Sustainability-related disclosures UBB ExpertEase Defensive Balanced Responsible Investing

Summary

UBB ExpertEase Defensive Balanced Responsible Investing is a sub-fund of the UBB Expertise umbrella mutual fund managed by KBC Asset Management N.V. The sub-fund invests at least 85% of its assets in Institutional F share BG class shares, denominated in euro, of the Master Sub-fund Horizon KBC Defensive Balanced Responsible Investing, which is an investment division of Horizon N.V. (Horizon N.V.), an open-ended investment company duly incorporated and existing under the laws of Belgium. The investment objective of the Sub-Fund is to invest at least 85% of its assets in the Master Sub-Fund. The sub-fund invests the remaining maximum 15% of its assets in cash and, potentially, in derivatives. Wherever and whenever the term Sub-Fund is used in this document, the Master Sub-Fund referred to in this section is to be understood.

The sub-fund promotes a combination of environmental and social characteristics and although it does not have sustainable investments as an objective, it will invest a minimum proportion of assets in economic activities that contribute to achieving environmental or social objectives. As such, the sub-fund commits to invest at least 30% of the assets in 'sustainable investments' as defined by art. 2.17 SFDR. No distinction is made between environmentally sustainable investments and socially sustainable investments.
The issuers (companies, governments, supranational debtors and/or agencies linked to governments) in which it invests must follow good governance practices.
The sub-fund pursues responsible investment objectives based on a dualistic approach: a negative screening and a positive selection methodology.

Through the negative screening the sub-fund excludes in advance issuers from the universe of responsible investments that are in breach of the exclusion policy. These principles of negative screening are not exhaustive and may be modified under the supervision of the Responsible Investing Advisory Board.
The sub-fund will promote the integration of sustainability into the policy decisions of issuers, by preferring issuers with a better ESG (risk)score. This score represents the aggregated performance assessment of a given entity with respect to general environmental, social and governance themes.
The ESG risk score of the portfolio for companies is compared to a reference portfolio determined on the basis of the target allocation.
The ESG score for countries of the portfolio is compared to a reference portfolio of global government bonds.
The sub-fund will promote climate change mitigation, by preferring issuers with lower carbon intensity, with the objective of meeting a predetermined carbon intensity target.
The targets for instruments issued by companies are different from those for instruments issued by national governments, supranational debtors and/or government-linked agencies.
The sub-fund will also support sustainable development, by including issuers that contribute to the UN Sustainable Development Goals.
The UN Sustainable Development Goals include both social and environmental objectives. Companies that contribute to the UN Sustainable Development Goals are defined as those that are aligned with at least one of the 15 first UN Sustainable Development Goals, while not being misaligned with any of these UN Sustainable Development Goals.
Governments are assessed on the five pillars as described in the ESG score, which contain indicators that can be linked to the 17 UN Sustainable Development Goals.
If a government scores sufficiently well on one of these pillars and not significantly poor on the other pillars, the bonds of this government and its sub-governments and agencies are considered to be instruments that contribute to sustainable development.
To encourage the transition to a more sustainable world, the sub-fund also commits to invest a minimum proportion of the portfolio in bonds financing green and/or social projects.

Through the exclusion policy for responsible investment funds, and in particular through the normative screening and ESG risk assessment, 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 2022/1288 as well as 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 for instruments issued by companies.
For investments in instruments issued by countries, 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 2022/1288 as well as 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 by excluding countries belonging to the worst 10% according to the ESG rating model, and by excluding countries that do not comply with the sustainability principles and are exposed to controversial regimes.
On top of the normative screening and the ESG risk assessment, using the positive selection methodology regarding carbon intensity and the exclusions in the exclusion policy for responsible investment funds, the following indicators for adverse impacts on sustainability factors are also taken into account as follows for all investments of this sub-fund:

- **Indicator 3**: greenhouse gas ('GHG') intensity of investee companies is taken into account through the carbon intensity reduction target for companies.
- **Indicator 4:** exposure to companies active in the fossil fuel sector is taken into account as the sub-fund does not invest in companies that are active in the fossil fuel sector.
- **Indicator 10**: Violations of the United Nations Global Compact (UNGC) Principles and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises is taken into account as the sub-fund does not invest in companies that seriously violate UNGC principles or OECD guidelines.
- **Indicator 14**: exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons

and biological weapons) is taken into account as the sub-fund does not invest in companies that are active in controversial weapons.

