

# Investment Policy for Responsible Investing funds

MAY 2025

## 1. Introduction

With Responsible Investing, KBC Asset Management Group ("KBC AM") aims to support the evolution towards a more sustainable world by not investing in activities with a severe negative impact on Environmental, Social and Governance ("ESG") themes, by promoting ESG principles with their investments, by encouraging countries and companies to consider sustainability and climate change in their decision-making process and by promoting sustainable development by investing in green, social and sustainability bonds and in issuers contributing to the UN Sustainable Development Goals.

As such, our Responsible Investing funds<sup>1</sup> apply a dualistic approach, based on a negative screening and a positive selection methodology.

- Negative screening: all our Responsible Investing funds use the same negative screening. In this policy document we only describe the positive selection methodology. More information about the negative screening can be found in our exclusion policies: [General exclusion policy for conventional and Responsible Investing funds](#) and [Exclusion Policy for Responsible Investing funds](#) (www.kbc.be > Legal-information > Investment-documentation > General exclusion policy for conventional and Responsible Investing funds and Exclusion Policy for Responsible Investing funds).
- Specific ESG objectives: in addition to conducting a negative screening, all our Responsible Investing funds must also achieve specific ESG objectives. The objectives depend on the type of fund.
- Contribution to sustainable development: in addition to the negative screening and achieving specific ESG objectives, our Responsible Investing funds also aim to contribute to sustainable development. The specific targets with regards to this contribution depend on the type of fund.
- Proxy Voting and Engagement: In addition to the negative screening and positive selection methodology, KBC AM will protect the interests of its investors and continue to promote

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<sup>1</sup> With Responsible Investing funds, we refer to 'all undertakings for collective investment (UCIs) and KBC Life funds as listed in the overview under section 4.3'. KBC Life funds are internal unit-linked life insurance (class 23) investment funds offered as part of KBC Insurance NV insurance contracts. The fund's assets are invested through UCIs and are managed by KBC Asset Management NV, with registered office at Havenlaan 2, 1080 Brussels, Belgium. KBC Insurance is part of the KBC group. KBC Insurance NV has its registered office at Professor Roger Van Overstraetenplein 2, 3000 Leuven.

responsible conduct through the proxy voting and engagement (extra information can be found on [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-documents) ([www.kbc.be](http://www.kbc.be) > Legal-information > Investment-documentation > Retrospect Proxy Voting - overview).

This investment policy applies to all funds that follow the investment policy for responsible investing funds.

## 2. Specific ESG objectives

Within Responsible Investing, KBC AM offers the following types of investment funds:

- Responsible funds: funds that invest in companies and countries that promote sustainability features and mitigate climate change.
- ECO-thematic funds: funds that invest in companies that provide a solution to a specific sustainability challenge such as water scarcity or climate change.
- Impact Investing funds: funds that invest in companies whose products and/or services have a positive impact on society and/or the environment.
- Advanced structured products.
- Responsible Investing Direct Real Estate funds.

### 2.1 Responsible funds

For the Responsible funds, specific ESG and climate targets are set on portfolio level through ESG scores and greenhouse gas ("GHG") intensity scores. Since both companies and countries are in scope of this approach, a total of four objectives can apply. The objectives as described below apply to all funds that invest directly in financial instruments. The funds for which different objectives apply are discussed in chapter 4 of this document, addressing the implementation of the methodology.

#### 2.1.1 Promotion of responsible behaviour

##### Companies

At least 90% of portfolio corporate investments as measured by assets under management in a Responsible fund, must have an ESG Risk Score. The ESG Risk Score is a measure of the Environmental, Social and Governance (ESG) risk present in a company. To determine the rating, relevant material ESG issues for that subsector are considered, together with the quality of the management team of the company and possible ESG controversies the company faced 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 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. The ESG Risk Scores for companies are based on data from data provider Morningstar Sustainability.

Next to the exclusion of companies with a severe ESG risk (measured as an ESG Risk Score > 40), a Responsible fund will promote best practices by having an overall ESG Risk Score which is better than its benchmark. For portfolios without a benchmark, this target will be set versus the calculated value corresponding to the target allocation. To calculate the ESG Risk Score at the portfolio level, we take the weighted average of the ESG Risk Scores of the positions in the fund. We do not take technical items such

as cash and derivatives into account in this calculation and also leave out companies without data. The weights used in the calculation depend on the size of the positions in the fund, rescaled for these items.

External circumstances such as market movements and updates of ESG Risk Rating data can lead to investment solutions failing to achieve this target after which the investment solution will be adapted to again meet the target in a timing taking into account the best interest of the client. The ESG objective will be evaluated annually and possibly adjusted. The concrete ESG objectives per fund as well as the reference or benchmark against which these objectives are measured can be found in the following [overview](#), in the columns 'ESG Target' and 'ESG Target Reference or Benchmark'.

### Countries

In a Responsible fund, KBC AM assigns an ESG score to at least 90% of the investments in countries in the portfolio, measured by assets under management. 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 the country is committed to sustainable development.

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 policy;
5. security, peace and international relations.

