

# Principal adverse sustainability impacts statement



FEBRUARY 2024

## KBC Asset Management NV

### 1. Summary

KBC Asset Management NV, Havenlaan 2 1080 Brussels, considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated principal adverse sustainability impacts statement of KBC Asset Management NV, its branches and its subsidiaries, namely KBC Fund Management Ltd., IVESAM NV and CSOB Asset Management (KBC Asset Management Group, "KBCAM").

This document describes how KBC AM integrates the principal adverse impact (PAI) indicators, as described by the EU Regulation on sustainability related disclosures in the financial services sector (SFDR), as well as our policies to identify and prioritise adverse sustainability impacts. According to SFDR, the definition for a PAI is as follows: "Negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity." The SFDR framework requires the consideration of 18 mandatory indicators on greenhouse gas emissions, biodiversity, water, waste, and social indicators applicable to companies, sovereigns and supnationals as well as real estate assets. In addition, SFDR defines 22 additional climate and other environment-related indicators as well as 24 additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters. KBCAM will report on a selection of the additional indicators.

The principal adverse sustainability impact is predominantly covered/monitored by the exclusion policies applied. A number of activities are excluded from all actively managed investment funds, not only the Responsible Investing ones. As such, companies involved with controversial weapons, thermal coal or the production of tobacco products are excluded. The worst violators of the principles of the United Nations Global Compact and companies that seriously violate human rights are excluded as well. Government bonds from countries with the most controversial regimes are excluded and KBCAM will not invest in financial instruments linked to livestock and food prices.

Within our Responsible Investing funds, all indicators for the principal adverse impacts of the investment decisions on sustainability factors ('PAIs') as listed in Table 1 of Annex 1 of the Delegated Regulation (EU) 2022/1288 and the relevant indicators for the principal adverse impacts of the investment decisions on sustainability factors in





Tables 2 and 3 of Annex 1 of the Delegated Regulation 2022/1288 PAIs are taken into account through the norms-based screening and ESG Risk Rating screening for companies and through the ESG screening for countries as well as through the exclusion of countries not meeting the sustainable criteria and controversial regimes.

In our Responsible Investing funds a number of additional activities are excluded, compared to our non-Responsible Investing funds. Companies that do not comply with the most prominent international norms or standards are excluded.

These include, for example, the UN Global Compact Principles, International Labour Organization's (ILO) Conventions, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights (UNGPs) and the UN Sustainable Development Goals. Companies involved in severe controversies related to environmental, social or governance issues are excluded as well. All Fossil fuels are excluded from Responsible Investing Funds, with the exception of investments in green bonds of these companies, facilitating the energy transition. Companies involved in military contracts or small arms are excluded as well. Furthermore, restrictions apply for companies involved in gambling, adult entertainment, fur & specialty leather products and companies having a negative impact on biodiversity. In addition, countries not meeting the sustainable criteria, controversial regimes and countries ranking in the 10% worst of the ESG scoring model are excluded. Companies with a severe ESG Risk Score and all companies domiciled in countries that encourage unfair tax practices are excluded as well. An ad-hoc exclusion or deliberation for companies is possible, only the advice of the Responsible Investing Advisory Board.

*For more information, see [General exclusion policies for conventional and Responsible Investing funds](#) and [Exclusion policies for Responsible Investing funds](#)*

Exclusion policies are monitored by pre-trade and post-trade compliance rules in our internal processes.

Next to the strict exclusion policies our Responsible funds will promote the integration of sustainability into the policy decisions of issuers (companies, governments, supranational debtors and/or agencies linked to governments), by preferring issuers with a better ESG score, where ESG stands for 'Environmental, Social and Governance' and promote climate change mitigation, by preferring issuers with lower Greenhouse Gas (GHG) Intensity, with the goal of meeting a predetermined GHG intensity target. Our Responsible funds will also support sustainable development, by including companies that contribute to the UN Sustainable Development Goals and by encouraging the transition to a more sustainable world via investing in green, social and sustainability bonds.