- **Indicator 15**: GHG intensity of investee countries is taken into account through the carbon intensity reduction target for sovereign related investments.
- **Indicator 16**: Investee countries subject to social violations is taken into account as the sub-fund does not invest in (i) countries not complying with the sustainability principles, and (ii) countries exposed to controversial regimes.

In addition, the principal adverse impacts on sustainability factors are implicitly taken into account through the Proxy Voting and Engagement Policy of KBC Asset Management NV. As part of its commitment to responsible investment, KBC Asset Management NV exercises the voting rights of the shares it manages in accordance with its proxy voting and engagement policy. Where appropriate, KBC Asset Management NV will enter into dialogue with the management of the companies concerned, if necessary before voting.

The sub-fund may invest in securities, money market instruments, units in undertakings for collective investment, deposits, financial derivatives, liquid assets and all other instruments insofar as permitted by the applicable laws and regulations and consistent with the object and target allocation as described within the prospectus. Within these categories of eligible assets, the sub-fund aims to invest at least 51% of its assets in assets that promote environmental or social characteristics. In addition, the sub-fund invests in technical investments, such as cash and derivatives.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by this sub-fund. The environmental or social characteristics of the sub-fund is monitored by pre trade and post trade compliance rules in the internal processes of KBC Asset Management NV.

Various different data sources are used to attain the environmental or social characteristics of the sub-fund, such as MSCI, Morningstar Sustainalytics, Trucost and Bloomberg. For due diligence, several controls can be performed for each source to ensure the data quality. To process the data, KBC Asset Management NV has developed internal tools and models, in order to aggregate the data and determine the responsible issuers. The output of some of these models is submitted to the Responsible Investing Advisory Board, and presented to the Financial Risk Committee of KBC Asset Management NV.

As part of its investment strategy, KBC Asset Management NV executes the voting rights of shares managed in the funds. According to this Proxy Voting and Engagement Policy, KBC Asset Management NV makes its voice heard at Shareholder Meetings and engages with companies as KBC Asset Management NV is convinced that shareholder activism, in the medium and long term, may have a positive impact on the companies KBC Asset Management NV invests in.

Potential limitations to the Responsible Investing methodology include the dependence on external data providers and their assessment of ESG characteristics and the delay in reflecting new data points as assessments reflect past events. KBC Asset Management NV annually reviews its methodologies and data providers to monitor the evolutions, and to be closely aligned with the chosen Responsible Investing principles transparently communicated to its clients.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment. However, it will invest a minimum proportion of 30% of the assets in economic activities that contribute to achieving environmental or social objectives ('sustainable investments').

In order to be labelled as a sustainable investment, these issuers (companies, governments, supranational debtors and/or agencies linked to governments) must pass the negative screening and not score significantly negative on the positive screening criteria.

Negative screening
Through the negative screening the sub-fund excludes issuers in advance from the Responsible Investment universe which fall foul of the exclusion policies available on https://www.ubbam.bg/expertease, section "Documents", Exclusion policies for responsible investment funds.

The application of these policies means that issuers involved in activities such as fossil fuels, the tobacco industry, arms, gambling and adult entertainment are excluded from the sub-fund's investment universe. Investments in financial instruments linked to livestock and food prices are also excluded, whereas strict criteria apply to companies that are active in the palm oil industry. All companies that derive at least 5% of their revenues from the production or 10% of their revenues from the sale of fur or special leather, are excluded. The negative screening also ensures that issuers based in countries that encourage unfair tax practices, that seriously violate fundamental principles of environmental protection, social responsibility and good governance (through the normative screening, through a poor ESG risk rating, due to involvement in unsustainable countries and controversial regimes) are excluded from the sub-fund's investment universe.
These negative screening principles are not exhaustive and may be adapted on advise of the Responsible Investing Advisory Board.

