

General exclusion policy for conventional and Responsible Investing funds



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In this document we describe the exclusion policies related to the [KBC Group Policy on Blacklisted Companies](#) and the policies described in the [KBC Group Investment Policy](#). We also describe the exclusion policy for Controversial Regimes and the [Soft Commodity Policy](#). These exclusion policies are applicable to all investment funds or portfolios managed by all entities of KBC Asset Management Group, and 'Third Party Funds' held in KBC investment funds or portfolios, with the following exceptions:

- Index-linked investment funds managed by KBC AM Group: investment funds whose investment policy in accordance with their statutes or administrative regulations, aims to follow the composition of a particular stock or bond index exclude only controversial weapons as described by Belgian law and apply the Soft Commodity Policy.
- Index-linked exchange-traded funds (ETFs) not managed by KBC AM.
- Structured funds that derive their performance from a basket of shares comply with the KBC Group Policy on Blacklisted Companies and the KBC Group Investment Policy at the moment of conclusion of the underlying swap contracts offering exposure to the basket of shares. In such structured funds launched as of July 2021, the composition of the basket will also reflect changes in the KBC Group Policy on Blacklisted Companies during the lifetime of the product, whereby any exposure to an issuer being excluded by the KBC Group Policy on Blacklisted Companies will be removed. Additionally, in the context of merger, acquisitions or demerger, new shares will also not be included in the basket of shares if their issuer is excluded by the KBC Group Investment Policy.
- Structured funds that derive their performance from one or more indices may not have any exposure to controversial weapons as described by Belgian law at launch. During the lifetime of the product, changes in the composition of an index by its sponsor or in the KBC Blacklist on controversial weapons as described by Belgian law could, however, lead to exposure to controversial weapons as described by Belgian law.

Please note that Responsible Investing funds apply additional exclusion policies as described in a separate [policy document](#).





1. KBC Group Policy on Blacklisted Companies



1.1. Controversial Weapons

Policy

Any company that is involved in controversial weapon systems is excluded. 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.

Principal adverse impacts (PAI)

All investment funds or portfolios managed by KBC AM Group do not invest in companies that are active in controversial weapons, thus limiting the adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'social and employee matters' theme in Table 1, **Indicator 14**: exposure to controversial weapons.





1.2. UN Global Compact Worst Violators

Policy

The United Nations Global Compact has formulated ten sustainability principles regarding human rights, labour, environment and anti-corruption. The worst violators any of these principles are excluded.

Definition

The UN Global Compact is an international voluntary corporate citizenship initiative with ten 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

The worst violators of the UN Global Compact Principles are excluded as they are doing business in a non-sustainable way.

Methodology

All companies on KBC Group's '[Blacklist](#)' (containing the worst violators of the UN Global Compact principles as determined by internal research sources AND confirmation by the exclusion list of the Norwegian Pension Fund for reasons that are linked to the UNGC Principles) are excluded.





Principal adverse impacts (PAI)

All investment funds or portfolios managed by KBC AM Group that apply this exclusion policy do not invest in the worst violators of the UN Global Compact Principles, thus limiting the adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'social and employee matters' theme in Table 1, **Indicator 10: Violations of the United Nations Global Compact (UNGC) Principles or the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.**

2. KBC Group Investment Policy



2.1. Human Rights

Policy

Companies seriously violating Human Rights are excluded.

Definition

KBC 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. 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:

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





2.2. Tobacco

Policy

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).

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 revenue applies to all companies involved in the production of tobacco, including essential components, while a 10% threshold applies to non-essential tobacco-related products/services. A 5% threshold applies to the distribution and/or retail sale of tobacco products (including wholesale trading). Data sources are Sustainalytics, Bloomberg and the exclusion list for tobacco companies of Norges Bank.



2.3. Thermal Coal

Policy

Any company involved in the extraction of thermal coal is excluded, as well as power generation companies using thermal coal to produce electricity. An exception is foreseen for investments in green bonds of these companies, facilitating the energy transition.

Definition

Activities concerned are the extraction of coal. An exception is allowed for coal used for the production of steel (metallurgic coal). For utility companies the focus is on the generation of electricity through thermal coal.

Motivation





The issue of human induced climate change is backed by more and more scientific information and it is increasingly evident that actions need to be taken to limit global warming. Fossil fuels are at the forefront of this discussion being the major source of anthropogenic CO₂ emissions. The Policy focuses on thermal coal as burning thermal coal has the worst CO₂ emission intensity ranges and alternative power technologies are available.

Methodology

All companies involved in the extraction of coal are excluded. An exception is allowed for coal used for the production of steel (metallurgic coal), because steel – except of recycling - can only be efficiently produced using coal. In addition, power generating companies are excluded that use thermal coal to produce electricity.

Data sources used are Sustainalytics and Bloomberg.

Principal adverse impacts (PAI)

All investment funds or portfolios managed by KBC AM Group that apply this exclusion policy do not invest in companies that are involved in thermal coal activities, thus limiting the adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'greenhouse gas emissions' theme in Table 1, **Indicator 4**: exposure to companies active in the fossil fuel sector.



3. Controversial Regimes

Policy

Government bonds of countries considered to have the most controversial regimes are excluded.

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

KBC AM doesn'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 that score the worst on this ranking are excluded for government bond investments. Countries subject to international sanctions are excluded as well.





4. 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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