Within the non-Responsible Investing funds, a number of PAIs are explicitly taken into account through the exclusion policies. For all actively managed funds, for corporates the worst violators of the UN Global Compact principles and companies involved in controversial weapons as well as thermal coal are excluded and for sovereign related instruments controversial regimes are excluded. Hence, taking into account PAIs 10, (Violations of UN Global Compact principles and Organisation for Economic





Cooperation and Development (OECD) Guidelines for Multinational Enterprises), 16 (Investee countries subject to social violations), 14 (,controversial weapons) and 4 (Exposure to companies active in the fossil fuel sector). For passive funds as well as structured and third party funds managed by KBC, some specific exclusion criteria are applied. Hence, different PAIs are considered, depending on the investment strategy of the fund. However, for each of these funds, at least PAI 14 (controversial weapons) is taken into account at the launch of the product.

Additionally, some of the listed Principal Adverse Impacts are also implicitly taken into account through our Proxy voting & Engagement policy. KBC AM executes the voting rights of shares managed in the funds. According to this Proxy Voting and Engagement Policy, KBC AM makes its voice heard at Shareholder Meetings and engages with companies as KBC AM is convinced that shareholder activism, in the medium and long term, may have a positive impact on the companies KBC AM invests in.

For more information, see [Proxy Voting and Engagement Policy: \(kbcgroup.eu\)](https://kbcgroup.eu)

## 2. Description of principal adverse sustainability impacts

In this report we describe how the principal adverse sustainability impacts are considered in exclusion policies of conventional and Responsible Investing funds and how they are considered in the positive selection methodology. We also provide the quantitative impact of each of them over the past period. The inputs will be mainly collected from our data providers Trucost, Morningstar Sustainalytics and MSCI.

In its sustainability report KBC Group describes the assessment of GHG intensities of its investments on behalf of clients at Asset Management level. This report can be found via this [link](#).





**Indicators applicable to investments in investee companies**

Adverse sustainability indicator	Metric	Impact (2022)	Explanation	Actions taken, Actions planned and targets set for the next reference period
Climate and other environment-related indicators				
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	1,663,977 tCO2e	<p>Absolute emission data from in tonnes of CO2 are used to calculate this PAI. Please note this is for more than 90% of covered companies some form of estimates.</p> <p>Within the Responsible Investing funds, the greenhouse gas emissions are taken into account through the equivalent normative screening and ESG risk score for companies, Within the Responsible funds, targets on GHG emissions (based on GHG intensity of investee companies and emissions of investee countries) are set, in relation to a benchmark/target allocation or towards a fixed goal in based on the future.</p> <p>All actively managed funds have a zero-tolerance policy on thermal coal. All Responsible Investing funds have a zero tolerance for fossil fuels. An exception is foreseen for investments in green bonds of these companies, facilitating the energy transition.</p>
		Scope 2 GHG emissions	592,205 tCO2e	
		Scope 3 GHG emissions	30,502,711 tCO2e	
	Total GHG emissions	32,758,893 tCO2e		
	2. Carbon footprint	Carbon footprint	316	<p>The greenhouse gas ('GHG') emissions are also implicitly captured by our engagement policy. KBC AM is part of the collective engagement Climate Action 100+. This is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.</p> <p>Absolute emission data is used from PAI 1 and divided by total assets under management in million euro. Please note that total assets also include non-corporates and corporates not covered by data.</p>





3. GHG intensity of investee companies	GHG intensity of investee companies	of 374	To calculate GHG intensity absolute emissions at issuer level are divided by company revenues in million euro. A weighted average is calculated to report at entity level.	
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	2.52 %	<p>The reported number indicates the percentage of total AuM that are invested in financial instruments of the following companies:</p> <ul style="list-style-type: none"> <li>- All companies of the Energy sector (MSCI classification) and companies from the metals and mining sector that mine and sell fossil fuels (coal, oil and gas) are included in this exposure calculation.</li> <li>- Power generation companies that are involved in the transportation of gas are also included.</li> <li>- Finally, companies from all other sectors are included that derive over 5% of their turnover from related products and/or services.</li> </ul> <p>Data sources used are Morningstar Sustainalytics and Bloomberg.</p>	<p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies, All actively managed funds have a zero tolerance policy on coal, excluding mining and the use of coal for steel production.</p> <p>Responsible Investing funds extend this to all fossil fuels, additionally excluding all companies in the energy sector (zero tolerance) and all utility companies that produce electricity based on fossil fuels (zero tolerance).</p> <p>An exception is made for both exclusions for investments in green bonds of companies that promote the energy transition.</p>