Positive selection methodology
Companies contributing to at least one of the 15 first UN Sustainable Development Goals must at the same time not go significantly against any of them.
Governments are assessed on five pillars which contain indicators that can be linked to the 17 UN Sustainable Development Goals. If a government scores sufficiently well on one of these pillars and not significantly poor on the other pillars, the bonds of this government and its sub-governments and agencies are considered to be instruments that contribute to UN Sustainable Development Goals.

Investments in bonds financing green and/or social projects must comply with the Green or Social Bond Principles of the International Capital Market Association (ICMA) on the Use of Proceeds. Issuers of these bonds must still pass the negative screening as described above. There is however an exception foreseen for issuers of green bonds solely

excluded by the fossil fuels policy.
Through the exclusion policy for responsible investment funds, and in particular through the normative screening and ESG risk assessment, 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 2022/1288 as well as 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 for instruments issued by companies.
For investments in instruments issued by countries, 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 2022/1288 as well as 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 by excluding countries belonging to the worst 10% according to the ESG rating model, and by excluding countries that do not comply with the sustainability principles and are exposed to controversial regimes.

On top of the normative screening and the ESG risk assessment, using the positive selection methodology regarding carbon intensity and the exclusions in the exclusion policy for responsible investment funds, the following indicators for adverse impacts on sustainability factors are also taken into account as follows for all investments of this sub-fund:

- **Indicator 3**: greenhouse gas ('GHG') intensity of investee companies is taken into account through the carbon intensity reduction target for companies.
- **Indicator 4:** exposure to companies active in the fossil fuel sector is taken into account as the sub-fund does not invest in companies that are active in the fossil fuel sector.
- **Indicator 10**: Violations of the United Nations Global Compact (UNGC) Principles and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises is taken into account as the sub-fund does not invest in companies that seriously violate UNGC principles and OECD guidelines.
- **Indicator 14**: exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) is taken into account as the sub-fund does not invest in companies that are active in controversial weapons.
- **Indicator 15**: GHG intensity of investee countries is taken into account through the carbon intensity reduction target for sovereign related investments.
- **Indicator 16**: Investee countries subject to social violations is taken into account as the sub-fund does not invest in (i) countries not complying with the sustainability principles, and (ii) countries exposed to controversial regimes. More information can be found at https://www.ubbam.bg/expertease, section "Documents", Exclusion policies for responsible investment funds.

In addition, the principal adverse impacts on sustainability factors are implicitly taken into account through the Proxy Voting and Engagement Policy of KBC Asset Management NV. As part of its commitment to responsible investment, KBC Asset Management NV exercises the voting rights of the shares it manages in accordance with its proxy voting and engagement policy. Where appropriate, KBC Asset Management NV will enter into dialogue with the management of the companies concerned, if necessary before voting.
A complete overview of the indicators for adverse impacts on sustainability factors that the sub-fund can take into account is included in Annex 1 of Delegated Regulation (EU) 2022/1288.

Companies seriously violating the basic good practices in terms of environmental, social and governance issues, as assessed by the UN Global Compact Principles, are excluded from the sub-fund. The United Nations Global Compact has formulated ten guiding sustainability principles regarding human rights, labour, environment and anticorruption which are part of the internal screening. In addition, KBC Asset Management NV assesses the companies' involvement in violations of the International Labour Organization's (ILO) Conventions, the OECD Guidelines for multinational enterprises and the UN Guiding Principles on Business and Human Rights.

The sub-fund 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.

KBC Asset Management NV assesses all companies on the 'Human Rights List' of KBC Group as well as all companies meeting the criteria below:

- 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.