Each theme is sub-divided into three sub-indicators, which are in turn made up of one or more data points. By considering a broad range of sustainability factors, the aim is to avoid any tendency towards extremes. The selection of the sub-indicators is based, to the greatest extent possible, on composite indicators, which take into account a multiplicity of information from the broadest possible perspective. All data used come from international institutions such as the OECD and the United Nations or prominent organisations like the World Economic Forum. In addition to the quality of the underlying research, this approach offers consistent availability and ease of international comparison between countries.

For more information regarding the KBC AM in-house country screening model, see the following report <https://multimediafiles.kbcgroup.eu/uploadpdf/ERR20250221E.pdf>.

Next to the exclusion of the 10% worst scores, a Responsible fund will promote best practices by having an overall ESG Score which is at least 10% better than the global bond benchmark<sup>2</sup> for EMU sovereign bonds and at least 5% better than the global benchmark for Global sovereign bond funds. The overall ESG Score for emerging markets sovereign bond funds must be at least better than that of a composite EM

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<sup>2</sup> The global bond benchmark has following composition: 67% Developed Markets: J.P. Morgan GBIGlobal Unhedged EUR and 33% Emerging Markets: J.P. Morgan GBI-EM Global Diversified Composite Unhedged EUR

benchmark (1/3 J.P. Morgan EMBI Global Diversified (USD EM) and 2/3 J.P. Morgan GBI-EM Global Diversified (Local Currency EM)). For portfolios without a benchmark, the regional allocation will be based on the target allocation. To calculate the ESG Score at the portfolio level, we take the weighted average of the ESG scores of the positions in the fund. We do not take technical items such as cash and derivatives into account in this calculation and also leave out countries without data. The weights used in the calculation depend on the size of the positions in the fund, rescaled for these items.

External circumstances such as market movements and updates of ESG data can lead to investment solutions failing to achieve this target after which the investment solution will be adapted to again meet the target in a timing taking into account the best interest of the client. The ESG objectives will be evaluated annually and possibly adjusted. The concrete ESG objectives per fund as well as the reference or benchmark against which these objectives are measured can be found in the following [overview](#), in the columns 'ESG Target' and 'ESG Target Reference or Benchmark'.

TABLE 1: PORTFOLIO TARGETS ESG SCORE

Regional Focus	Portfolio target ESG score
EMU	At least 10% better than worldwide benchmark
Global / High Yield	At least 5% better than worldwide benchmark
Emerging Markets	At least better than EM benchmark

For the Supranational bonds, the Responsible Investing research team will assign an ESG Score as a weighted average of member states, whereby the weights are determined by voting power, paid-in capital or % of population.

## 2.1.2 Mitigating climate change

### Companies

Climate change is one of the biggest challenges in the 21st century. KBC AM aims to limit global warming through its Responsible funds by reducing greenhouse gas intensities through these investments. Green House gasses are measured in CO2 equivalent emissions by applying an appropriate conversion factor depending on the warming potentials in the atmosphere.

As fossil fuels are identified as one of the most prominent sources of human induced GHG emissions, a strict exclusion policy is applied to these. 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-GHG energy efficiency electricity are eligible for the Responsible funds. An exception is made for investments in green bonds issued by these companies which promote the energy transition, provided the exclusions of the Paris-Aligned Benchmark are met. Climate change is however not limited to fossil fuel companies but involves the whole economy. Therefore a GHG intensity score, measuring greenhouse gas emissions per million of revenues, is assigned to at least 90% of portfolio corporate investments as measured by assets under management.

A company's GHG intensity reflects how many tons of CO2 equivalent a company emits per million in US dollar sales (tCO2e/\$M sales). The amount of tons of GHG emitted by a company is the sum of

- the direct GHG emissions as a result of the company's own activities (scope 1); and
- the indirect GHG emissions as a result of the generation of purchased electricity (scope 2)

The indirect GHG emissions as a result of activities of e.g. suppliers and customers (scope 3) are not included in the sum as these scope 3 data points are to a very large extent dependent on assumptions and not disclosed by corporates. The GHG intensity calculations are based on data provided by Trucost. Within the Responsible funds, the GHG intensity score based on scope 1 and 2 emissions is assigned to at least 90% of portfolio corporate investments as measured by assets under management.

The companies within the Responsible funds are assessed on two targets with regard to their GHG intensity score whereby the most stringent target of the two will determine the target applied.

1) A 50% reduction path by 2030 versus benchmark at end 2019

Responsible funds commit to a 50% reduction path by 2030 versus the benchmark at end 2019. An immediate reduction of 30% is taken into account in 2019, followed by a 3% decrease on an annual basis (see table 2). The weighted average of the portfolio will be constraint against this pathway. To calculate GHG intensity at the portfolio level, we take the weighted average of the GHG intensity of the positions in the fund. We do not take technical items such as cash and derivatives into account in this calculation and also leave out companies without data. The weights used in the calculation depend on the size of the positions in the fund, rescaled for these items without data. Countries for which no data are available are included in the negative screening and may be assigned an overall ESG Risk rating. For portfolios without a benchmark, this target will be set versus the calculated value corresponding to the target allocation.

TABLE 2: REDUCTION PATH GHG INTENSITY

Year	Target relative versus end 2019 benchmark or target allocation
2019	70.0
2020	67.9
2021	65.9
2022	63.9
2023	62.0
2024	60.1
2025	58.3
2026	56.6
2027	54.9
2028	53.2
2029	51.6
2030	50.0

2) A relative GHG intensity score that is 15% lower than the benchmark or reference portfolio

The GHG intensity score for the Responsible funds must be 15% lower compared to the benchmark or reference portfolio of the sub-fund. The weighted average of the portfolio will be constraint against the benchmark.