Biodiversity	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	59 % consumption 41% production	Data from Trucost on energy consumption and generation data from non-renewable and renewable sources are used to calculate this share of non-renewable energy consumption and production. The reported number at entity level is a weighted average of companies covered. Please note that for energy production this is only covered for approximately 1% of our total AuM.	Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies, the zero tolerance policy for fossil fuels & nuclear energy also ensures that Responsible Investing funds only invest in the production of renewable energy.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	0.004 – NACE A 0.012 – NACE B 0.028 – NACE C 0.283 – NACE D 0.348 – NACE E 0.003 – NACE F 0.013 – NACE G 0.051 – NACE H 0.005 – NACE L	For every company of these high impact climate sectors the energy consumption in GWh is divided by revenues in million euro. The average is each time calculated for companies covered in that NACE code. Please note that each of these high impact climate sectors represent significantly less than 5% of total AuM except for NACE code C.	Within the Responsible funds, this indicator is taken into account through the normative screening and ESG risk score for companies,
	7. Activities negatively affecting biodiversity-sensitive	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive	1.30 %	We use data from Trucost to identify which companies have operations located in or near to biodiversity-sensitive areas negatively affecting those	Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.  Companies having a high controversy concerning biodiversity are excluded from all the Responsible



Water	<p>areas</p> <p>8. Emissions to water</p>	<p>sensitive areas where activities of those investee companies negatively affect those areas</p> <p>Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average</p>	<p>0.01</p>	<p>areas. The reported number is the relative exposure of investments in these companies relative to total AuM.</p> <p>Please note that it is very difficult to obtain data inputs for this PAI. The reported is based on a coverage of only around 2% of AuM.</p> <p>Data from Trucost is used to determine emissions to water in tonnes. This is a sum of nutrients and organic pollutants, pesticides and fertilizers and acid and metal emissions to water.</p> <p>To assign absolute emission data to an investment the fraction of enterprise value we own is used. All assigned values in this way are summed to calculate an entity level absolute emission number.</p> <p>The calculated absolute number is then divided by total assets under management in million euro. Please note that total assets also include non-corporates and corporates not covered by data.</p>	<p>Investing funds and the quality of their programmes to protect biodiversity is evaluated through the ESG Risk Score.</p> <p>Furthermore, all companies with a high or severe controversy score related to Land Use and Biodiversity, for subindustries in which the topic is considered a high or severe risk as well as companies with a severe controversy score related to Land Use and Biodiversity for all other subindustries are excluded. In addition, all companies with a severe controversy score related to Land Use and Biodiversity in their supply chain are excluded. Next to that, all companies with activities that have a negative impact on Biodiversity and do not take sufficient measures to reduce their impact are excluded.</p> <p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.</p>
Waste	<p>9. Hazardous waste ratio</p>	<p>Tonnes of hazardous waste generated by investee companies</p>	<p>12</p>	<p>Data from Trucost is used to determine hazardous waste in tonnes.</p>	<p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.</p>



		per million EUR invested, expressed as a weighted average		<p>To assign absolute emission data to an investment the fraction of enterprise value we own is used. All assigned values in this way are summed to calculate an entity level absolute emission number.</p> <p>The calculated absolute number is then divided by total assets under management in million euro. Please note that total assets also include non-corporates and corporates not covered by data.</p>	
<b>Social and employee, respect for human rights, anti-corruption and anti-bribery matters</b>					
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.38 %	<p>Data from Sustainalytics is used to determine the list of companies that are non-compliant with the UN Global Compact Principles and OECD guidelines.</p> <p>The reported number indicates the percentage of total AuM that are invested in financial instruments of these companies.</p>	<p>For all actively managed funds: worst offenders of the UN Global Compact Principles (based on an internal assessment) are excluded;</p> <p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies. All companies involved in severe controversies related to environmental, social or governance issues, all companies that are non-compliant with the UN Global Compact Principles according to Morningstar Sustainalytics or that fail to be aligned with the UN Global Compact Principles based on the 'Global Compact Compliance Research' of MSCI and all companies that are conduct-based excluded by the Norwegian Pension Fund are excluded.</p>
	11. Lack of processes and compliance mechanisms	Share of investments in investee companies without policies to monitor compliance with the	0.38 %	<p>Data from Sustainalytics is used to assess companies' policies on Environment, Freedom of Association, Discrimination, Bribery &amp;</p>	<p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.</p>







