

# Sustainability-related disclosures UBB ExpertEase Defensive Tolerant Responsible Investing

## Summary

UBB ExpertEase Defensive Tolerant Responsible Investing is a sub-fund of the umbrella mutual fund UBB ExpertEase, managed by KBC Asset Management N.V., Belgium through KBC Asset Management N.V. – branch, Bulgaria. This sub-fund is a Feeder fund of the master Sub-fund Horizon KBC Defensive Tolerant Responsible Investing, which is an investment compartment of Horizon N.V. (Horizon N.V.), an open-ended investment company duly incorporated and existing under the laws of Belgium. The sub-fund's investment objective is to invest almost all of the funds raised, but at least 85% of its assets, in Institutional F shares BG class, denominated in euro, of the master sub-fund. The sub-fund holds the remaining maximum 15% of its assets in cash, including limited use of derivatives in order to hedge market risk. Whenever the term sub-fund is used in this document, it shall mean the master sub-fund.

The sub-fund promotes a combination of environmental and/or 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 ('sustainable investments'). As such, the sub-fund commits to invest at least 20% of the assets in 'sustainable investments' as defined by art. 2.17 SFDR.

The issuers (companies, governments, supranational debtors and/or agencies linked to governments) in which the sub-fund 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 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 issuer 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 greenhouse gas intensity, with the objective of meeting a predetermined greenhouse gas 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 through 'sustainable investments' in accordance with art. 2(17) SFDR.

Sustainable investments will consist of bonds financing green and/or social projects and investments in issuers contributing to the achievement of the UN Sustainable Development Goals plus instruments awarded the 'sustainable development' label by KBC Asset Management NV on the advice of the Responsible Investing Advisory Board.

The UN Sustainable Development Goals include both social and environmental objectives.

Companies are considered to contribute to sustainable development when at least 20% of the revenues are linked to the UN Sustainable Development Goals.

The activities of the companies are assessed on multiple sustainable themes that can be linked to the UN Sustainable Development Goals.

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 the UN Sustainable Development Goals.

In addition, KBC Asset Management NV can award the "sustainable development" label to instruments of companies and governments, on the advice of the Responsible Investing Advisory Board.

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 criteria 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 criteria and are exposed to controversial regimes.

On top of the normative screening and the ESG risk assessment, using the positive selection methodology regarding greenhouse gas 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 greenhouse gas 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 7:** Activities negatively affecting biodiversity-sensitive areas are taken into account as the sub-fund does not invest in companies that have high or severe controversies related to Land Use and Biodiversity as well as companies with activities that have a negative impact on biodiversity and that don't take sufficient measures to reduce their impact.
- **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 greenhouse gas 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 criteria, 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.

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 80% of its assets in assets that promote environmental or social characteristics.

Consequently, the sub-fund will invest a maximum of 20% of its assets 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 ecological and/or social characteristics, for which there are no ecological or social safeguards.

No reference benchmark has been designated for the purpose of attaining the environmental and/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, S&P 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, among others, relies on an ESG Data Aggregator. This ESG Data Aggregator collects ESG data from external data sources (such as Morningstar Sustainalytics, Trucost and MSCI), as well as ESG data from KBC internal research. On these collected data, the ESG Data Aggregator performs quality checks and then assigns them, taking into account their capital structure, to the Universe of Interest of KBC Asset Management NV. To process the ESG data and determine the responsible issuers, KBC Asset Management NV has developed internal tools and models. The principles of our methodology are presented to the Responsible Investing Advisory Board, and the output of our models is 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 the Proxy Voting and Engagement Policy.

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. 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 20% of the assets in economic activities that contribute to achieving environmental or social objectives ('sustainable investments').

The sustainable investments that the sub-fund partially intends to make do not cause significant harm to the sustainable investment objective due to negative screening.

The sub-fund takes into account 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 through the negative screening.

Through the negative screening the sub-fund excludes issuers (companies, governments, supranational debtors and/or government-linked agencies) in advance from the Responsible Investment universe which fall foul of the exclusion policies.

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. 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 by not meeting the sustainability criteria and controversial regimes, due to severe controversies related to water emissions, pollution or waste and gender diversity and due to high or severe controversies in the context of activities that have a negative impact on biodiversity and for which insufficient measures are taken to reduce their impact) 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.

