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# GLOBAL SUSTAINABLE INVESTMENT POLICY

Degroof Petercam Asset Services S.A.

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Degroof Petercam

# Table of Contents


1. SCOPE ..... 3

2. SCOPE OF APPLICATION ..... 3

3. BACKGROUND INFORMATION ..... 3

3.1. Historical Introduction ..... 3
3.2. Why Sustainability matters ..... 4
3.3. Sustainable Finance Disclosure Regulation (referred as “SFDR” in the document) ..... 4
3.4. Taxonomy Regulation ..... 5

4. Governance ..... 5

5. Regulatory requirements under SFDR ..... 6

5.1. Integration of sustainability risk ..... 6
5.2. Impact assessment of PAI ..... 6
5.3. Integration of sustainability Risk in Remuneration policies ..... 6

6. Product Typology ..... 6

7. DPAS’s Extra-Financial Investment Process ..... 7

7.1. Global description ..... 7
7.2. Data Providers ..... 8
7.3. DPAS’s Monitoring of Sustainability Risk ..... 8
7.4. Description of DPAS’s extra-financial classification methodology ..... 8

8. Training ..... 10

# 1. SCOPE

The aim of a Global Sustainable Investment Policy (hereafter "GSIP") is to define the general and global framework and measures to be applied to identify, classify and communicate the risks that sustainability matters present to investments (so called "Sustainability Risk").

In particular, this policy defines the principles established by DPAS to determine the sustainability risks regarding investment decisions and set guidelines to determine the SFDR classification of funds.

# 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.

DPAS is considered as a "Financial Market Participant (FMP)" under SFDR regulation.

# 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.

The time when environment, social and governance issues were the niche concern of small groups of ethical or socially responsible investors is long gone. The University of Oxford has reviewed academic literature on sustainability and corporate performance (200 studies) to find out that in most cases, good ESG standards at companies helped lower the cost of capital, that good ESG practices result in better operational performance and that price performance is positively correlated with good sustainability practices. Investment managers should take this into account for the benefit of their client and must be able to disclose how it impacts their investment process in full transparency.

Europe has launched a set of regulatory guidelines and regulations to support the ambitious plan of the Paris Agreement.

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## 3.2. WHY SUSTAINABILITY MATTERS

The Stockholm Resilience Centre led a group of 28 internationally renowned scientists to identify andquantify 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.

This may also have significant negative consequences for companies which do not integrate sustainability in their development plans, as well as for investors allocating capital to those companies. By the way, companies which decide to transition and apply best practices towards climate change will be able to resist much better in the future.

## 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 targets to enhance the transparency regarding ESG andsustainable 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 foresees a set of different disclosure rules regarding sustainability and Environmental, Social and Governmental matters (hereafter "ESG").

The 2 main level of disclosure are:

- **entity level** where it would be acting as UCITS ManCo / AIFM, and
- **product level,** in relation to UCITS / AIFs ("funds").

Main rules of SFDR have been detailed into Regulatory Technical Standards (RTS) that were published in July 2022 and apply from January 1st, 2023.

SFDR introduces some new concepts in the investment world:

- Sustainability risk[1]: *"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.
- Principle adverse sustainable factors: *"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/advice on sustainability factors and notify this to investors.

### 3.4. TAXONOMY REGULATION

The European Taxonomy also started in 2021. The EU Taxonomy clarifies which activities may or may not be called sustainable, based on their scientifically tested contribution. Europe has defined 6 environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Technical Screening Criteria define the specific requirements and thresholds for an activity to be considered as significantly contributing to a sustainable objective. An economic activity will be marked as Taxonomy-eligible if the economic activity is linked to a NACE code (specific lists of activities that might support the objectives defined). Then, the percentage of revenues generated by a company in eligible activities will determine the Taxonomy-alignment of that company. The substantial contribution to one of the 6 objectives must prevent harming one of the other objectives and respect international social guidelines.