To calculate GHG intensity at the portfolio level, we take the weighted average of the GHG intensity of the positions in the fund. We do not take technical items such as cash and derivatives into account in this calculation and also leave out companies without data. The weights used in the calculation depend on the size of the positions in the fund, rescaled for these items without data. Those companies for which data is not available are included in the negative screening and given an overall ESG Risk Score. For portfolios without a benchmark, this target will be set versus the calculated value corresponding to the target allocation.

External circumstances such as market movements and updates of GHG intensity data can lead to failing to achieve the historical reduction target versus BM 2019 or the relative 15% reduction target versus benchmark after which the investment solution will be adapted to again meet the target in a timing taking into account the best interest of the client. The GHG intensity targets will be monitored and evaluated on a yearly basis. The GHG intensity targets can be revised upward or downward. For example, if companies do not show sufficient progress in reducing their GHG intensity and if this cannot be compensated by portfolio optimization, we may be forced to revise the target upwards. It is also possible that at some point the GHG intensity will reach a lower level much faster than expected. When companies make very good progress in terms of GHG intensity, we want to be able to follow that acceleration in the portfolio. In that case the target can be adjusted downwards. The concrete GHG intensity targets per fund as well as the reference or benchmark against which these targets are compared can be found in the following [overview](#), in the columns 'GHG Intensity Target' and 'GHG Intensity Target Reference or Benchmark'.

Via the collective engagement initiative Climate Action 100+ KBC AM stimulates systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition to help achieve the goals of the Paris Agreement.

#### Principal adverse impacts (PAI)

Funds with a GHG intensity reduction target (Responsible funds) that invest in companies, take due account of adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'greenhouse gas emissions' theme in Table 1, Indicator 3: greenhouse gas intensity of companies.

#### Countries

Similar to the corporate assets, KBC AM aims to limit global warming through its Responsible funds by reducing greenhouse gas intensities within its sovereign investments.

A GHG intensity score is assigned to at least 90% of portfolio sovereign investments as measured by assets under management, measuring GHG emissions (territorial + direct & indirect imported emissions) per million of GDP.

The GHG intensity of a country indicates how many tons of CO<sub>2</sub> equivalent a country emits per million of Gross Domestic Product in US dollars (tCO<sub>2</sub>e/\$M GDP). The amount of tons of GHG a country emits is the sum of:

- the GHG emissions resulting from the domestic production of goods and services for domestic consumption as well as exports; and
- the GHG emissions resulting from the import of goods and services, going back to the country of origin.

We take the broad approach of a government as a regulator of all economic activities in its territory. Territorial and import-related emissions are based on data from Trucost. The GDP figures in million USD are based on data from the International Monetary Fund (IMF).

Within the Responsible funds, the GHG intensity score is assigned to at least 90% of assets in the fund, excluding cash, derivatives and items without data. To calculate GHG intensity at the portfolio level, we take the weighted average of the GHG intensity of the positions in the fund. The weights used in the calculation depend on the size of the positions in the fund, rescaled for the items without data. Countries for which no data are available are included in the negative screening and may be assigned an overall ESG rating. For sovereign bonds, Responsible funds commit to an improvement versus the current global bond benchmark<sup>3</sup> GHG intensity score. This improvement is depending on the regional allocation, which is determined by the benchmark or target allocation. EMU sovereign bond investment solutions commit to an at least 25% improvement and global bond investment solutions commit to an at least 10% improvement. The GHG intensity score for emerging markets sovereign bond funds must be at least 15%

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<sup>3</sup> The global bond benchmark has following composition: 67% Developed Markets: J.P. Morgan GBI Global Unhedged EUR and 33% Emerging Markets: J.P. Morgan GBI-EM Global Diversified Composite Unhedged EUR

better than that of a composite EM benchmark (1/3 J.P. Morgan EMBI Global Diversified (USD EM) and 2/3 J.P. Morgan GBI-EM Global Diversified (Local Currency EM)). External circumstances such as market movements and updates of GHG intensity data can lead to failing to achieve this target after which the investment solution will be adapted to again meet the target in a timing taking into account the best interest of the client. The GHG intensity targets will be monitored and evaluated on a yearly basis. Targets can be revised upward or downward. The concrete GHG intensity targets per fund as well as the reference or benchmark against which these targets are compared can be found in the following [overview](#), in the columns 'GHG Intensity Target' and 'GHG Intensity Target Reference or Benchmark'.

**TABLE 3: PORTFOLIO TARGETS GHG INTENSITY**

Regional focus	Portfolio target GHG Intensity
EMU	At least 25% better than global benchmark
Global / High Yield	At least 10% better than global benchmark
Emerging Markets	At least 15% better than EM benchmark

In addition to the GHG intensity objectives on portfolio level, KBC AM will not invest in sovereigns from high income countries according to the World Bank which are not part of the Paris Agreement.

For the Supranational bonds, the Responsible Investing research team will assign a GHG Intensity score as a weighted average of member states, whereby the weights are determined by voting power, paid-in capital or % of population.