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. The sub-fund does not invest in companies that seriously violate the Principles of the United Nations Global Compact and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. All companies involved in serious controversies related to environmental, social or good governance issues are excluded as well. Also excluded are companies with an ESG risk rating of more than 40 according to data provider Sustainalytics.

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 criteria and are exposed to controversial regimes.

On top of the normative screening and the ESG risk assessment, using the positive selection methodology regarding greenhouse gas 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 greenhouse gas 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 7:** Activities negatively affecting biodiversity-sensitive areas are taken into account as the sub-fund does not invest in companies that have high or severe controversies related to Land Use and Biodiversity as well as companies with activities that have a negative impact on biodiversity and that don't take sufficient measures to reduce their impact.
- **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 greenhouse gas 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 criteria, and (ii) countries exposed to controversial regimes. More information can be found in the Exclusion policy 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.

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 anti-corruption 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 at <https://www.kbc.com/en/corporate-sustainability/setting-rules-and-policies> > Limiting our adverse impact > KBC group Sustainability Policies > Human Rights, UN Global Compact and Modern Slavery Act > KBC Group Policy on Human Rights.

## **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 greenhouse gas intensity, with the objective of meeting a predetermined greenhouse gas intensity target;
  - supports sustainable development through 'sustainable investments' in accordance with art. 2(17) SFDR.
  - sustainable investments will consist of (i) bonds financing green and/or social projects and (ii) investments in issuers contributing to the achievement of the UN Sustainable Development Goals plus instruments awarded the 'sustainable development' label by KBC Asset Management NV on the advice of the Responsible Investing Advisory Board.
- However, no binding minimum percentage has been set for this latter category (ii), although it contributes to the achievement of the minimum percentage of 'sustainable investments' for this sub-fund.

More information on the sub-fund's objectives can be found at on [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-documents) > Investment policy for Responsible Investing funds > Overview table.

### **Investment strategy**

The general investment strategy of the sub-fund is described in the prospectus of Horizon under section 2. Investment information of title "Information concerning the sub-fund KBC Defensive Tolerant Responsible Investing" or in the prospectus of UBB ExpertEase under section „Информация относно Подфонд ОББ ЕкспертИиз Дефанзивен Толерантен Отговорно Инвестирац“, раздел „Инвестиционна политика на Главния подфонд“.

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/or social characteristics and, even though 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 (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 of Horizon under possible exceptions as described in section 2. Investment information of title 'Information concerning the sub-fund KBC Defensive Tolerant Responsible Investing' or in the prospectus of UBB ExpertEase under section „Информация относно Подфонд ОББ ЕкспертИиз Дефанзивен Толерантен Отговорно Инвестирац“, раздел „Инвестиционна политика на Главния подфонд“.

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 negative screening and positive selection methodology are the binding elements in the selection of investments to achieve each of the environmental or social characteristics promoted by the sub-fund.

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 applicable for this sub-fund.

### **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 greenhouse gas intensity, with the goal of meeting a predetermined greenhouse gas 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 [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-documents) > Investment policy for Responsible Investing funds > Overview table.

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. 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 of Horizon under title "Information concerning the sub-fund KBC Defensive Tolerant Responsible Investing" or in the prospectus of UBB ExpertEase under section „Информация относно Подфонд ОББ ЕкспертИиз Дефанзивен Толерантен Отговорно Инвестирац“, раздел „Инвестиционна политика на Главния подфонд“.

Within these categories of eligible assets, the sub-fund aims to invest at least 80.00% of the assets in assets that promote environmental or social characteristics.

Corporate and sovereign investments in issuers passing the negative screening and contributing to at least one specific positive selection Responsible Investing methodology are considered as 'assets promoting environmental and social characteristics'.

(Term) deposits are classified as 'promoting environmental and social characteristics' if the counterparties pass the exclusion policy for conventional and Responsible Investing funds and the exclusion policy for Responsible Investing funds, and are net aligned with at least one of the first fifteen UN Sustainable Development Goals. These counterparties are net aligned with the first 15 UN Sustainable Development Goals if they have at least one +2 Net Alignment Score on any of the first 15 SDGs at MSCI.