Based on this assessment, appropriate measures are taken, ranging from engagement with the companies concerned to selling positions. More information on the Policy on Human Rights can be found on the KBC Asset Management NV website.

Environmental or social characteristics of the financial product

This sub-fund

- promotes 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 (risk) score;
- promotes climate change mitigation, by preferring issuers with lower carbon intensity, with the objective of meeting a predetermined carbon intensity target;
- supports sustainable development , by including issuers that contribute to the UN Sustainable Development Goals;
- supports sustainable development by encouraging the transition to a more sustainable world via bonds financing green and/or social projects.

More information on the targets of the sub-fund is available at https://www.ubbam.bg/expertease, section "Documents", Investment policy for Responsible Investing funds, Overview table.

Investment strategy
The general investment strategy of the sub-fund is described in the prospectus under section 2. Investment information of title "Information concerning the sub-fund UBB Defensive Balanced Responsible Investing".
Within the limits, as described in the general investment strategy, the sub-fund pursues (directly or indirectly) responsible investment objectives based on a dualistic approach: a negative screening and a positive selection methodology.
The sub-fund promotes a combination of environmental and social characteristics and although it does not have sustainable investments as an objective, it shall invest a minimum proportion of its assets in economic activities that contribute to the achievement of environmental or social objectives (i.e. 'sustainable investments').
The issuers in which it invests must follow good governance practices.
It cannot be ruled out that very limited investments may be made temporarily in assets that no longer contribute to achieving environmental or social objectives promoted by the sub-fund.
Among other things, this can be due to external circumstances, erroneous data, corporate events, and updates to the screening criteria. In these cases, the assets concerned will be replaced with more appropriate assets as quickly as possible, always taking into account the sole interest of the investor. More information can be found in the prospectus under possible exceptions as described in section 2. Investment information of title 'Information concerning the sub-fund UBB Defensive Balanced Responsible Investing'.

Negative screening
As indicated above, the result of the negative screening means that the sub-fund excludes in advance issuers from the universe of responsible investments that are in breach of the exclusion policy which can be found at https://www.ubbam.bg/expertease, section "Documents", Exclusion policies for responsible investment funds.

The positive selection methodology
The sub-fund 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 (risk)score and promote climate change mitigation, by preferring issuers with lower carbon intensity, with the goal of meeting a predetermined carbon intensity target. The sub-fund will also support sustainable development, by including issuers that contribute to the UN Sustainable Development Goals and by encouraging the transition to a more sustainable world via bonds financing green and/or social projects.

The sub-fund's targets are available at https://www.ubbam.bg/expertease, section "Documents", Investment policy for Responsible Investing funds, Overview table.

On a continuous basis, the Fund Manager ensures daily, that risk limits are respected and that current portfolio exposures do not deviate from the targets suggested by the multi-signal model by more than a pre-established acceptable limit. If realignment to the target is necessary, this is normally carried out by using futures in order to keep transaction costs at minimum.

In addition, compliance of the eligible responsible universes is ensured at all times through the use of compliance rules enforced in the front office system.
The four principles regarding good governance practices, i.e. i) sound management structures, ii) employee realtions, iii) remuneration of staff and iv) tax compliance, are taken into account in the negative screening, whereby the sub-fund excludes issuers that violate the exclusion policies. In addition to excluding issuers involved in certain activities, this screening also ensures that issuers who seriously violate fundamental principles of environmental protection, social responsibility and good governance are excluded through the assessment of controversies and by evaluating companies based in countries that encourage unfair tax practices.
Private issuers are assigned an ESG risk score. The indicators used in this assessment vary depending on the company's subsector, but good governance is always taken into account. Companies with an ESG risk score higher than 40, based on data from the data provider Sustainalytics, are excluded, as well as companies that strongly conflict with one of the first 15 UN Sustainable Development Goals (a score of -10, based on the MSCI SDG Net Alignment Score). Ad-hoc exclusions or deviations can be applied to certain companies on the advice of the Responsible Investing Advisory Board.