	to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises		corruption and Human Rights.  A company is deemed to lack processes and compliance mechanisms if there is no evidence for any of these assessed policies.  The reported number indicates the percentage of total AuM that are invested in financial instruments of these companies.	
12.	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	19 %	Data from Trucost is used to determine the unadjusted gender pay gap of investee companies.  The reported number at entity level is a weighted average of companies covered.	Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.
13.	Board gender diversity	Average ratio of female to male board members in investee companies	35 %	Data from Trucost is used to determine the ratio of female to total board members of investee companies.  The reported number at entity level is a weighted average of companies covered.	Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies, KBC Asset Management encourages board gender diversity via proxy voting.  KBC AM policy: Proxy Voting and Engagement Policy: (kbcgroup.eu) ISS policy: <a href="https://www.issgovernance.com">https://www.issgovernance.com</a> .
14.	controversial weapons (anti-personnel mines, cluster munitions,	Share of investments in investee companies involved in the manufacture or selling of controversial	0.06 %	The screening of KBC Group on controversial weapons is used to determine companies involved in these activities. More information can be found here:	Any company that is involved in controversial weapon systems is excluded from all funds. The exclusion list contains companies involved in the development, testing, storage or manufacture of (essential components of) controversial weapons systems.





	chemical weapons and biological weapons)	weapons		<p><a href="#">CSD_KBCGroupPolicyonBlacklistedCompanies.pdf</a></p> <p>The reported number indicates the percentage of total AuM that are invested in financial instruments of these companies.</p>	<p>Additionally for Responsible Investing funds: no exposure to weapons. Any company active in military contracting or the production or retail of small arms is excluded from the Responsible Investing funds. For sectors other than 'Aerospace and Defence' a threshold of 5% holds for non- weapon related military contracting as well as for retail of small arms. Within the Responsible Investing funds, this indicator is also taken into account through the normative screening and ESG risk score for companies,</p>
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Indicators applicable to investments in sovereigns and supnationals					
Adverse sustainability indicator	Metric	Impact (2022)	Explanation	Actions taken, Actions planned and targets set for the next reference period	
Environmental	15.GHGintensity	GHG intensity of investee countries 170	<p>Data from Trucost is used to report this figure. In the nominator territorial emissions and emissions related to imports are used in tonnes of CO<sub>2</sub> equivalent. Territorial emissions of a country consider all economic activities within a country, including land use, land use change and forestry, as reported by PRIMAP. The PRIMAP dataset combines several published datasets to create a comprehensive set of greenhouse gas emission data. We add to these territorial emissions direct and indirect imports also based on the PRIMAP dataset. The total emissions are then normalized by the Gross Domestic</p>	<p>Within the Responsible Investing funds, this indicator is taken into account through the ESG score of countries and through exclusion of countries not meeting the sustainable criteria as well as controversial regimes. In Responsible Investing funds countries that did not sign the Paris Agreement are excluded.</p> <p>Within our Responsible funds, targets are set on GHG emissions (based on GHG intensity of investee companies and investee countries), in relation to a benchmark or towards a fixed goal in the future.</p>	



Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	2 (absolute) 2.03 % (relative)	<p>Product expressed in million euro based on data from the International Monetary Fund (IMF).</p> <p>A weighted average is calculated to report at entity level.</p> <p>Based on the input of well-recognised external sources, internal research ranks countries based on measures like civil liberties, political rights, political stability and corruption. Regimes that score the worst on this ranking are considered countries subject to social violations for reporting this indicator.</p> <p>We report on the absolute number of these countries invested in and the percentage of these versus all countries invested in.</p>	<p>All actively managed funds are prohibited to invest in sovereign bonds of the most controversial regimes. Countries subject to international sanctions are excluded as well. Within the Responsible Investing funds, this indicator is taken into account through the ESG score of countries and through exclusion of countries not meeting the sustainable criteria as well as controversial regimes.</p> <p>Responsible Investing funds are not allowed to have any exposure to government bonds of countries not meeting the sustainable criteria. Also government bonds of countries belonging to the 50% countries having the most controversial regimes are excluded. These are regimes with a high level of corruption, that fundamentally violate human rights, do not respect laws and lack good governance and political freedom.</p>
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**Indicators applicable to investments in real estate assets**

Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	0.003 %	<p>Data from Trucost is used to determine issuers of real estate financial instruments that have exposure to fossil fuels.</p> <p>The reported number indicates the percentage of</p>	<p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.</p>
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Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	no data	<p>total AuM that are invested in financial instruments of these companies. Please note that this number is very low as both the coverage and the percentage of real estate assets versus total AuM are very low.</p> <p>KBC was not able to collect data to reliably report on this number. Please note that the percentage of real estate assets versus total AuM is very low.</p>	Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.
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**Additional climate and other environment-related indicators**

Adverse sustainability indicator	Metric	Impact (2022)	Explanation	Actions taken, Actions planned and targets set for the next reference period
Water, waste and material emissions	19. Non-recycled waste ratio	40	<p>Social and employee, respect for human rights, anti-corruption and anti-bribery matters</p> <p>Data from Trucost is used to determine non-recycled waste in tonnes.</p> <p>To assign absolute emission data to an investment the fraction of enterprise value we own is used. All assigned values in this way are summed to calculate an entity level absolute emission number.</p> <p>The calculated absolute number is then divided by total assets under management in million euro. Please note that total assets also include non-corporates</p>	<p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.</p>





and corporates not covered by data.

### Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Adverse sustainability indicator	Metric	Impact (2022)	Explanation	Actions taken, Actions planned and targets set for the next reference period	
Anti-corruption and anti-bribery	20Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption	0.34 %	<p>Data from Sustainalytics is used to assess companies' policies on Bribery &amp; corruption.</p> <p>A company is deemed to lack anti-corruption and anti-bribery policies if neither a policy nor a general statement that addresses the issue is the result of the assessment by Sustainalytics.</p> <p>The reported number indicates the percentage of total AuM that are invested in financial instruments of these companies. Please note that total assets also include non-corporates and corporates not covered by data.</p>	<p>Within the Responsible Investing funds, this indicator is taken into account through the normative screening and ESG risk score for companies.</p>

**DISCLAIMER:** For all calculations, regulation requires to always use the most recent ESG data available. However, the latest available data could include information that wasn't available at the time of the investment decisions over the past year. For example, it is possible that a fund invested in March 2022 in a company that was not added to the controversial weapons blacklist until January 2023. In the PAI, this exposure in March 2022 will be counted as an exposure to controversial weapons even though the link was not known or did not exist at the time.



### 3. Description of policies to identify and prioritise principal adverse impacts on sustainability factors

The identified principal adverse impacts are taken into account in a strict and consistent manner as we are equally considering the environmental, social as well as the governance principles in our general screening policy. For Responsible Investing funds all indicators for the principal adverse impacts of the investment decisions on sustainability factors as listed in Table 1 of Annex 1 of the Delegated Regulation (EU) 2022/1288 and the relevant indicators for the principal adverse impacts of the investment decisions on sustainability factors in Tables 2 and 3 of Annex 1 of the Delegated Regulation 2022/1288 are taken into account through the normative screening and ESG risk score for companies, as well as through the ESG score of countries and through exclusion of countries not meeting the sustainable criteria as well as controversial regimes.

As part of its Sustainability commitments, KBC AM applies strict ethical restrictions with regard to investments. As a basic rule, KBC AM does not invest for its own account nor does it advise its clients to invest in financial instruments (shares, bonds and any other financial instrument) issued by “excluded counterparties”. Excluded counterparties are counterparties which either:

- are listed on the KBC Blacklist: these are companies involved in controversial weapon systems and companies considered “worst offenders of UN Global Compact Principles (UNGCI)”; please refer to the [KBC Group Policy on Blacklisted Companies](#) for more details;
- are involved in severe human rights violations; please refer to the [KBC Group Policy on Human Rights](#) for more details;
- are government and other public authorities within a country that is listed on the KBC Controversial Regimes List; please refer to the [KBC Group Policy on Human Rights](#) for more details;
- are in any way involved in the extraction of thermal coal and/or are power generation companies which have a coal-based electricity production capacity; thermal coal is coal used for power generation; an exception is allowed for metallurgical coal (coal used for the production of steel); an exception also applies for green bonds of these companies, facilitating the energy transition.
- have activities related to tobacco; Any company that manufactures tobacco products is excluded, as well as all companies deriving 5% or more of their revenues from the distribution or retail sales of tobacco products (including wholesale trading). Tobacco products comprise cigarettes, cigars, tobacco for pipes and snuff, and smokeless tobacco products. Also in scope are companies supplying tobacco-related products and services including products that facilitate the consumption of tobacco (such as pipes and rolling papers), specialized materials, specialised equipment necessary for the production of tobacco products and raw materials that are produced primarily for use in tobacco products.

KBC does also not want to be involved in the speculation on food prices. As a consequence, and in accordance with the [KBC Group Soft Commodity Policy](#), KBC will not invest nor advise its clients to invest in financial instruments linked to livestock and food prices.

Additional exclusions apply to KBC AM’s Responsible Investing funds. Most of these exclusions also apply to investments done by KBC Group for its own account, including counterparties with a significant involvement in activities related to:





- conventional weapons;
- other fossil fuels than thermalcoal;
- gambling;
- biodiversity
- adult entertainment;
- fur and specialty leather.

In addition, companies with a severe ESG Risk Score, companies domiciled in countries with unfair tax practices, countries ranking in the 10% worst of the ESG scoring model and countries not meeting the sustainable criteria as well as controversial regimes are excluded. Ad-hoc exclusions or deliberations of companies can occur, on advice of the Responsible Investing Advisory Board.

For more information, see [General exclusion policies for conventional and Responsible Investing funds](#) and [Exclusion policies for Responsible Investing funds](#).

Exclusion policies are monitored by pre-trade and post-trade compliance rules in our internal processes.

Next to the strict exclusion policies our Responsible funds will promote the integration of sustainability into the policy decisions of issuers (companies, governments, supranational debtors and/or agencies linked to governments), by preferring issuers with a better ESG score, where ESG stands for 'Environmental, Social and Governance' and promote climate change mitigation, by preferring issuers with lower GHG Intensity, with the goal of meeting a predetermined GHG intensity target. Our Responsible funds will also support sustainable development, by including companies that contribute to the UN Sustainable Development Goals and by encouraging the transition to a more sustainable world via investing in green, social and sustainability bonds, which take most of the listed Principal Adverse Impacts implicitly into account.

The Responsible Investing research team will be responsible for the methodology. The portfolio managers will be responsible for the correct implementation of the methodology. Pre and post-trade checks will be executed by the risk and compliance departments.

Within the non-Responsible Investing funds, a number of principal adverse sustainability impacts are explicitly taken into account through the exclusion policies. For all actively managed funds, it incorporates the worst violators of the UN Global Compact principles and companies involved in controversial weapons as well as thermal coal are excluded and for sovereign related instruments the most controversial regimes are excluded. Hence, taking into account PAIs 10, (Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises), 16 (Investee countries subject to social violations), 14 (controversial weapons) and 4 (Exposure to companies active in the fossil fuel sector). For passive funds as well as structured and third party funds managed by KBC, some specific exclusion criteria are applied. Hence, different PAIs are considered, depending on the investment strategy of the fund. However, for each of these funds, at least PAI 14 (controversial weapons) is taken into account at the launch of the product.





## 4. Engagement policies

KBC Asset Management Group (“KBCAM”) executes the voting rights of shares managed in “Funds” (i.e. the collective investment undertakings both in the form of UCITS (Undertakings for Collective Investment in Transferable Securities) and of AIFs (Alternative Investment Funds) and “Portfolios” (i.e. institutional investors as defined in the European Shareholders Rights Directive 2007/36 who entrust the implementation of an engagement policy as defined in article 3g of the Directive to a KBCAM company that invests on behalf of such institutional investors on a direct discretionary client-by-client basis) according to the Proxy Voting and Engagement Policy. As a consequence, KBC AM makes its voice heard at Shareholder Meetings and engages with companies.