More information on the MSCI Net Alignment Score can be found in the investment policy for Responsible Investing funds which is available on [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-documents) > Investment policy for Responsible Investing funds.

Consequently, the sub-fund will invest a maximum of 20.00% of its assets in technical investments, such as liquidities 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 environmental 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 achieve investment objectives and to hedge risks as specified in title 'Permitted derivative transactions' as described in the prospectus of Horizon under section 2. Investment information of title "Information concerning the sub-fund KBC Defensive Tolerant Responsible Investing" or in the prospectus of UBB ExpertEase under section „Информация относно Подфонд ОББ ЕкспертИиз Дефанзивен Толерантен Отговорно Инвестирац“, раздел „Инвестиционна политика на Главния подфонд“.

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 20.00% of the assets in 'sustainable investments' as defined by art. 2(17) SFDR. The sub-fund shall invest a minimum of 1.00% in sustainable investments with an environmental objective that are not aligned with the EU Taxonomy and a minimum of 1.00% in sustainable investments with a social objective.

The objective with respect to sustainable investments for this sub-fund is equal to the sum of investments that are considered "sustainable" based on the published methodology on contributing to the achievement of the UN Sustainable Development Goals, plus investments in bonds that can be considered as bonds to finance green and/or social projects, plus instruments that are classified as "sustainable" by KBC Asset Management NV on the advice of the Responsible Investing Advisory Board.

In addition, companies that have at least 20% of their revenues aligned with the EU Taxonomy Framework according to data from Trucost, are considered to contribute to sustainable development. Instruments of companies that meet these requirements are referred to as "sustainable investments," according to art. 2(17) SFDR. More information on the percentage in the portfolio that was considered "sustainable investments with an environmental objective aligned with the EU Taxonomy Framework" based on this criterion during the reporting period, can be found in the annual reports for this sub-fund.

### **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-(risk)score**

The contribution to the integration of sustainability into policy decisions of the issuers is measured based on an ESG (risk) score. For companies, an ESG risk score is assigned, for countries an ESG score. This score represents the aggregated performance assessment of a given issuer 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).

At least 90% of the corporate investments in the portfolio, as measured by assets under management, must have an ESG risk score.

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 better than the ESG risk score of the target allocation described in the prospectus of Horizon under the heading 'Information regarding the sub-fund KBC Defensive Tolerant Responsible Investing' or in the prospectus of UBB ExpertEase under section „Информация относно Подфонд ОББ ЕкспертИйз Дефанзивен Толерантен Отговорно Инвестиращ“, раздел „Инвестиционна политика на Главния подфонд“.

The main factors underpinning the ESG criteria are:

- 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.

These lists of factors underpinning the ESG criteria are not exhaustive and may be changed under the supervision of the Responsible Investing Advisory Board.

KBC Asset Management NV assigns an ESG score to at least 90% of the investments in countries within the portfolio, as measured by assets under management.

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 Index and 33% emerging markets: J.P. Morgan GBI-EM Global Diversified Composite Unhedged EUR Index).

To calculate the ESG-(risk)score at portfolio level, the weighted average of the ESG-(risk)scores of the positions in the sub-fund are taken into account. Technical items such as cash and derivatives are not taken into account and also companies or countries for which no data is available are left out. The weights used in the calculation depend on the size of the positions in the sub-fund, rescaled for these items.

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 states, with the weightings being determined by voting rights, paid-in capital or percentage of the population.

More information on the ESG-score and the sub-fund's concrete objectives can be found on [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-documents) > Investment policy for Responsible Investing funds > Overview table.