Proportion of investments
The sub-fund may invest in securities, money market instruments, units in undertakings for collective investment, deposits, financial derivatives, liquid assets and all other instruments insofar as permitted by the applicable laws and regulations and consistent with the object as described in the prospectus under the section '2 Investment information' of title "Information concerning the sub-fund UBB Defensive Balanced Responsible Investing".
Within these categories of eligible assets, the sub-fund fund aims to invest at least 51% of the assets in assets that promote environmental or social characteristics.
In addition, the sub-fund invests in technical investments, such as cash and derivatives, and assets in which the sub-fund temporarily invests following a scheduled update of the eligible universe that determines which assets promote environmental and/or social characteristics, for which there are no environmentall or social safeguards. The sub-fund may hold or invest in these types of assets to achieve its investment objectives, to diversify the portfolio, for liquidity management purposes and to hedge risks. Derivatives are used to hedge risks as specified in title 'Permitted derivative transactions' as dexcribed in the prospectus under section 2. Investment information of title "Information concerning the sub-fund UBB Defensive Balanced Responsible Investing".
Investments in derivatives are not used to promote environmental or social characteristics and also will not affect them. In addition, the sub-fund commits to invest at least 30% of the assets in 'sustainable investments' as defined by art. 2.17 SFDR. No distinction is made between environmentally sustainable investments and socially sustainable investments.

Monitoring of environmental or social characteristics
The environmental or social characteristics of the sub-fund is monitored by pre trade and post trade compliance rules in the internal processes of KBC Asset Management NV.

On a continuous basis, the Fund Manager ensures daily, that risk limits are respected and that current portfolio exposures do not deviate from the targets suggested by the multi-signal model by more than a pre-established acceptable limit. If realignment to the target is necessary, this is normally carried out by using futures in order to keep transaction costs at minimum.
In addition, compliance of the eligible responsible universes is ensured at all times through the use of compliance rules enforced in the front office system.

Methodologies

(1) Indicators related to the ESG-score

The contribution to the integration of sustainability into policy decisions of the issuers is measured based on an ESG (risk) score. This score represents the aggregated performance assessment of a given entity with respect to general environmental, social and governance themes. The main factors underpinning the ESG criteria are:

- In the case of instruments issued by companies:
    - respect for the environment (e.g. reduction in greenhouse gas emissions);
    - attention to society (e.g. employee working conditions); and
    - corporate governance (e.g. independence and diversity of the board of directors).

The ESG risk score is a measure of a company's environmental, social and governance (ESG) risks. To determine this score, relevant key ESG issues for the sub-sector in question are considered, along with the quality of the company's management team and any possible ESG controversies involving the company in the recent past. The ESG risk score for companies measures the difference between a company's exposure to ESG risks relevant to its sector and the extent to which a company hedges those risks. The lower a company's ESG risk score on a scale of 0 to 100, the less its sustainability risk. The ESG risk scores for companies are based on data supplied by data provider Sustainalytics.
In addition to excluding companies with a severe ESG risk (i.e. an ESG risk rating > 40), the sub-fund will promote best practices by using an overall ESG risk score that is 10% below that of the target allocation described in the prospectus under the heading 'Information regarding the sub-fund UBB Defensive Balanced Responsible Investing'.

- In the case of instruments issued by national governments, supranational debtors and/or agencies linked to governments five pillars, each of which is given equal weighting:
    - overall economic performance and stability (e.g. quality of institutions and government);
    - socio-economic development and health of the population (e.g. education and employment);
    - equality, freedom and the rights of all citizens;
    - environmental policy (e.g. climate change); and
    - security, peace and international relations.