Through managing Funds and Portfolios, KBC AM invests the capital entrusted to them by clients in financial instruments. This entails the responsibility to act in the best long-term interest of clients, both retail and institutional, and these interests may differ from those of KBC Group. Not defending investors’ interests would not be aligned with the sustainability principles of KBC Group. With shareholder activism on the rise, KBC AM needs to perform its duties as an asset management company in the interest of the investor on a continuous basis. KBC AM is convinced that shareholder activism, in the medium and long term, may have a positive impact on the companies KBCAM invests in. This can have a significant impact on the value creation of the companies and indirectly on the returns of the Funds and Portfolios.

Social norms and legislation are moving towards more shareholder engagement. Thus, the European Union in 2017 has amended Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. In this Directive the importance of having a policy around exercising voting rights is emphasized. The European Fund and Asset Management Association (EFAMA) also emphasizes the importance of engagement and the exercise of voting rights. This Proxy Voting and Engagement Policy, among other things, implements the amended Directive, the EFAMA Stewardship Code and the transposition of the Directive per country at the level of KBC AM.

From this perspective, KBCAM (1) monitors the companies in which the Funds it manages, are invested in, as well as the companies in which Portfolios are invested in, (2) intervenes with investee companies (avoiding insider information), (3) takes part in appropriate collective engagement initiatives and (4) exercises voting rights in a considered way. These responsibilities are executed in the exclusive concern of defending the interests of the investors of the Funds and the Portfolios. In order to obtain these results, KBC AM has created different initiatives, which are described in this document.

Where appropriate, KBC AM will enter into a dialogue with the management of the companies concerned, if necessary before it votes. The following elements, among others, may prompt a dialogue:

- A lack of transparency surrounding economic, strategic, corporate governance or corporate social responsibility elements;
- A poor performance as regards one or more ‘sustainable business’ criteria compared to their peers;
- Business-economic measures that threaten to destroy shareholder value.







The Policy is centred around the KBC AM Proxy Voting and Engagement Committee which coordinates the various steps of the Policy pursued. This committee consisting of eight permanent members, including two external advisors. At least once a year, and every time there is a specific request to do so, the Proxy Voting & Engagement Policy will be reviewed and possibly amended. To determine its voting instructions, KBC AM uses the voting recommendations based on a benchmark voting policy developed by Institutional Shareholder Services (ISS), a proxy advisory firm that is a leading provider of corporate governance and responsible investment solutions. The latest version of this voting policy can be found on the website of ISS via the following link: <https://www.issgovernance.com>.

For more information, see [Proxy Voting and Engagement Policy: \(kbcgroup.eu\)](https://www.kbcgroup.eu)

## 5. References to international standards

The KBC Group, to which KBC AM belongs, is committed to the following international business codes and KBC AM's investment policy and processes are aligned with these commitments:

- United Nations Environmental Programme Finance Initiative (UNEP FI) Principles for Responsible Banking;
- The Collective Commitment to Climate Action, by which the KBC Group committed itself to stimulate the greening of the economy as much as possible and thus to limit global warming to well-below 2°C, striving for 1.5°C, in line with the Paris climate agreement;
- Tobacco-Free Finance Pledge which encourages financial institutions to divest from the tobacco industry;
- United Nations Principles of Responsible Investments. These Principles were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

*Principle 1:*

*KBC will incorporate ESG issues into investment analysis and decision-making processes.*

*Principle 2:*

*KBC will be active owners and incorporate ESG issues into our ownership policies and practices.*

*Principle 3:*

*KBC will seek appropriate disclosure on ESG issues by the entities in which we invest.*

*Principle 4:*

*KBC will promote acceptance and implementation of the Principles within the investment industry.*

*Principle 5:*

*KBC will work together to enhance our effectiveness in implementing the Principles.*

*Principle 6:*

*KBC will each report on our activities and progress towards implementing the Principles.*





Responsible Investing funds of KBC AM invest systematically in companies or governments from Responsible Investing universes, compiled by a team of analysts. All issuers must have been screened on a pre-determined set of criteria, which are defined by the Responsible Investing research team of KBCAM on the advice of the Responsible Investing Advisory Board. As part of the screening procedure, issuers must meet several international standards, whereby the most important ones are the United Nations' Global Compact principles, International Labour Organization's Conventions, OECD Guidelines for Multinational Enterprises, the UNGuiding Principles on B

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