Principal adverse impacts (PAI)

Funds with a GHG intensity reduction target (Responsible funds) that invest in government bonds, take due account of adverse effects on sustainability factors (Principal Adverse Impact as defined by SFDR) under the 'environment (countries)' theme in Table 1, Indicator 15: greenhouse gas intensity of countries.

## 2.2 ECO-thematic funds

The purpose of ECO-thematic funds is to provide an answer to specific environmental and/or social problems. To be eligible for these funds, a company must make a sustainable contribution to solving such problems.

At KBC AM, we distinguish several ECO-thematic funds, including but not limited to:

- Funds related to one specific environmental theme including Water (water and wastewater facilities, water treatment technology, consultancies active in environmental management), Alternative energy (development of solar energy, wind energy and biofuels) and Climate change (companies active in water, alternative energy, energy savings, recycling and waste processing).
- Private equity contributing to environmental and/or social themes: illiquid shares and equivalent securities of funds whose technologies and/or services contribute to a better environment and climate and a more inclusive society. Themes could include, but are not limited to, resource efficiency technologies (AgriTech, FoodTech, ...), energy technologies (hydrogen, future mobility, ...) and technologies for an inclusive society (education, aging, ...).



- Funds that invest to the maximum extent in the shares of companies worldwide that are deemed to make a positive contribution by means of their products and/or services to the sustainable themes defined by the UN Sustainable Development Goals ('UN SDGs'). The themes that these funds invest in include basic needs (affordable housing, water, etc.), clean energy (renewable energy and support), climate action (green buildings, sustainable mobility, etc.), healthy ecosystems (biodiversity, circular economy, etc.), human development (quality education, safety, etc.) and responsible consumption and production (sustainable food, bio-based materials, etc.).

The composition of the universe begins with a screening for theme relevance. In the case of ECO-thematic funds where thematic relevance is measured by their turnover, companies must have at least 10% of their activities within the particular theme(s) selected. In addition, a theme relevance target of min. 50% is set at portfolio level. This is calculated as the weighted average of the individual turnover figures. For some specific funds for which theme relevance cannot be measured by turnover, deviating parameters will apply.

ECO-thematic funds invest only in sustainable investments, but excluding derivatives and investments for liquidity purposes. Due to their unique characteristics, there is no fund-level ESG or greenhouse gas intensity target for these funds.

## 2.3 Impact Investing funds

Impact Investing funds focus on companies whose products and/or services have a direct positive impact on society and/or the environment, thus contributing to sustainable development. This is development that meets the needs of the current generation without compromising the development of future generations. Products and services within the following themes are eligible: renewable energy, energy efficiency, safety & security, water scarcity, banking for all, welfare, affordable housing, sustainable materials, sustainable mobility, CO2 capture & storage, circular economy, healthy & responsible food, quality education and biodiversity.

Companies whose offered products and/or services have a positive impact on such a theme will be presented to the Responsible Investing Advisory Board. Companies that receive a positive assessment are submitted to KBC AM's Financial Risk Committee for approval. More information on the manual assessment and the advice of the Responsible Investing Advisory Board can be found in section 3.4.

The influence that a company exerts through its core business on the chosen theme will be measured on a regular basis (e.g. by the number of hydrogen plants installed to stimulate renewable energy, the number of houses for social housing projects to stimulate affordable housing and the use of polymers from waste streams to stimulate recycling). If it is assessed that insufficient progress is being made or the company is no longer relevant to the theme, that company will be removed from the allowed universe.

Impact Investing funds invest exclusively in sustainable investments, excluding derivatives and investments for liquidity purposes. Due to their unique characteristics, there is no fund-level ESG or greenhouse gas intensity target for these funds.

## 2.4 Advanced structured funds

Advanced structured funds invest in

- 1) an interest-bearing component (bonds, deposits, money market instruments and other debt instruments)
- 2) a derivative component (swaps)

Advanced structured funds promote only environmental and/or social characteristics and invest a minimum proportion of their assets in economic activities that contribute to sustainable development within the interest-bearing component. Investments in the derivative component (swaps) do not imply a sustainable investment objective, nor do they promote environmental and/or social characteristics.

The interest-bearing component includes investments in the following asset classes:

- 1) Bonds issued or guaranteed by a Member State of the European Economic Area or by financial institutions subject to prudential supervision and established in a Member State of the European Economic Area, to finance green and/or social projects ('sustainable investments')
- 2) Debt instruments and money market instruments issued or guaranteed by a Member State of the European Economic Area, whereby the issuers contribute to the UN Sustainable Development Goals ('sustainable investments')
- 3) Deposits, money market instruments and/or debt instruments placed with or issued by financial institutions subject to prudential supervision and established in a Member State of the European Economic Area, whereby the issuers contribute to the UN Sustainable Development Goals ('assets that promote environmental and/or social characteristics').

Throughout the life of the sub-fund, at least 10% of its total value (i.e. the sum of the value of all assets in the sub-fund, including the derivatives component) will be invested in asset class 1, namely bonds to finance green and/or social projects. Advanced structured funds therefore undertake to invest at least 10% of the total value of the sub-fund in 'sustainable investments' in accordance with Article 2(17) of the SFDR, through bonds to finance green and/or social projects and investments in governments, supranational debtors and/or agencies linked to governments that are considered 'sustainable' according to the methodology of contributing to the achievement of the UN Sustainable Development Goals. However, there is no fund-level ESG or greenhouse gas intensity target for these funds due to their unique characteristics.