## 4. Governance

DPAS has created a new department called the Sustainable Investment Office with people fully dedicated to the thematic. This department works in collaboration with several departments handling sustainable topics at DPAS and works transversally with other entities of the Group Degroof Petercam.

[1] 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.

# 5. Regulatory requirements under SFDR

## 5.1. INTEGRATION OF SUSTAINABILITY RISK

At the entity level, DPAS has integrated sustainability in specific policies. Being part of a larger group, some information is reported for DPAS directly at the parent level.

At fund level, DPAS discloses how sustainability is integrated in investment decision processes. 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.

In both scenarios, the sustainability risks affect profitability and could impact company's market performances which has been taken into account by asset managers in their investment decisions.

DPAS has developed its own screening and classification process of financial products with the use of several third-party data providers.

## 5.2. IMPACT ASSESSMENT OF PAI

Under SFDR, FMP needs to assess the impact of investment decisions on sustainability themes. This needs to be done by a yearly disclosure at entity level[2] based on the Principle Adverse Indicators (so called "PAI"). But under certain circumstances, the FMP may also consider to opt-out.

DPAS publishes on its website either its PAI policy or an Opt-out statement.

## 5.3. 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.

# 6. Product Typology

Based on the legal definitions under SFDR, DPAS defines 4 types of products being in scope of SFDR:

- **Article 6 Products not integrating ESG or Sustainability in their Investment Process**
    - Disclose why integration of sustainability risks are not relevant with a clear and concise explanation of the reasons thereof;
    - Do not make publicly any reference to ESG as it is not integrated into the investment process;

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

- **Article 8 SFDR products:**

    - Do the promotion of environmental and/or social characteristics";
    - Do not use wording like "sustainable/sustainability" in their name;
    - Underlying investments require good corporate governance practices;
    - This product holds financial instruments based on pre-defined rules.
    - ESG integration needs to be binding and be integrated in the Investment Decision Process with firm commitments in order to avoid greenwashing.

- **Article 8-plus SFDR products:**

    - Sub-category of the Article 8 SFDR products;
    - Do the promotion of environmental and/or social characteristics with a minimum commitment to hold sustainable investments.
    - These products can contain the word "sustainable" in their name;
    - The ESG integration and the sustainable investment objectives need to be defined
    - This product will also disclose in the pre-contractual disclosure if the sustainable investment targets to commit to Taxonomy-alignment.

- **Article 9 SFDR products:**

    - Do target a sustainable investment objective, meaning that the product strives to have a positive impact on one or more environmental or social characteristics;
    - All sustainable investments need to be aligned with good corporate governance practices and need to comply with the "Do Not Significantly Harm" principle;
    - Will contain mainly underlying investments that follow one or multiple sustainability objectives that the investment manager will describe in the pre-contractual disclosure
    - This product will also disclose in the pre-contractual documentation if it targets to commit to Taxonomy-alignment.

# 7. DPAS's Extra-Financial Investment Process

## 7.1. GLOBAL DESCRIPTION

In order to determine sustainability risks, DPAS applies a process to all financial instruments under the scope of DPAS. In this process, a set of exclusion has been set and qualifying elements are added. The financial instruments where sustainability can be considered are:

- Equities (including long CFD's) and ETF's
- Bonds or other fixed income products, issued by corporate issuers or states
- Funds, both in-house funds as funds of third-party fund providers

The following instruments or products are not rated nor screened, these are classified under a “No category” value:

- Cash or plain deposits
- Derivatives (excluding long CFD’s) / 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.

## 7.2. DATA PROVIDERS

In order to support its extra-financial classification methodology, DPAS uses information and data sets defining ESG criteria and scorings from several third-party data providers.