This lists of factors underpinning the ESG criteria are not exhaustive and may be changed under the supervision of the Responsible Investing Advisory Board.
The ESG score for countries assesses how well countries' public policies perform in environmental, social and good governance terms. The higher a country's ESG score on a scale of 0 to 100, the more it is committed to sustainable development. In addition to excluding the worst rated 10%, the sub-fund will promote best practices by using an overall ESG score that is 10% better than the reference portfolio of global government bonds (composed of the following benchmarks: 67% developed markets: J.P. Morgan GBI Global Unhedged EUR and 33% emerging markets: J.P. Morgan GBI-EM Global Diversified Composite Unhedged EUR).
The ESG objectives will be evaluated annually and may be adjusted. External circumstances such as market movements and updates of data regarding the ESG-(risk)score can lead to investment solutions failing to achieve this objective. In that case the investment solution will be adapted to meet the objective again within a time frame that takes into account the client's best interest. For supranational bonds, the Responsible Investing research team will assign an ESG score that is a weighted average of the member countries, with the weightings being determined by voting rights, paid-up capital or percentage of the population.
More information on the ESG Score and the concrete goals of the sub-fund can be found at https://www.ubbam.bg/expertease, section "Documents", Investment policy for Responsible Investing funds, Overview table.

(2) Indicators related to the carbon intensity

The objective to promote climate change mitigation by preferring issuers with lower carbon intensity in order to reach a predetermined carbon intensity objective, applies to at least 90% of the portfolio. The objective does not apply to issuers for which data is not available.
The contribution of issuers to climate change mitigation is measured based on their carbon intensity. For companies, carbon intensity is defined as absolute greenhouse gas emissions (in tonnes CO_2 equivalent) divided by revenues (in million USD). For countries, it is defined as greenhouse gas emissions (in tonnes CO_2 equivalent) divided by the Gross Domestic Product (in million USD).
The objectives for instruments issued by companies differ from those for instruments issued by national governments, supranational debtors and/or government-linked agencies.
The number of tonnes of CO_2 emitted by a company is the sum of:

- the direct CO_2 emissions resulting from the company's own activities (scope 1); and
- the indirect CO_2 emissions resulting from the generation of purchased electricity (scope 2).

The indirect CO_2 emissions resulting from the activities of suppliers and customers, for example (scope 3), are not included in the sum. Carbon intensity calculations are based on data sourced from Trucost. Within the sub-fund, the carbon intensity score based on scope 1 and scope 2 emissions is assigned to at least 90% of the companies in the sub-fund.
The sub-fund aims for a reduction of 50% by 2030 compared to the target allocation described in the prospectus under the heading 'Information regarding the sub-fund UBB Defensive Balanced Responsible Investing ' at the end of 2019. An immediate reduction of 30% is implemented for 2019, followed by a 3% reduction on an annual basis. The portfolio's weighted average will be assessed against that trajectory. Carbon intensity at the portfolio level is calculated based on

the weighted average of the carbon intensity of the positions in the sub-fund. This calculation does not take technical items such as cash and derivatives into account, and companies without data are also excluded. The weights used in the calculation depend on the size of the positions in the sub-fund, rescaled for the items without data. The companies for which no data is available are included in the negative screening and given an overall ESG risk rating. External circumstances such as market movements and updates of data regarding the carbon intensity can lead to investment solutions not meeting this target trajectory. In that case the investment solution will be adapted to meet the trajectory again within a time frame that takes into account the client's best interest.
The number of tonnes of CO2 emitted by a country is the sum of:

- the CO2 emissions resulting from the domestic production of goods and services for domestic consumption and for export; and
- the CO2 emissions resulting from the import of goods and services, back to the country of origin.