Time deposits, other deposits and money market instruments and/or debt instruments placed with or issued by financial institutions are classified as 'assets promoting environmental and/or social characteristics' if the counterparties comply with the general exclusion policy for conventional and responsible investing funds and the exclusion policy for responsible investing funds, and are aligned with at least one of the first 15 UN Sustainable Development Goals. These counterparties are aligned with one of the first 15 UN Sustainable Development Goals if they have at least a +2 Net Alignment Score for one of the first 15 MSCI Sustainable Development Goals.

## 2.5 Responsible Investing Direct Real Estate funds

Responsible Investing Direct Real Estate funds invest into commercial real estate, including but not limited to a diversified mix of offices, logistic/industrial properties, retail parks, residential buildings and similar assets. The real estate asset will undergo an ESG due diligence determining contribution to ESG objectives and avoidance of negative ESG impact.

- During the acquisition process, within (technical) due diligence, an Environmental Site Assessment (ESA Phase I) will be performed and only assets with no serious environmental issues, as summarized in Environmental DD report, will be acquired into the fund.
- During the acquisition process, within due diligence, an assessment of flooding risk as well as environmental factors will be performed. Only assets with no serious flooding risk and assets that are not located in biodiversity sensitive areas can be acquired into the fund.
- An assessment of the factors mentioned in the Towards Sustainability Quality Standard will be performed and included in the document for the investment decision-making body.

The positive selection of real estate assets in the fund's portfolio will be based on Energy Performance Certificates (EPC) – as classified at the moment of purchase and within the then current classification framework.

- Target mix is to have minimum 50% of buildings (measured by asset value) with A+B labels, the rest with C label.
- The share of A+B can be temporarily <50% only on condition of existing CAPEX plan and its realization to reach at least 50 % within 3 years.
- Buildings with EPC D (e.g. a historical building) can temporarily account for maximum 10% of the fund's portfolio and only on condition of existing CAPEX plan and its realization to reach at least EPC 'C' within 3 years.
- Buildings E-G are not allowed.

## 2.6 Assets promoting environmental and social characteristics

Corporate and sovereign investments in issuers passing the negative screening and contributing to at least one specific positive selection Responsible Investing methodology versus reference portfolio are considered as assets promoting environmental and social characteristics. Corporate exposures in money market funds and short term bond funds which have an MSCI Net Alignment Score of +2 on any of the first 15 SDGs at MSCI as well as (term) deposits and reverse repos of which the counterparties have an MSCI Net Alignment Score of +2 on any of the first 15 SDGs at MSCI are also considered as assets promoting environmental and social characteristics. The assessment of the

alignment with the UN SDG scores is based on the MSCI4 Net Alignment Score, which is taking into account the alignment on the product & services level as well as the alignment on the operational level of the company. The SDG Net Alignment Score is an average of the SDG Product Alignment Score and the SDG Operational Alignment Score, except for a score of -10 corresponding to “Strongly Misaligned” which remains -10 in the net score. The Product Alignment Score assesses the net impact of a company’s products and services on achieving targets associated with each of the 17 SDGs. The Operational Alignment Score evaluates the extent to which companies’ operations may result in a positive or negative impact in addressing specific Sustainable Development Goals. The Net Alignment Score ranges between -10 and +10 on every SDG and can be divided into 5 categories: Strongly misaligned (-10), Misaligned ( $-10 < \text{score} \leq -2$ ), Neutral ( $-2 < \text{score} < 2$ ), Aligned ( $2 \leq \text{score} \leq 5$ ) and Strongly Aligned ( $5 < \text{score} \leq 10$ ).

The concrete target for assets promoting environmental and social characteristics per fund can be found in the following [overview](#), in the column ‘Min % E/S-aligned investments on fund level’.

### 3 Sustainable development

In addition to passing the negative screening and meeting some specific ESG objectives, the Responsible Investing funds will also contribute to sustainable development by investing in instruments that contribute to the UN Sustainable Development Goals and/or green, social and sustainability bonds. In addition, KBC AM may award the ‘sustainable development’ label to corporate and government instruments on the advice of the Responsible Investing Advisory Board.

In order to label an investment as ‘sustainable’, the investments need to comply with the definition of ‘sustainable investment’ as specified in article 2(17) of the Sustainable Finance Disclosure Regulation (SFDR). The SFDR defines a sustainable investment as an objectively measurable investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices. The negative screening common to Responsible Investing assures good governance principles whereas the positive screening is dependent on the methodology described below. Bonds issued by government-related institutions and companies to finance green and/or social projects and all corporate and government-related instruments that contribute to the UN’s sustainable development goals, as well as corporate and government issuers that have received the ‘sustainable development’ label from KBC AM on the advice of the Responsible Investing Advisory Board, are regarded by KBC AM as being sustainable investments.

The concrete target for sustainable assets per fund can be found in the following [overview](#), in the column ‘Min % sustainable investments SFDR on fund level’.

