Exclusion Policy for Responsible Investing funds

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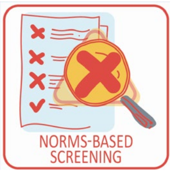

NORMS-BASED SCREENING

Companies involved in severe controversies related to environmental, social or governance issues are excluded, as well as all companies that are non-compliant with the Global Standards Screening according to Sustainalytics and all companies that are conduct-based excluded by the Norwegian Pension Fund. Companies that are strongly misaligned (score of -10) with one of the first 15 UN Sustainable Development Goals are excluded as well.

HUMAN RIGHTS

Companies seriously violating Human Rights are excluded.

WEAPONS

Controversial weapons

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

Conventional weapons

Any company active in military contracting or small arms is excluded. For sectors other than 'Aerospace and Defence' a threshold of 5% holds for Weapon-related and Non-Weapon-related products and/or services related to military contracting, as well as for retail and distribution of small arms.

TOBACCO

Any company that manufactures tobacco products is excluded, as well as all companies deriving 5 % or more of their revenues from the distribution or retail sales of tobacco products (including wholesale trading).

FOSSIL FUELS

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

GAMBLING

Any company is excluded that derives 5% or more of its revenue from gambling activities.

ADULT ENTERTAINMENT

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

FUR AND SPECIALTY LEATHER

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

PALM OIL POLICY

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

NON-SUSTAINABLE COUNTRIES AND CONTROVERSIAL REGIMES

It is not allowed to have any exposure to government bonds of countries not respecting the sustainable principles. Controversial regimes are excluded as well. Also excluded are countries subject to international sanctions.

SOFT COMMODITIES

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

HIGHEST ESG RISK COMPANIES

Companies with an ESG Risk Score> 40 are excluded.

WORST ESG RATING COUNTRIES

Countries ranking within the 10% worst of the ESG scoring model are excluded.

UNFAIR TAX PRACTICES

All companies domiciled in countries that encourage unfair tax practices (based on the EU list of non-cooperative jurisdictions) and that have an effective tax rate of less than 15% (based on the latest available figures or the average over the last three years) are excluded.

MANUAL EXCLUSION / DELIBERATION

Companies can be excluded or deliberated manually, on advice of the Responsible Investing Advisory Board.

Within Responsible Investing, KBC Asset Management Group ("KBC AM") invests systematically in companies or governments from Responsible Investing universes, compiled by a team of analysts. All issuers must have been screened on a pre-determined set of criteria, which are defined by the Responsible Investing research team of KBC AM on the advice of the Responsible Investing Advisory Board. The criteria can be grouped into two categories: a negative screening and a positive selection methodology. All companies and countries that are included must have been screened based on all criteria of the negative screening and comply with the positive selection methodology. In this document we describe the negative screening criteria. Please note that the positive selection methodology is described in a separate policy document.

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

1. Norms-Based Screening

Policy

Companies involved in severe controversies related to environmental, social or governance issues are excluded. The United Nations Global Compact has formulated ten guiding sustainability principles regarding human rights, labour, environment and anti-corruption which are part of our internal screening. In addition, we assess 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 (UNGPs). Companies that are strongly misaligned (score of -10) with one of the first 15 UN Sustainable Development Goals are excluded as well (based on the MSCI SDG Net Alignment Score).

Definition

A company is deemed to be involved in a severe controversy if by its actions it violates the basic sustainability principles related to environmental, social or governance issues. The Sustainable Development Goals (SDG) were set up in 2015 by the United Nations as a blueprint to achieve a better and more sustainable future for all people and the world by 2030. There are in total 17 SDGs, covering both social goals and environmental goals. The UN Global Compact is an international voluntary corporate citizenship initiative with ten guiding principles covering the areas of human rights, labour, environment and anti-corruption. These are based on universal consensus and are derived from: The Universal Declaration of Human Rights (UDHR), The International Labour Organization's Declaration on Fundamental Principles and Rights at Work, The Rio Declaration on Environment and Development and The United Nations Convention Against Corruption.