KBC Asset Management NV takes a broad approach to a government as a regulator of all economic activities within its territory. KBC Asset Management NV measures territorial emissions and emissions related to imports, as reported by PRIMAP. PRIMAP's dataset combines several published datasets into a comprehensive set of greenhouse gas emission trajectories. GDP figures in millions of USD are based on data of the International Monetary Fund (IMF). The carbon intensity score is assigned to at least 90% of the assets in the sub-fund, excluding cash, derivatives and countries without data. Carbon intensity at the portfolio level is calculated based on the weighted average of the carbon intensity of the positions in the sub-fund. The weights used in the calculation depend on the size of the positions in the sub-fund, rescaled for the items without data. The countries for which no data is available are included in the negative screening and given an overall ESG rating.
For government bonds, the sub-fund targets a 25% improvement on the current carbon intensity score of the reference portfolio of global government bonds (composed of the following benchmarks: 67% developed markets: J.P. Morgan GBI Global Unhedged EUR and 33% emerging markets: J.P. Morgan GBI-EM Global Diversified Composite Unhedged EUR). This improvement is dependent on the regional allocation, determined by the benchmark. External circumstances such as market movements and updates of data regarding the carbon intensity can lead to investment solutions not meeting this objective. In that case the investment solution will be adapted to meet the objective again within a time frame that takes into account the client's best interest.
For supranational bonds, the Responsible Investing research team will assign a carbon intensity score that is a weighted average of member states, with weightings determined by voting power, paid-in capital or percentage of population.

Carbon intensity targets are monitored and evaluated annually. The targets can be revised upwards or downwards. For example, if companies and/or countries do not show sufficient progress in reducing their carbon intensity and if this cannot be compensated for through portfolio optimisation, KBC Asset Management NV may be forced to adjust the target upwards. It is also possible that at some point the carbon intensity will reach a lower level much faster than expected. When companies and/or countries make very good progress in terms of carbon intensity, KBC Asset Management NV wants to be able to follow that acceleration in the portfolio. In that case the target can be adjusted downwards.
More information on the carbon intensitiy and the concrete goals of the sub-fund can be found at https://www.ubbam.bg/expertease, section "Documents", Investment policy for Responsible Investing funds, Overview table.

(3) Indicators related to the UN Sustainable Development Goals

To support sustainable development, the sub-fund commits to investing a minimum proportion of the portfolio in issuers that contribute to the achievement of the UN Sustainable Development Goals. The UN Sustainable Development Goals include both social and environmental objectives. Companies that contribute to the UN Sustainable Development Goals are defined as those that are aligned with at least one of the 15 first UN Sustainable Development Goals, while not being misaligned with any of these UN Sustainable Development Goals.
Governments are assessed on the five pillars as described in the ESG score, which contain indicators that can be linked to the 17 UN Sustainable Development Goals. If a government scores sufficiently well on one of these pillars and not significantly poor on the other pillars, the bonds of this government and its sub-governments and agencies are considered to be instruments that contribute to UN Sustainable Development Goals.
In order to be considered as contributing to the UN Sustainable Development Goals, a country should meet the following two conditions:

- The country is aligned with the ESG criteria: it has a score of at least 80 for one of the five pillars and does not score lower than 50 for any of the other pillars;
- The country is not excluded: it does not rank among the 50% most controversial regimes AND it does meet the criteria on respecting the sustainable principles AND it does not rank among the 10% worst scoring countries of the universe.

Supranational government bonds are considered to contribute to the UN Sustainable Development Goals if either of the following criteria is met:

- at least half of its members contribute to the UN Sustainable Development Goals (weighted by voting power/full paid-in capital/percentage of population (in order of availability).
- the mission statement of the supranational institution has a sustainable objective and less than half of its members fall in the worst-scoring half of the screening for controversial regimes.

In addition, the Responsible Investing Advisory Board can award the "sustainable development" label to instruments of companies.

The targets are checked and evaluated annually. The targets can be revised upwards or downwards. The minimum percentage of issuers contributing to the achievement of the UN Sustainable Development Goals may be revised to take into account any stricter requirements that KBC Asset Management NV wishes to impose on the sub-fund. Therefore, the revision will depend on the future development of the responsible investment strategy, but also on the progress made by countries/companies with regard to sustainability.
More information on this and the concrete goals of the sub-fund can be found at https://www.ubbam.bg/expertease,

section "Documents", Investment policy for Responsible Investing funds, Overview table.