#### 3.1 Green, Social & Sustainability bonds

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<sup>4</sup> See MSCI disclaimer at the end of this document

Green, Social & Sustainability bonds are bonds for which the proceeds will be used to finance a predetermined ESG project. We distinguish between:

- Green bonds: for financing projects with a positive impact on the environment. For example, the purchase of solar panels.
- Social bonds: to finance projects with a positive impact on society. For example, social housing or the expansion of care capacity.
- Sustainability bonds: to finance projects with a positive impact on both the environment and society.

Both companies and governments can issue these types of bonds. To be recognised by KBC AM as a bond to finance green and/or social projects, bonds must comply with the International Capital Market Association's (ICMA) revenue utilisation principles, which are externally verified or which comply with the European Green Bond Standard to ensure that the bonds meet the SFDR definition of a sustainable investment. Through their positive impact, these bonds will contribute to the UN Sustainable Development Goals and carry the label "sustainable development".

In order to stimulate progress on sustainability themes, our Responsible funds commit to invest at least 15% of the corporate bond part and at least 15% of the sovereign part of the portfolio in Green, Social and Sustainability bonds. Some Responsible Investing funds might deviate from this 15% target and apply higher or lower targets. Responsible funds that commit to invest to a large extent in Green, Social and Sustainability bonds will apply a higher target while other Responsible funds might have a lower target due to a lack of offering of Green, Social and Sustainability bonds in the specific markets where the funds are operating. These markets will be closely monitored in order to include Green, Social and Sustainability bonds as soon as they become a viable option, taking into account the liquidity and risk profile. The concrete sustainability targets per fund can be found in the following [overview](#), in the column 'ESG Bonds target'. As mentioned earlier, companies involved in fossil fuels are excluded from Responsible Investing. However, to support companies in their transition to a more sustainable future, an exception is made for green bonds issued by companies that were excluded solely on the basis of the fossil fuel policy and KBC Group's thermal coal policy, provided the exclusions of the Paris-Aligned benchmark are met.

Instruments of issuers that are labelled "sustainable development" in this way we will count as "sustainable investment" as specified in article 2(17) SFDR<sup>5</sup>.

### 3.2 Companies supporting the UN Sustainable Development Goals

The Sustainable Development Goals ("SDGs") 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.

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<sup>5</sup> See column 'minimum % sustainable investments SFDR on fund level' in the summary table under section 4.3.



Source: [THE 17 GOALS | Sustainable Development \(un.org\)](https://www.un.org/sustainabledevelopment/)

Within the Responsible Investing funds we want to support companies that stimulate sustainable development by investing in corporate investments that are linked to companies that help to improve the world. Companies are considered to contribute to sustainable development when at least 20% of 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. The assessment of the alignment with the SDGs is based on data from MSCI, Morningstar Sustainalytics and Trucost, as well as internal research based on sustainable themes as described in paragraph 2.4 'ECO-Thematic funds' and 2.5 'Impact Investing funds'. Companies that have at least 20% of their revenues that are EU Taxonomy aligned according to data from Trucost will be considered as EU Taxonomy aligned issuers by KBC AM. EU Taxonomy aligned issuers are considered to contribute to sustainable development as well. The sustainable revenue exposure on portfolio level is calculated as the weighted average of the sustainable revenue exposures of the companies. Within the ECO-thematic funds, companies must be active within a given theme for at least 10%. In addition, a theme relevance target of min. 50% is set at portfolio level. Within Impact Investing, the contribution to the UN Sustainable Development Goals is assessed manually.

Instruments of issuers that are labelled "sustainable development" in this way we will count as "sustainable investment" as specified in article 2(17) SFDR<sup>6</sup>.

### 3.3 Countries contributing to sustainable development

Within the Responsible funds, we want to support countries that stimulate sustainable development by investing in sovereign related instruments that contribute to the UN Sustainable Development Goals in accordance with the internal screening methodology for countries and supranationals. The methodology is based on the country screening model that is used for the calculation of the ESG score of countries. The

<sup>6</sup> See column 'minimum % sustainable investments SFDR on fund level' in the summary table under section 4.3.

model assesses how well the government policy of countries performs in terms of ESG. The UN Sustainable Development Goals are integrated in this model. The higher the ESG score for a country on a scale of 0 to 100, the more it is committed to sustainable development.

In this model, developed and emerging markets countries are evaluated on general environmental, social and governance themes. To calculate the ESG score, each country is assessed against five equally weighted groups (pillars) of criteria (each scored on a scale of 0 to 100). The ESG score is the arithmetic mean of these five pillar scores:

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 policy;
5. Security, peace and international relations.

Each theme is sub-divided into three sub-indicators, which are in turn made up of one or more data points. By considering a broad range of sustainability factors, the aim is to avoid any tendency towards extremes. The selection of the sub-indicators is based, to the greatest extent possible, on composite indicators, which take into account a multiplicity of information from the broadest possible perspective. All data used come from international institutions such as the OECD and the United Nations or prominent organisations like the World Economic Forum. In addition to the quality of the underlying research, this approach offers consistent availability and ease of international comparison between countries.

For more information regarding the KBC AM in-house country screening model, see the following [report](#).

In order to be considered as contributing to sustainable development, a country should meet the following two conditions:

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

In order for a supranational organization to be considered as contributing to sustainable development, it must meet one of the following conditions:

- More than 50% of the shareholders are labelled as sustainable countries (weighted according to voting power/paid-in capital/% of population (in order of availability)) OR
- The supranational has a sustainable goal in its mission statement and less than 50% of the shareholders are countries with controversial regimes (weighted according to voting power/paid-in capital/% of population (in order of availability)).

