

Sustainability-related disclosures KBC Eco Fund Water Responsible Investing

Summary

This sub-fund contributes to a specific sustainability challenge, namely providing access to and improving the efficiency of clean water facilities.

To this end, the sub-fund invests in companies whose products and/or services offer a solution to that specific challenge. The sub-fund will invest a minimum of 95% of its portfolio in "sustainable investments" with an ecological objective. These sustainable investments are all in economic activities that do not qualify as environmentally sustainable according to the EU taxonomy. The companies it invests in must follow good governance practices. Only companies that, measured by their turnover, focus at least 10% of their activities on this objective may be taken into consideration for the universe. In addition, the sub-fund sets an objective at portfolio level: based on the individual sales figures, the weighted average of the portfolio that contributes to the above mentioned sustainable investment objective is calculated. This figure may never be less than 50%.

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 companies which fall foul of the exclusion policy applicable to the sub-fund. The sub-fund also commits to respect the letter and the spirit of the United Nations Universal Declaration of Human Rights. 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.

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.

On top of the normative screening and the ESG risk assessment, using 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 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.

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 as described within the prospectus. Within these categories of eligible assets, the sub-fund commits to invest 95% of the assets in "sustainable investments" as defined by art. 2 (17). This includes only investments in instruments with an environmental objective that are not aligned with the EU Taxonomy. Consequently, the sub-fund will invest a maximum of 5% 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, for which there are no environmental or social safeguards.

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

Following data sources are used during the negative screening:

- The ESG Risk Scores for companies are based on data from data provider Morningstar Sustainalytics;
- The model to identify companies that are strongly misaligned with one of the first 15 UN Sustainable Development Goals is internal. It uses input from MSCI and Morningstar Sustainalytics, as well as the Responsible Investing Advisory Board.

In order to obtain the sustainability characteristics of the sub-fund, internal models are used, whereby the research team of KBC Asset Management NV carries out an in-depth analysis to determine whether a company meets the intended sustainability characteristics of this sub-fund.

For each source, several controls can be performed 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. Even though KBC Asset Management NV itself does not use estimates when processing the data, it is possible that some of the data providers use estimates.

Potential limitations to the Responsible Investing methodology include the dependence on external data providers and the assessment of ESG Risk Scores to companies and the alignment with the UN Sustainable Development Goals during the negative screening, 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 positive selection methodology which is transparently communicated to the clients.

No significant harm to the sustainable investment objective

The sustainable investments do not seriously compromise the sustainable objective through adverse screening. The sub-fund takes into account all indicators for the principal adverse effects of 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 effects of investment decisions on sustainability factors in Tables 2 and 3 of Annex 1 of Delegated Regulation (EU) 2022/1288 through negative screening.

Through the negative screening the sub-fund excludes companies in advance from the Responsible Investment universe which fall foul of the exclusion policies.

The application of these policies means that companies 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 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 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.

On top of the normative screening and the ESG risk assessment, using 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 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.

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 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.

Sustainable investment objective of the financial product

This sub-fund contributes to a specific sustainability challenge, namely providing access to and improving the efficiency of clean water facilities. To this end, the sub-fund invests in companies whose products and/or services offer a solution to that specific challenge. This includes the following business activities, among others: companies active in water and wastewater facilities, water treatment technology and consultancies in environmental management. Only companies that, measured by their turnover, focus at least 10% of their activities on this objective may be taken into consideration for the universe. In addition, the sub-fund sets an objective at portfolio level: based on the individual sales figures, the weighted average of the portfolio that contributes to the above mentioned sustainable investment objective is calculated. This figure may never be less than 50%.

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 Water Responsible Investing".

The sub-fund pursues responsible investment objectives based on a dualistic approach: a negative screening and a positive selection methodology.

The sub-fund has a sustainable investment objective: to provide access to and improve the efficiency of clean water facilities. The total assets of the sub-fund are invested, to the maximum extent possible, in shares of companies operating in the water sector in a responsible way.

