instrument would be a good investment taking into account ESG criteria;
    - the ESG integration in the MiFID II suitability framework is up hand and will imply a major change to the Investment advice business;
- the announced changes to UCITS and AIFMD in the field of ESG integration in the investment decision of the Fund.

DP, by the relevant Business line, will further review its Global Sustainable Investment Policy on a yearly basis.