(4) Indicators related to bonds to finance green and/or social projects

To promote the transition to a more sustainable world, the sub-fund commits to invest a minimum portion of the portfolio in bonds to finance green and/or social projects.
The targets are checked and evaluated annually. The targets can be revised upwards or downwards. The minimum percentage of bonds to finance green and/or social projects may be revised to take into account any stricter requirements that KBC Asset Management NV wishes to impose on the sub-fund. Therefore, the revision will depend on the future development of the responsible investment strategy, but also on the progress made by companies/countries with regard to sustainability.

Data sources and processing

Following data sources are used to attain the environmental or social characteristics of the sub-fund:

- The ESG Risk Scores for companies are based on data from data provider Morningstar Sustainalytics.
- The ESG Scores for countries are based on data from KBC Economics.
- The carbon intensity calculations for both companies and countries are based on data provided by Trucost.
- The model to identify instruments that contribute to the UN Sustainable Development Goals is internal. It uses input from MSCI and the Responsible Investing Advisory Board.
- The model to identify bonds to finance green and/or social projects is internal. It uses input from Bloomberg.

For each source, several controls can be performed to ensure the data quality. These controls may include, and are not limited to, checks on a random sample of the dataset and on the outliers of the dataset. KBC Asset Management NV also runs some manual checks on the data set and makes comparisons to other data providers. To process the data, KBC Asset Management NV has developed internal tools and models to aggregate the data and determine the responsible issuers. The output of these models is submitted to the Responsible Investing Advisory Board, and presented to the Financial Risk Committee of KBC Asset Management NV.

KBC Asset Management NV itself does not use estimates when processing the data. It is however possible that some of the data providers, that are listed above, may use estimates to compile the underlying data sets used by KBC Asset Management NV or that an estimate based on company disclosures or other data providers is used to adapt a doubtfull outlier score.

Limitations to methodologies and data

Potential limitations to the Responsible Investing methodology include the dependence on external data providers and their assessment of ESG characteristics and alignment with the UN Sustainable Development Goals, and the delay in reflecting new data points as assessments reflect past events. This is considered an inherent limitation, as there is no universal definition of ESG characteristics, and judgement is required to interpret the severity of ESG controverses for example, and integrating future plans of issuers will lead to the introduction of a prediction error.
KBC Asset Management NV annually reviews its methodologies and data providers to monitor the evolutions, and to be closely aligned with the chosen Responsible Investing principles transparently communicated to its clients.

Due diligence

Responsible Investing funds invest in admitted issuers, i.e. issuers that have passed the negative screening based on the exclusion policies. More information regarding the exclusion policies applying to the sub-fund can be found at https://www.ubbam.bg/expertease, section "Documents", Exclusion policies for responsible investment funds.
The assessment of the issuers depend on a combination of data from the data providers of KBC Asset Management NV. This admitted status is updated regularly. Changes are subject to quality controls and presented to the Financial Risk Committee of KBC Asset Management NV.
To promote social and environmental characteristics, Responsible funds apply portfolio targets based on the data described in section Methodologies. As described previously, various controls may be performed to ensure the data quality linked to issuers. A such KBC Asset Management NV performs several mathematical checks through the model as regards to outliers, large variations from one period to another, missing data points etc. KBC Asset Management NV also runs manual checks on the data set and makes comparisons to other data providers.

Engagement policies

As part of its commitment to responsible investment, KBC Asset Management NV exercises the voting rights of the shares it manages in accordance with the Proxy Voting and Engagement Policy. Where appropriate, KBC Asset Management NV will engage in dialogue with the management of the companies concerned, if necessary before voting as KBC Asset Management NV is convinced that shareholder activism, in the medium and long term, may have a positive impact on the companies KBC Asset Management NV invests in. More information can be found at *www.kbc.be/investment-legal-documents* > Retrospective Proxy Voting - overview > Proxy Voting and Engagement Policy.

Designated reference benchmark

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by this sub-fund.

Disclaimers

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