Instruments of governments, supranational debtors and/or government-linked agencies that meet these requirements and thus contribute to sustainable development will be labelled as 'sustainable investments', according to Article 2(17) of the SFDR.<sup>7</sup>

### 3.4 Direct real estate assets contributing to sustainable development

Within Responsible Investing funds investing in direct real estate investments, we want to support real estate assets that are contributing to sustainable development.

Direct real estate assets are considered to contribute to sustainable development when they comply with the following requirements :

1) Comply to the EU Taxonomy substantial contribution criteria on climate mitigation:

a) For buildings built before 31 December 2020:

- Have at least an Energy Performance Certificate (EPC) class A, or are within the top 15 % of the national or regional building stock expressed as operational Primary Energy Demand (PED)
- Where the building is a large non-residential building (with an effective rated output for heating systems, systems for combined space heating and ventilation, air-conditioning systems or systems for combined air-conditioning and ventilation of over 290 kW) it is efficiently operated through energy performance monitoring and assessment.

b) For buildings built after 31 December 2020:

- Primary Energy Demand (PED), defining the energy performance of the building resulting from the construction, is at least 10 % lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures. The energy performance is certified using an as built Energy Performance Certificate (EPC).
- For buildings larger than 5000 m<sup>2</sup>, upon completion, the building resulting from the construction undergoes testing for air-tightness and thermal integrity, and any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients. As an alternative; where robust and traceable quality control processes are in place during the construction process this is acceptable as an alternative to thermal integrity testing.
- For buildings larger than 5000 m<sup>2</sup>, the life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle and is disclosed to investors and clients on demand.

2) obtain at least an 'Excellent' external certification rating with BREEAM (Building Research Establishment Environmental Assessment Method) or a 'Gold' external certification rating with LEED (Leadership in Energy and Environmental Design).

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<sup>7</sup> See column 'minimum % sustainable investments SFDR on fund level' in the summary table under section 4.3.



Both BREEAM and LEED provide a sustainability assessment framework for buildings and infrastructure, measuring sustainable value in a series of categories and validating this performance with certification. The criteria used cover a broad range of categories like for example energy, water, transport, Health & well-being, resources, resilience, land use & ecology, pollution, waste, materials, innovation & management processes.

A BREEAM certified rating ranges from Unclassified, Acceptable (In-Use scheme only), Pass, Good, Very Good, Excellent to Outstanding and it is reflected in a series of stars on the BREEAM certificate. More information with regard to the criteria applied and rating system can be found here: [www.breeam.com](http://www.breeam.com)

A LEED certified rating ranges from a basic LEED certification to silver-level certification, gold-level certification and platinum certification. More information with regard to the criteria applied and rating system can be found here: [www.usgbc.org/leed](http://www.usgbc.org/leed).

Direct real estate investments that are labelled "sustainable development" in this way will count as 'sustainable investments, according to Article 2(17) of the SFDR.

### 3.5 Advice from the Responsible Investing Advisory Board

The Responsible Investing Advisory Board can advise on the awarding of the 'sustainable development' label to instruments issued by companies and governments. The Responsible Investing Advisory Board is an advisory body. All manually assessed issuers will be submitted to KBC AM's Financial Risk Committee for approval following the issuing of a positive opinion. However, assigning the 'sustainable development' label to instruments issued by governments is exceptional. For example, the option to deviate 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 a situation where countries that over the course of

several years move back and forth across the 'boundary' between just sustainable or authorised or not sustainable or authorised, have to be continually included then excluded from the investment universe, the aim being to avoid transaction costs.

Issuers that do not meet the criteria set out in section 3.2 or 3.3 but whose net positive contribution is deemed sufficient may be awarded a 'sustainable development' label on an ad hoc basis. This includes issuers for which data on sustainable development objectives are not available but which KBC AM believes contribute to sustainable development. All companies that receive a positive opinion from the Responsible Investing Advisory Board for Impact Investing are also examples of this procedure.

The manual assessment of the sustainable nature of an investment by the Responsible Investing Advisory Board will take into account the principles of the definition of a sustainable investment as set out in SFDR.

Instruments from issuers that have been awarded the 'sustainable development' label by KBC AM on the advice of the Responsible Investing Advisory Board will be deemed to be 'sustainable investments' as specified in Article 2(17) of SFDR.<sup>8</sup>

## 4 Implementation in the different types of funds

### 4.1 Implementation in the Responsible funds

Each of the objectives for ESG, GHG intensity or sustainable development is defined at the portfolio level. The ESG (risk) scores and GHG intensity is calculated as the weighted average score of the underlying companies or countries in the fund, for which data is available.

The objectives, as summarized in the table below, apply to all Responsible funds that invest directly in financial instruments. Technical items such as cash and derivatives are not taken into account for the calculation of these targets. For fund-of-funds, all building blocks must meet these requirements. On the fund level of fund-of-funds, different ESG and GHG intensity targets, split for corporate and sovereign investments, will apply as well as the sustainable development target. When allocating ESG data to issuers, KBC AM makes maximum use of the ESG data available for the issuers themselves from our data providers. However, in some cases, only if no ESG data is available for the issuer itself, ESG data from a parent company can be allocated to an issuer. In addition, for (semi-)public companies, ESG data from the relevant country may also be assigned to that issuer. The ESG Risk Rating and GHG intensity data will also be assigned to term deposits based on data of their counterparties.