The ten Principles:

HUMAN RIGHTS

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

LABOUR STANDARDS

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

ENVIRONMENT

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

ANTI-CORRUPTION

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

Motivation

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

Methodology

All companies having any severe controversy (category 5 according to the controversy research of Sustainalytics or Red flag according to MSCI ESG controversies data) are excluded, as well as all companies that are non-compliant with the Global Standards Screening according to Sustainalytics and all companies that are conduct-based excluded by the Norwegian Pension Fund. Companies that are strongly misaligned (score of -10) with one of the first 15 UN Sustainable Development Goals are excluded as well (based on the MSCI SDG Net Alignment Score).

Companies with the second worse category on the ESG controversies screening (category 4 according to the controversy research of Sustainalytics or Orange flag according to MSCI controversies screening) or companies that are on the watchlist for the Global Standards Screening according to Sustainalytics will be excluded additionally when there is consensus on the following sustainability issues:

- Global Standard Screening from Sustainalytics: Watchlist
- Controversies Research from Sustainalytics: Controversy score 4

- ESG Controversy Research from MSCI: Category Orange
- MSCI SDG Net Alignment Research from MSCI: Misaligned with at least one of the first 15 UN SDGs

In case of missing data on one of the sustainability issues, the company will be excluded when there is a consensus amongst the available data points.

Principal adverse impacts (PAI)

All Responsible Investing funds do not invest in companies that seriously violate UNGC principles and OECD guidelines, thus limiting the adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'social and employee matters' theme in Table 1, Indicator 10: Violations of the United Nations Global Compact (UNGC) Principles or the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

2. Human Rights

Policy

Companies seriously violating Human Rights are excluded.

Definition

KBC Group commits to respect the letter and the spirit of the United Nations Universal Declaration of Human Rights; the principles concerning fundamental rights in the eight International Labour Organisation core conventions as set out in the Declaration on Fundamental Principles and Rights at Work; the UN Declaration on the Rights of Indigenous Peoples; the UK Modern Slavery Act and other international and regional human rights treaties containing internationally recognised standards by which the business sector must abide.

Motivation

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

Methodology

All companies on KBC Group's 'Human Rights List' are excluded. More information can be found in the KBC Group Policy on Human Rights.

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

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

3. Weapons

3.1. Controversial Weapons

Policy

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

Definition

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

Motivation

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

Methodology

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

Principal adverse impacts (PAI)

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

3.2. Conventional Weapons

Policy

Any company active in military contracting or small arms is excluded. For sectors other than 'Aerospace and Defence' a threshold of 5% holds for Weapon-related and Non-Weapon-related products and/or services related to military contracting, as well as for retail and distribution of small arms.

Definition

Military contracting includes military weapons, weapon systems, secondary components of weapons, weapon related services as well as non-weapon related tailor-made products

and services. Regarding small arms, the manufacture, distribution and retail of all weapons (assault and non-assault) or key components is concerned.

Motivation

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

Methodology

Companies of all sectors are screened on activities in military contracting or small arms. A tolerance level of 0% of total revenues applies for all companies involved in military contracting or small arms. For sectors other than 'Aerospace and Defence' a threshold of 5% holds for Weapon-related and Non-Weapon-related products and/or services related to military contracting, as well as for retail and distribution of small arms.

4. Tobacco

Policy

Any company that manufactures tobacco products is excluded, as well as all companies deriving 5% or more of their revenues from the distribution or retail sales of tobacco products (including wholesale trading).

Definition

Tobacco products comprise cigarettes, cigars, tobacco for pipes and snuff, and smokeless tobacco products. Also in scope are companies supplying tobacco-related products and services including products that facilitate the consumption of tobacco (such as pipes and rolling papers), specialized materials, specialised equipment necessary for the production of tobacco products and raw materials that are produced primarily for use in tobacco products.

