

Exclusion policies for socially responsible investment funds

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Overview



CONTROVERSY RESEARCH AND UN GLOBAL COMPACT COMPLIANCE

Companies involved in severe or high controversies related to environmental, social or governance issues are excluded. The United Nations Global Compact has formulated ten guiding sustainability principles regarding human rights, labour, environment and anti-corruption which are part of our internal screening.



HUMAN RIGHTS

Companies seriously violating Human Rights are excluded.



WEAPONS

Controversial weapons

Any company that is involved in controversial weapon systems is excluded from all the SRI funds. The exclusion list contains companies involved in the development, testing, storage or manufacture of (essential components of) controversial weapons systems.

Conventional weapons

Any company active in military contracting or the production or retail of small arms is excluded from the SRI 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.



TOBACCO

Any company that manufactures tobacco products is excluded, as well as all companies deriving 10 % or more of their revenues from the distribution or retail sales of tobacco products (including wholesale trading).



FOSSIL FUELS

Fossil fuels are eliminated from the SRI funds. Hereto, all companies in the energy sector are excluded as well as mining companies that mine thermal coal. In addition, only utilities that strive to achieve reliable, safe and low-carbon energy efficiency electricity are eligible for the SRI funds.



GAMBLING

Any company is excluded that derives 25% or more of its revenue from gambling activities.



ADULT ENTERTAINMENT

Any company that obtains at least 5% of its revenue from the production or distribution of adult entertainment is excluded.



FUR AND SPECIALTY LEATHER

All companies that derive at least 5% of its revenue from the production or 10% of its revenue from the sale of fur or special leather is excluded.



PALM OIL POLICY

All companies that are active in the palm oil industry must meet strict criteria.



CONTROVERSIAL REGIMES

SRI funds are not allowed to have any exposure to government bonds of countries considered to have the most controversial regimes.



COMPANIES WITH ACTIVITIES IN COUNTRIES WITH CONTROVERSIAL REGIMES

Any company that does not have a sound bribery and anti-corruption policy and/or is active in the energy or mining sector and that has such a strong presence in countries with controversial regimes that involvement with these regimes is likely, is excluded from our SRI products.

Investment is, of course, a necessary part of a nation's democratisation process and is required for improving the living standards of its people. We therefore only target irresponsible activities that support authoritarian regimes.



SOFT COMMODITIES

KBC AM does not want to be involved in the speculation on food prices. Not in any investment product. So KBC AM will not invest in financial instruments linked to livestock and food prices in accordance with the KBC Group Soft Commodity Policy.



Socially responsible investment (“SRI”) funds of KBC Asset Management Group (“KBC AM”) invest systematically in companies or governments from SRI 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 Investment Research department of KBC AM on the advice of the SRI Advisory Board. The criteria can be grouped into two categories: a negative and a positive screening. All companies and countries that are included in SRI funds must have been screened based on all criteria of the negative screening and based on one of the positive screening methods. In this document we describe the negative screening criteria.

These negative screening criteria are applicable to all SRI funds managed by all entities of KBC AM.



1. Controversy research and UN Global Compact compliance Policy

Companies involved in severe or high controversies related to environmental, social or governance issues are excluded. The United Nations Global Compact has formulated ten guiding sustainability principles regarding human rights, labour, environment and anti-corruption which are part of our internal screening.

Definition

A company is deemed to be involved in a severe or high controversy if by its actions it violates the basic sustainability principles related to environmental, social or governance issues. The UN Global Compact is an international voluntary corporate citizenship initiative with ten guiding principles covering the areas of human rights, labour, environment and anti-corruption. These are based on universal consensus and are derived from: The Universal Declaration of Human Rights (UDHR), The International Labour Organization's Declaration on Fundamental Principles and Rights at Work, The Rio Declaration on Environment and Development and The United Nations Convention Against Corruption.



The ten principles:

HUMAN RIGHTS

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

LABOUR STANDARDS

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Motivation

Companies seriously violating the basic good practices in terms of environmental, social and governance issues, as can be exemplified by the UN Global Compact Principles, are excluded as they are doing business in a non-sustainable way.

Methodology

All companies having any high or severe controversy (category 4 or 5 according to data provider Sustainalytics) are excluded, as well as all companies that are non-compliant with the UN Global Compact Principles according to Sustainalytics and all companies that are conduct-based excluded by the Norwegian Pension Fund.




2. Human Rights

Policy

Companies seriously violating Human Rights are excluded.

Definition

KBC Group commits to respect the letter and the spirit of the United Nations Universal Declaration of Human Rights; the principles concerning fundamental rights in the eight International Labour Organisation core conventions as set out in the Declaration on



Fundamental Principles and Rights at Work; the UN Declaration on the Rights of Indigenous Peoples; the UK Modern Slavery Act and other international and regional human rights treaties containing internationally recognised standards by which the business sector must abide.