TABLE 4: SUMMARY PORTFOLIO TARGETS RESPONSIBLE FUNDS

	Companies	Countries
Promoting sustainable policies	ESG Risk Rating of portfolio better than benchmark or target allocation	ESG score of portfolio min. 10% better than global benchmark for EMU funds,

<sup>8</sup> See column 'minimum % sustainable investments SFDR on fund level' in the summary table under section 4.3.

		min. 5% better for global funds and at least better than EM benchmark for emerging markets
Limiting the impact of climate change	GHG intensity reduction of 50% by 2030 vs end 2019 reference and 15% better than reference, based on at least a 90% coverage	GHG intensity min. 25% better than global benchmark for EMU funds, min. 10% better for global funds and min. 15% better than EM benchmark for emerging markets, based on at least 90% coverage
Target for Green, Social & Sustainability bonds	min. 15% in Green, Social and Sustainability bonds within the corporate bond part	min. 15% in Green, Social and Sustainability bonds within the sovereign bond part.

## 4.2 Different targets for specific Responsible Investing funds

This document does not contain any investment advice, only a summary of certain fund characteristics such as ESG objectives. Detailed information on these funds, the terms and conditions, and the associated risks can be found in the prospectus, the key information document and periodic reports (for UCIs) or in the management rules and key information document (for unit-linked life insurance products). The fund's net asset value can be viewed at [www.kbc.be/fundfinder](http://www.kbc.be/fundfinder) and elsewhere.

Please review the key information document and prospectus (for UCIs) or the key information document and management rules (for unit-linked life insurance products) before deciding to invest in any of these funds. These documents are available free of charge in Dutch and English from your KBC or CBC branch or at [www.kbc.be/investment-legal-documents](http://www.kbc.be/investment-legal-documents), where you can also view a summary of your rights as an investor. This summary is available in Dutch, English, French and German.

Some funds will have a slightly different set of targets, due to the particular characteristics of these funds.

As such, money market funds and short term bond funds commit that the corporate investments as well as the counterparties of (term) deposits will be considered as assets promoting environmental and social characteristics by passing the negative screening and having an MSCI Net Alignment Score of +2. The ESG target and historic GHG intensity reduction path target don't apply for the corporate investments. However, the relative GHG intensity target (15% better than reference) is applicable. No target is set for bonds used to finance green and/or social projects, since these are not relevant due to the short investment horizon of the money market funds and short-term bond funds.

For sovereign bond funds and the sovereign part of mixed funds investing in one non-EMU issuer, the ESG and GHG intensity targets are better or equal than their sovereign reference portfolio. There is a different target for Green, Social & Sustainability bonds for these funds as there are currently no suitable Green, Social and Sustainability bonds available. The market evolution will be closely monitored in order to include Green, Social and Sustainability bonds as soon as they become a viable option, taking into account the liquidity and risk profile.

Sovereign bond funds don't have ESG targets on their corporate exposure arising via potential term deposits.

For government bond funds and the government-related part of balanced funds investing in emerging market countries, a different target applies for bonds used to finance green and/or social projects.

The IN.flanders Employment Fund Responsible Investing will not have an ESG, nor GHG intensity historic reduction path target on fund level, due to the unique characteristics of the fund. However, the relative GHG intensity target (15% better than the reference portfolio) is applicable. This fund promotes employment in Flanders.

To reflect the specific theme related characteristics of the sub-funds We Care Responsible Investing, We Digitize Responsible Investing and We Like Responsible Investing of KBC Equity Fund as well as KBC Select Immo We House Responsible Investing, a unique starting point will apply for the calculation of the GHG intensity reduction path, which will be lower than the benchmark. However, each of the funds also commit to a 50% reduction path by 2030, versus the starting point end 2019, with an immediate reduction of 30% taken into account in 2019. The weighted average of the portfolio will be constraint against this pathway. The relative GHG Intensity target versus the benchmark also applies to these sub-funds.

Responsible Investing funds that primarily invest in high yield bonds will apply a deviating target for Green, Social and Sustainability bonds (5% instead of 15%) for the corporate investments, as only few Green, Social and Sustainability bonds are available within the targeted bond universe. The market evolution will be closely monitored in order to apply the general target for green, social and sustainability bonds as soon as such target becomes a viable option, taking into account the liquidity and risk profile. For these funds, the GHG intensity score is assigned to at least 75% (compared to 90% for the other responsible investment funds) of the assets in the fund, excluding cash, derivatives and items for which no data is available.

Responsible Investing funds whose main investment strategy is to invest in Green, Social and Sustainability bonds that comply with the use of proceeds principles of the International Capital Market Association (ICMA), will have a sustainable development target of 100% on fund level (excluding derivatives and investments for liquidity purposes). For these funds, no ESG, nor GHG intensity target on fund level will apply.

#### 4.3 Overview of the ESG, GHG intensity & sustainable development targets per fund

The targets for all the different funds (UCI) at KBC Asset Management are listed in the following [overview table](#).

The targets for all the different funds (Branch 23) at KBC Insurance are listed in the following [overview table](#).

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