## 7.3. DPAS’S MONITORING OF SUSTAINABILITY RISK

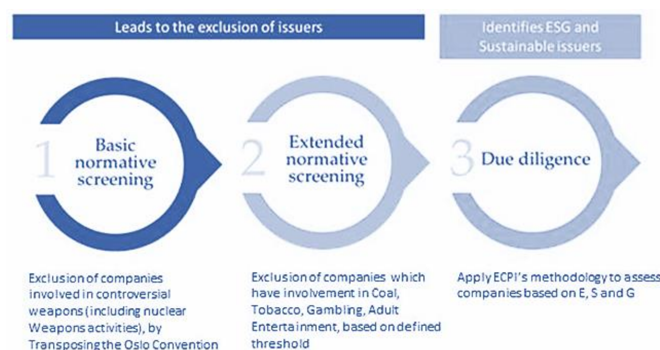
Sustainable risks are generally long-term oriented while some investment strategies may have shorter time horizons. The monitoring of the sustainability risks in the decision-making process may vary depending on the strategy of each fund and the targeted product policy.

Funds not promoting environmental or social characteristics (good governance practices being a minimum request) should not make any reference of those characteristics in their investment decision-making process (and documentation). They nevertheless need to disclose why sustainability risks are not taken into account.

Funds actively promoting environmental or social characteristics or promoting sustainable investments are screened based on third-party data providers in order to monitor if portfolios are aligned with the objectives described in their investment processes.

## 7.4. DESCRIPTION OF DPAS’S EXTRA-FINANCIAL CLASSIFICATION METHODOLOGY

For equities and bonds in direct lines, a 3-pillar screening is performed that allows to categorize these financial instruments. The following chart shows the different steps – the 3 pillars – in the Screening process that are used.



### 1. Pillar 1 – Basic normative screening (applied to all funds within DPAS)

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

| Minimum request for Article 6 issuers | | |
|---|---|---|
| 1st Pillar | **Equities or Bonds** | Are excluded companies that are directly or indirectly involved in the development, production, maintenance, or sale of weapons that are illegal (Anti-personal land mines, Cluster munitions, Depleted uranium & Nuclear weapons outside Not Proliferation Treaty) |
| | **Funds** | Are excluded funds that have an involvement in controversial weapons (Morningstar data) |

### 2. Pillar 2 – Extended normative screening

With this 2nd pillar, DPAS executes an extended normative screening on different layers which exclude controversial issuers or sectors:

| Threshold for Compliant issuers | | |
|---|---|---|
| 2nd Pillar | **Thermal Coal** | Are excluded companies that have revenues from extraction or power production :<br>> 10% as a producer, supplier or distributor |
| | **Tobacco** | Are excluded companies that have revenues involvement in Tobacco :<br>> 5% as a producer<br>or > 15% as a supplier, distributor and retailer |
| | **Gambling** | Are excluded companies that have revenues involvement in Gambling related activities :<br>Direct Revenues > 15%<br>or indirect revenues from ownership > 5% |
| | **Adult Entertainment** | Are excluded companies that have revenues involvement in Adult Entertainment<br>>5% as a producer<br>or > 15% as a supplier, distributor and retailer |

Index-funds (passive strategy) replicating a sustainable index or a specific ESG approach are considered as automatically compliant with the exclusion list as the index methodology (index constituent selection is the responsibility of the index administrator and the rule of exclusions and/or thresholds applied) may differ from the ones described in this policy. The use of an index and its pertinence must be well defined from inception.

### 3. Pillar 3 – ESG (Environmental, Social and Governance) Rating Methodology

Pillar 3 applies to both ESG integration investments and Sustainable investments.

It is applicable to funds article 8, article 8 plus and article 9 of the Disclosure Regulation (SFDR) to ensure appropriateness of the investment processes of the various Investment Managers. The application of DPAS ESG rating methodology will be carried out on a regular basis to ensure that those funds hold a minimum of investments above a defined level. Results are assessed and reviewed by the Risk Management and the Sustainable Investment Office of DPAS for approval.

## 8. Training

Degroof Petercam is organising regular training session for its staff on sustainable topics. Some trainings are mandatory while specific subjects are optional.