Motivation

Human rights are rights inherent to all human beings, whatever our nationality, place of residence, gender, national or ethnic origin, colour, religion, language, or any other status. We are all equally entitled to our human rights without discrimination. These rights are interrelated, interdependent and indivisible.

Methodology

All companies on KBC Group's 'Human Rights List' are excluded from the SRI funds. More information can be found in the [KBC Group Policy on Human Rights](#).

In addition, KBC AM expands the KBC Group's 'Human Rights List' and excludes all companies with:

1. a high or severe controversy score related to Human Rights, for subindustries for which Human Rights are considered a high or severe risk.
2. a severe controversy score related to Human Rights, for all other subindustries.



3. Weapons

3.1. Controversial weapons

Policy

Any company that is involved in controversial weapon systems is excluded from all the SRI funds. The exclusion list contains companies involved in the development, testing, storage or manufacture of (essential components of) controversial weapons systems.

Definition

Controversial weapon systems cover both weapon systems which are prohibited by international (and national) law and those for which there is a broad consensus that they should be banned. These weapon systems include: nuclear weapons, cluster bombs and sub-munitions, chemical or biological weapons, anti-personnel mines (including Claymore mines), weapons containing depleted uranium and white phosphorus (used in incendiary munitions and weapons).

Motivation

Weapon systems including nuclear weapons, cluster bombs and sub-munitions, chemical and biological weapons, anti-personnel mines (including Claymore mines), weapons containing depleted uranium and white phosphorus (used in incendiary munitions and weapons) are considered controversial due to the disproportionate and indiscriminate impact of these weapons on civilian populations.



Methodology

All companies on KBC Group's '[Blacklist](#)' (containing companies involved in controversial weapons as prohibited by Belgian law + nuclear weapons + white phosphorus weapons) are excluded.

3.2. Conventional weapons

Policy

Any company active in military contracting or the production or retail of small arms is excluded from the SRI 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.

Definition

Military contracting includes military weapons, weapon systems, secondary components of weapons, weapon related services as well as non-weapon related tailor-made products and services. Regarding small arms, the manufacture, distribution and retail of all weapons (assault and non-assault) or key components is concerned.

Motivation

The use of weapons is controversial because it is intended to lead to casualties.

Methodology

Companies of all sectors are screened on activities in military contracting or small arms according to data from Sustainalytics. A tolerance level of 0% of total revenues applies for all companies involved in military contracting or small arms. For sectors other than 'Aerospace and Defence' (GICS classification) a threshold of 5% holds for non-weapon related military contracting as well as for retail of small arms.



4. Tobacco

Policy

Any company that manufactures tobacco products is excluded, as well as all companies deriving 10 % or more of their revenues from the distribution or retail sales of tobacco products (including wholesale trading).

Definition

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.



Motivation

Tobacco is excluded because of the proven negative health effects of tobacco products for the user and its environment. Over the recent past, there is a growing consensus in society against tobacco.

Methodology

Companies of all sectors are screened on revenues from the production or distribution/retail of tobacco products and tobacco-related products. A tolerance level of 0% of total revenues applies for all companies involved in the production of tobacco including essentials parts, while a threshold of 10% holds for non-essential related products/service and for distribution and/or retail sales of tobacco products (including wholesale trading). Data sources are Sustainalytics, Bloomberg and the exclusion list for tobacco companies of Norges Bank.



5. Fossil fuels

Policy

Fossil fuels are eliminated from the SRI funds. Hereto, all companies in the energy sector are excluded as well as mining companies that mine thermal coal. In addition, only utilities that strive to achieve reliable, safe and low-carbon energy efficiency electricity are eligible for the SRI funds.

Definition

Fossil fuels comprise oil, gas and coal. This includes also tar/oil sands, shale oil, shale gas and Arctic drilling. Activities concerned are the extraction of coal, oil and gas, the refinery, storage and transport of oil and gas and the involvement in dedicated equipment & services used for the extraction of coal, oil or gas. For utility companies the focus is on the generation of electricity through fossil fuels and on the transport of gas.

Motivation

One of the challenges we cannot ignore at the moment is global warming. One of the most important human contributions comes from greenhouse gas emissions by burning fossil fuels. The need for a transition to a low-carbon economy is clear. In the SRI funds, KBC AM already wants to take a step forward by excluding companies linked to fossil fuels.

Methodology

All companies of the Energy sector (MSCI classification) are excluded. These companies can directly be linked to fossil fuels. It includes large vertically integrated oil companies, but also refers to refining and transport.

In addition, companies from the metals and mining sector that mine and sell fossil fuels (coal, oil and gas) are excluded. An exception is allowed for coal used for the production



of steel (metallurgic steel), because steel – except of recycling - can only be efficiently produced using coal.

Each utility company must meet all of the following conditions:

- Power Generation Companies may not generate electricity based on nuclear energy, Oil & Gas or Thermal Coal.
- Utility companies may not be involved in the transportation of gas.

Finally, companies from all other sectors are excluded that derive over 5% of their turnover from related products and/or services.

Data sources used are Sustainalytics and Bloomberg.