Motivation

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

Methodology

Companies of all sectors are screened on revenues from the production or distribution/retail of tobacco products and tobacco-related products. A tolerance level of 0% of total revenue applies to all companies involved in the production of tobacco, including essential components, while a 10% threshold applies to non-essential tobacco-related products/services. A 5% threshold applies to the distribution and/or retail sale of tobacco products (including wholesale trading). Data sources are Sustainalytics, Bloomberg and the exclusion list for tobacco companies of Norges Bank.

5. Fossil Fuels

Policy

Fossil fuels are excluded. Hereto, all companies in the energy sector are excluded as well as mining companies that mine thermal coal. In addition, only utilities that strive to achieve reliable, safe and low-carbon energy efficiency electricity are eligible for Responsible Investing. An exception is foreseen for investments in green bonds of these companies, facilitating the energy transition.

Definition

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

Motivation

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

Methodology

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

In addition, companies from the metals and mining sector that mine and sell fossil fuels (coal, oil and gas) are excluded. An exception is allowed for coal used for the production of steel (metallurgic steel), because steel – except of recycling - can only be efficiently produced using coal.

Each utility company must meet all of the following conditions:

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

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

Data sources used are Sustainalytics and Bloomberg.

Principal adverse impacts (PAI)

All Responsible Investing funds do not invest in companies that are active in the fossil fuel sector, thus limiting the adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'greenhouse gas emissions' theme in Table 1, Indicator 4: exposure to companies active in the fossil fuel sector.

6. Gambling

Policy

Any company is excluded that derives 5% or more of its revenue from gambling activities.

Definition

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

Motivation

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

Methodology

Companies of all sectors are screened on involvement in the gambling industry based on data from Sustainalytics. A tolerance level of 5% holds for revenues from the ownership or operation of gambling establishments, from the manufacturing of specialised equipment used exclusively for gambling and from supporting products and services to gambling operations.

7. Adult entertainment

Policy

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

Definition

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

Motivation

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

Methodology

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

8. Fur and Specialty Leather

Policy

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

Definition

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

Motivation

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

Methodology

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

9. Palm Oil

Policy

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

Definition

All companies involved in palm oil plantations and/or palm oil refineries are in scope.

Motivation

Palm oil that is not produced in a sustainable way may lead to extensive deforestation and loss of biodiversity, in addition to humanitarian issues such as child labour and loss of small farmers' land rights.

Methodology

Only palm oil companies that are members of the 'Roundtable on Sustainable Palm Oil' and at the very most have a moderate controversy score based on data from Sustainalytics are admitted for Responsible Investing. The RSPO is a not-for-profit organization that unites stakeholders of the palm oil industry to develop and implement global standards for sustainable palm oil to minimize the negative impact on the environment and communities in

palm oil-producing regions. Members are committed to produce, source and/or use sustainable palm oil based on these standards.

10. Non-Sustainable Countries and Controversial Regimes

Policy

Within Responsible Investing, it is not allowed to have any exposure to government bonds of countries not respecting the sustainable principles. Controversial regimes are excluded as well. Also excluded are countries subject to international sanctions.

Definition

Countries not respecting the sustainable principles are defined as countries that meet one or more of the following nine exclusion criteria:

- Countries that have not ratified or have not implemented in equivalent national legislation:
    1. the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
    2. at least half of the 18 core International Human Rights Treaties
- Countries which are not party to:
    3. the Paris Agreement
    4. the UN Convention on Biological Diversity
    5. the Nuclear Non-Proliferation Treaty
    6. Countries with particularly high military budgets (>4% GDP)
    7. Countries considered 'Jurisdictions with strategic AML/CFT (AML=anti-money laundering, CFT=combatting the financing of terrorism and proliferation) deficiencies' by the FATF
    8. Countries with less than 40/100 on the Transparency International Corruption Perception Index
    9. Countries qualified as 'Not free' by the Freedom House 'Freedom in the World'-survey

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

Motivation

KBC AM does not want to financially support countries and regimes for which there are sustainability concerns (e.g. corruption, human rights, environment, respect for laws, lack of good governance, political freedom). For companies with strategic activities in countries with the most controversial regimes there is a risk that they financially support the authoritarian regime.