## **(2) Indicators related to the greenhouse gas intensity**

The objective to promote climate change mitigation by preferring issuers with lower greenhouse gas intensity in order to reach a predetermined greenhouse gas 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 greenhouse gas intensity. For companies, greenhouse gas intensity is defined as absolute greenhouse gas emissions (in tonnes CO<sub>2</sub> equivalent) divided by revenues (in million USD). For countries, it is defined as greenhouse gas emissions (in tonnes CO<sub>2</sub> 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 greenhouse gas emitted by a company is the sum of:

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

The indirect greenhouse gas emissions resulting from the activities of suppliers and customers, for example (scope 3), are not included in the sum as this scope 3 data largely depends on assumptions and is not disclosed by companies. Greenhouse gas intensity calculations are based on data sourced from Trucost. Within the sub-fund, the greenhouse gas 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's target in terms of greenhouse gas intensity is assessed on two targets whereby the most strict of the two will determine the target applied: 15% better than the target allocation as described in the prospectus of Horizon under the heading 'Information regarding the sub-fund KBC Defensive Tolerant Responsible Investing' or in the prospectus of UBB ExpertEase under section „Информация относно Подфонд ОББ ЕкспертИйз Дефанзивен Толерантен Отговорно Инвестиращ“, раздел „Инвестиционна политика на Главния подфонд“ and a reduction of 50% by 2030 compared to the target allocation 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. Greenhouse gas intensity at the portfolio level is calculated based on the weighted average of the greenhouse gas 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 could be given an overall ESG risk rating. External circumstances such as market movements and updates of data regarding the greenhouse gas 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 tones of greenhouse gas emitted by a country is the sum of:

- the greenhouse gas emissions resulting from the domestic production of goods and services for domestic consumption and for export; and
- the greenhouse gas 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. The territorial emissions and emissions related to imports are based on data from Trucost. GDP figures in millions of USD are based on data of the International Monetary Fund (IMF). The greenhouse gas intensity score is assigned to at least 90% of the assets in the sub-fund, excluding cash, derivatives and countries without data. Greenhouse gas intensity at the portfolio level is calculated based on the weighted average of the greenhouse gas 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 could be given an overall ESG rating.

For government bonds, the sub-fund targets a 25% improvement on the current greenhouse gas 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 Index and 33% emerging markets: J.P. Morgan GBI-EM Global Diversified Composite Unhedged EUR Index). This improvement is dependent on the regional allocation, determined by the benchmark. External circumstances such as market movements and updates of data regarding the greenhouse gas 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 greenhouse gas intensity score that is a weighted average of member states, with weightings determined by voting power, paid-in capital or percentage of population.

Greenhouse gas 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 greenhouse gas intensity and if this cannot be compensated for through portfolio optimization, KBC Asset Management NV may be forced to adjust the target upwards. It is also possible that at some point the greenhouse gas intensity will reach a lower level much faster than expected. When companies and/or countries make very good progress in terms of greenhouse gas 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 greenhouse gas intensity and the sub-fund's concrete objectives can be found on [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-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 can invest part of its 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 are considered to contribute to sustainable development when at least 20% of the revenues are linked to the UN Sustainable Development Goals. The activities of the companies are assessed on multiple sustainable themes that can be linked to the 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, KBC Asset Management NV can award the "sustainable development" label to instruments of companies and governments, on the advice of the Responsible Investing Advisory Board.

However, the awarding of the 'sustainable development' label by KBC Asset Management NV to instruments of governments on the advice of the Responsible Investing Advisory Board is very exceptional. The possibility of deviating from the outcomes of the internal KBC country model is mainly intended for countries that just meet or just fall short of the requirements, with the aim of avoiding those countries that would 'leapfrog' the bar over the years (i.e. borderline sustainable or not sustainable or permitted) would have to be in and then out of the investment universe each time, and this in order to avoid transaction costs.

### **(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 greenhouse gas intensity calculations for both companies and countries are based on data provided by S&P Trucost.
- The model to identify instruments that contribute to the UN Sustainable Development Goals is internal. It uses input from MSCI and Morningstar Sustainalytics, as well as 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, among others, relies on an ESG Data Aggregator. This ESG Data Aggregator collects ESG data from external data sources (such as Morningstar Sustainalytics, S&P Trucost and MSCI), as well as ESG data from KBC internal research. On these collected data, the ESG Data Aggregator performs quality checks and then assigns them, taking into account their capital structure, to the Universe of Interest of KBC Asset Management NV. To process the ESG data and determine the responsible issuers, KBC Asset Management NV has developed internal tools and models. 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 doubtful 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 controversies 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 [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-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. More information can be found at [www.kbc.be/investment-legal-documents](http://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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