6. Gambling Policy

Any company is excluded that derives 25% or more of its revenue from gambling activities.

Definition

Gambling activities comprise the ownership or operation of gambling establishments, such as casinos, racetracks, online gambling, bingo parlours and other betting establishments. Moreover, the manufacturing of specialised equipment used exclusively for gambling, like slot machines, roulette wheels and lottery terminals are in scope, as well as supporting products and services to gambling operations, like gambling-related, customized products and services such as credit lines within casinos, consulting services, gambling technology and technology support.

Motivation

Gambling is considered controversial because it entails the risk of gambling addiction and associated societal problems.

Methodology

Companies of all sectors are screened on involvement in the gambling industry based on data from Sustainalytics. A tolerance level of 25% holds for revenues from the ownership or operation of gambling establishments, from the manufacturing of specialised equipment used exclusively for gambling and from supporting products and services to gambling operations.



7. Adult entertainment Policy

Any company that obtains at least 5% of its revenue from the production or distribution of adult entertainment is excluded.



Definition

Adult entertainment includes the production of adult entertainment media such as movies and television programs, magazines and adult websites. Moreover, the ownership or operation of strip clubs, topless bars and other types of adult entertainment establishments is in scope, as is the distribution of adult entertainment materials (rental, sale or distribution of adult materials or direct distribution of pay-per-view adult channels and movie channels with adult content through the internet, cellular telephones, satellite and broadcast television).

Motivation

Adult entertainment is controversial because of the inherent risk of human rights violations and exploitation of vulnerable persons.

Methodology

Companies generating 5% or more of their revenue from adult entertainment are excluded based on data from Sustainalytics. This includes the production of adult entertainment, owning and operating of adult entertainment establishments as well as the distribution of adult entertainment materials.



8. Fur and specialty leather

Policy

All companies that derive at least 5% of its revenue from the production or 10% of its revenue from the sale of fur or special leather is excluded.

Definition

Fur and specialty leather includes products made from animals that are solely hunted or bred for their skin or fur (e.g. mink farms for fur, crocodile hunts for leather).

Motivation

Fur and specialty leather is controversial as it threatens the survival of certain species and may provide unnecessary animal suffering, while alternatives are available.

Methodology

Companies generating 5% or more of their revenues from the production or 10% of its revenues from the sale of fur or special leather based on data from Sustainalytics are excluded.



9. Palm Oil

All companies that are active in the palm oil industry must meet strict criteria.

Definition

All companies involved in palm oil plantations and/or palm oil refineries are in scope. Motivation Palm oil that is not produced in a sustainable way may lead to extensive deforestation and loss of biodiversity, in addition to humanitarian issues such as child labour and loss of small farmers' land rights.

Methodology

Only palm oil companies that are members of the 'Roundtable on Sustainable Palm Oil' and at the very most have a moderate controversy score based on data from Sustainalytics are admitted to the SRI funds. The RSPO is a not-for-profit organization that unites stakeholders of the palm oil industry to develop and implement global standards for sustainable palm oil to minimize the negative impact on the environment and communities in palm oil-producing regions. Members are committed to produce, source and/or use sustainable palm oil based on these standards.



10. Controversial regimes

Policy

SRI funds are not allowed to have any exposure to government bonds of countries considered to have the most controversial regimes.

Definition

Controversial regimes are defined as regimes fundamentally violating human rights, lacking any form of good governance, rule of law and economic freedom and/or dealing with a high level of corruption.

Motivation

Investors in SRI funds don't want to financially support regimes if there are concerns on the level of corruption, human rights, respect for laws and/or the lack of good governance and political freedom.

Methodology

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 in the bottom 50% of this ranking are excluded for government bond investments in SRI funds. Countries subject to international sanctions are excluded as well.



11. Companies with activities in countries with controversial regimes

Policy

Any company that does not have a sound bribery and anti-corruption policy and/or is active in the energy or mining sector and that has such a strong presence in countries with controversial regimes that involvement with these regimes is likely, is excluded from our SRI products.

Investment is, of course, a necessary part of a nation's democratisation process and is required for improving the living standards of its people. We therefore only target irresponsible activities that support authoritarian regimes.

Definition

Controversial regimes are defined as regimes fundamentally violating human rights, lacking any form of good governance, rule of law and economic freedom and/or dealing with a high level of corruption.

Motivation

Companies with business activities that support controversial regimes are excluded, as activities in these countries entail greater risks for the companies concerned, both in operational terms (political volatility and corruption) and in terms of reputation.

Methodology

Companies with strategic activities in countries appearing in the bottom 10% of the list controversial regimes are analysed in more detail by an in-house screening. They are excluded from the SRI funds if our assessment identifies a high risk that they provide, with their operations, financial support to the authoritarian regime.



12. Soft commodities

Policy

KBC AM does not want to be involved in the speculation on food prices. Not in any investment product. So KBC AM will not invest in financial instruments linked to livestock and food prices in accordance with the [KBC Group Soft Commodity Policy](#).

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