Methodology

Countries are excluded from the government bond investments if they meet one or more of the following nine criteria:

- Countries that have not ratified or have not implemented in equivalent national legislation:
    1. the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
    2. at least half of the 18 core International Human Rights Treaties
- Countries which are not party to:
    3. the Paris Agreement
    4. the UN Convention on Biological Diversity
    5. the Nuclear Non-Proliferation Treaty
    6. Countries with particularly high military budgets (>4% GDP)
    7. Countries considered 'Jurisdictions with strategic AML/CFT (AML=anti-money laundering, CFT=combatting the financing of terrorism and proliferation) deficiencies' by the FATF
    8. Countries with less than 40/100 on the Transparency International Corruption Perception Index
    9. Countries qualified as 'Not free' by the Freedom House 'Freedom in the World'-survey

Moreover, based on the input of well-recognised external sources, internal research ranks countries based on measures like civil liberties, political rights, political stability and corruption. Regimes in the bottom 50% of this ranking are also excluded for government bond investments.

Countries subject to international sanctions are excluded as well.

Principal adverse impacts (PAI)

All Responsible Investing funds do not invest in companies that seriously violate UNGC principles and OECD guidelines, thus limiting the adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'social (countries)' theme in Table 1, Indicator 16: Investee countries subject to social violations.

11. Soft Commodities

Policy

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

12. Highest ESG Risk companies

Policy

Companies with a severe ESG Risk Score, measured as an ESG Risk Score > 40 according to data from our data provider Sustainalytics, are excluded.

The ESG Risk Score is a measure of the unmanaged ESG Risk present in the company. 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 covers these risks. The lower a company's ESG risk score is on a scale of 0 to 100, the less sustainability risk is present in the company.

13. Worst-in-Universe ESG Score Countries

Policy

Countries ranking in the 10% worst of the ESG scoring model are excluded.

Countries are evaluated on general environmental, social and governance themes. To calculate the ESG score, each country is assessed against five groups of criteria, which are equally weighted:

1. overall economic performance and stability;
2. socio-economic development and health of the population;
3. equality, freedom and rights of the population;
4. environmental performance and ecological footprint;
5. security, peace and international relations.

The ESG score for countries assesses how well the government policy of countries performs in terms of ESG. The higher the ESG score for a country on a scale of 0 to 100, the more it is committed to sustainable development. Within the model, developed and emerging markets are combined in order to have a global scoring.

14. Manual Exclusion / Deliberation

Policy

On the advice of the Responsible Investing Advisory Board, there can be ad-hoc exclusions or deliberations for companies. All manual exclusions or deliberations will be presented to the Responsible Investing Advisory Board meeting and a re-evaluation of the excluded names takes place at the annual update of the universes.

15. Companies domiciled in countries with unfair tax practices

Policy

All companies domiciled in countries that encourage unfair tax practices (based on the EU list of non-cooperative jurisdictions) and that have an effective tax rate of less than 15% (based on the latest available figures or the average over the last three years) are excluded.

The EU list of non-cooperative jurisdictions for tax purposes is a tool that lists non-EU countries that encourage abusive tax practices, which erode member states' corporate tax revenues.

Methodology

To determine the domicile of the Companies, data from Sustainalytics and Bloomberg is used. If either source shows that the company is domiciled in a country that encourages unfair tax practices, it is excluded if:

- The effective tax rate (based on Bloomberg) is lower than 15% (based on the latest available figures or the average over the last three years), or
- No effective tax rate (based on Bloomberg) is available ("no data").

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KBC Asset Management.