The companies 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 the sustainable investment objective.

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 Water Responsible Investing'.

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 so that the sub-fund's sustainable investment objective is achieved.

As indicated above, the result of the negative screening means that the sub-fund excludes in advance companies from the universe of responsible investments that are in breach of the exclusion policy applicable for this sub-fund.

The positive selection methodology

This sub-fund contributes to a specific sustainability challenge, namely providing access to and improving the efficiency of clean water facilities. To this end, the sub-fund invests in companies whose products and/or services offer a solution to that specific challenge.

Only companies that, measured by their turnover, focus at least 10% of their activities on this objective may be taken into consideration for the universe. In addition, the sub-fund sets an objective at portfolio level: based on the individual sales figures, the weighted average of the portfolio is calculated in terms of theme relevance. This figure may never be less than 50%.

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 companies that violate the exclusion policies. In addition to excluding companies involved in certain activities, this screening also ensures that companies 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.

Companies 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 under title "Information concerning the sub-fund Water Responsible Investing".

Within these categories of eligible assets, the sub-fund commits to invest at least 95.00% of the assets in "sustainable investments" as defined by art. 2 (17) SFDR.

This includes only investments in instruments with an environmental objective that are not aligned with the EU Taxonomy. The minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy is thus 95.00%.

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.

Consequently, the sub-fund will invest a maximum of 5.00% 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 under section 2. Investment information of title "Information concerning the sub-fund Water Responsible Investing".

Investments in derivatives are not used to achieve the sustainable investment objective and also will not affect them.

Monitoring of sustainable investment objective

The sustainable investment objective of the sub-fund is monitored by pre trade and post trade compliance rules in the internal processes of KBC Asset Management NV.

The relevance of a company for the chosen theme is measured regularly. If it is considered that the company is no longer relevant to the theme, this company will be removed from the permitted universe, and consequently from the portfolio of the sub-fund.

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

This sub-fund contributes to a specific sustainability challenge, namely providing access to and improving the efficiency of clean water facilities. To this end, the sub-fund invests in companies whose products and/or services offer a solution to that specific challenge. This includes the following business activities: companies operating in the field of water and wastewater facilities, water treatment technology, and environmental management consulting firms. Only companies that, measured by their turnover, focus at least 10% of their activities on this objective may be taken into consideration for the universe.

In addition, the sub-fund sets an objective at portfolio level: based on the individual sales figures, the weighted average of the portfolio that contributes to the above mentioned sustainable investment objective is calculated. This figure may never be less than 50%.

Data sources and processing

The following data sources are used during the negative screening:

The ESG Risk Scores for companies are based on data from data provider Morningstar Sustainalytics.

The model to identify companies that are strongly misaligned with one of the first 15 UN Sustainable Development Goals is internal. It uses input from MSCI and Morningstar Sustainalytics, as well as the Responsible Investing Advisory Board.

In order to obtain the sustainability characteristics of the sub-fund, internal models are used, whereby the research team of KBC Asset Management NV carries out an in-depth analysis to determine whether a company meets the intended sustainability characteristics of this sub-fund.

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

The sub-fund invests in admitted companies, i.e. companies that have passed the negative screening based on the exclusion policy. More information regarding the exclusion policy applicable to the sub-fund can be found at www.kbc.be/investment-legal-documents > Exclusion policies for responsible investment funds.

The assessment of the companies depends on a combination of data from the selected data providers. This admitted status is updated regularly. Changes are subject to quality controls and presented to the Financial Risk Committee of KBC Asset Management NV.

As described above, various controls may be performed to ensure the data quality linked to companies. As such within the model of KBC Asset Management NV several mathematical checks are performed in regard to outliers, large variations from one period to another, missing data points etc. Manual checks are also ran on the data set and comparisons to other data providers are made.

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 > Retrospective Proxy Voting - overview > Proxy Voting and Engagement Policy.

Attainment of the sustainable investment objective

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective by this sub-fund.

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