Degroof Petercam

A sustainable impulse for your investments

Private Banking
Sustainable investment

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Dear Client,

The energy transition and the myriad environmental and social challenges we face mean that an increasing number of investors are considering factors other than purely financial ones when making their decisions.

At Degroof Petercam, this approach fits into a long tradition of ***sustainable*** investment. Our mission as a wealth manager across generations has led us to advocate a long-term perspective for 150 years.

Every challenge can also create opportunities, and brings ***prosperity*** to those who embrace them. Combining prosperity with sustainability creates an impulse for your investments.

We integrate environmental, social, and governance criteria into our analysis, whether concerning the products we offer or the management we carry out on behalf of our clients. We are also trying to contribute to a better society by reserving part of our investments for companies whose activities impact the environment and social issues.

As you will read in this brochure, by amending the MiFID II Regulation, the European authorities are now giving you the opportunityto express your views on these crucial matters. Accordingly, you are invited **to express your sustainable investment preferences** in the context of the management of your portfolio or the investment advice you receive.

Expressing your preferences begins with understanding sustainability concepts and how we define and translate them into our investment policy. That is the purpose of this brochure.

And of course, as with other topics, you can rely on your private banker to guide you through this process.

Kris De Souter
Head of Private Banking
Member of the Executive Committee

Sustainable investment
in a changing environment

Sustainability and the multitude of environmental and social challenges concern us all. Not only in our daily lives as consumers, but also as investors.

That's why we have assumed responsibility at the bank level to take extra-financial factors gradually into account in our investments policies. This action ensures that we are not complicit in controversial conducts or sectors and can promote best practices and beneficial activities, ensuring positive input to society. In fact, we are inherently convinced that sustainable investment is the way forward to reduce risk, anticipate tomorrow's successes, and contribute to a better society.

Beyond this internal commitment, there is also an external willingness on the part of governments and the European Union, which in recent years have set ambitious targets, in particular to become climate-neutral by 2050.

An action plan has been drawn up with different regulations destined for the various stakeholders to achieve these goals and redirect capital flows towards investments that allow more sustainable growth.

A wave of new regulatory texts in this area has been progressively adopted in recent years:

- First, for the **companies**, through new reporting requirements[1] for extra-financial data such as their carbon footprint or their water use. (CSRD Regulation 1)
- Second, for **investment companies** like Degroof Petercam to clarify which underlying activities contribute to the achievement of Europe's environmental goals (Taxonomy Regulation [2]) and to what extent do they consider extra-financial factors in the investment products they offer to clients (SFDR [3]).
- Finally, for **individual investors**, by enabling them to express their sustainability preferences (Delegated acts amending MiFID II Regulation [4]).

This latest regulation, which concerns you directly, is now added to the MiFID questionnaire you know already. These are now supplemented by questions that allow **you to express your preferences in terms of sustainable investments.**

[1] CSRD (Corporate Sustainability Reporting Directive): a European directive that establishes new standards and obligations for extra-financial reporting for major European companies.

[2] Taxonomy: European regulation which lays down criteria for the selection of environmentally sustainable economic activities.

[3] SFDR (Sustainable Finance Disclosure Regulation): disclosure requirements for sustainability-related data and policies at organization, services and product levels to standardize sustainability performance.

[4] MiFID II (Markets in Financial Instruments Directive): a European directive that sets out the rules financial institutions are required to follow when offering or advising on investment products.

Through these initiatives, the European Union is building a common reporting framework and ensuring that companies disclose reliable and comparable extra-financial information to help investors evaluate extra-financial performance of companies and redirect investments towards activities that enable sustainable prosperity.

All these regulations are therefore interlinked and feed into with each other.

COMPANIES	ASSET MANAGERS	PRIVATE BANKERS	INVESTORS
Provide more information on sustainability	Provide information about how sustainability is addressed in financial products	Discuss sustainability preferences with their clients	Investing sustainably
Extra-financial reporting (CSRD +Taxonomy) ›	SFDR & Taxonomy ›	Sustainability preferences in MiFID II ›	More sustainable investments

Degroof Petercam: expertise based on a learning curve of two decades

At Degroof Petercam, creating sustainable prosperity is engrained in our purpose: it is rooted in our past, and forms the basis for our future action. For generations, since our founding in 1871, we have sought sustainable solutions.

This attitude is a conviction that is embedded in our DNA. Our proactive approach and extended learning curve have enabled us to develop operational expertise in this field over more than two decades.

Degroof Petercam: a long learning curve

2001
First balanced sustainable European strategy (return/risk)

2003
First sustainable European equity strategy

2008
Development of an internal SRI[1] analysis model for country assessment.

2009
Sustainable bond advisory committee

2011
Signature of the United Nations Principles for Responsible Investment (UN PRI[2]) by Degroof Petercam Asset Management (DPAM)

2012
Membership of the national Forum for Responsible Investment

2013
Development of a strategy that invests in emerging market bonds

Active voting policy (DPAM)

2014
Engagement programs

First global sustainable equity strategy

2017
Creation of ESG[3] information sheets
Carbon footprint score of the Funds

Launch of sustainable patrimonial fund in private banking.

2018
Expanding our sustainable thematic expertise

2021
Integration of SFDR regulation into our range of funds, mandates, etc.

150th anniversary as an asset manager across generations

Signature of the United Nations Principles for Responsible Investment (UN PRB)

2022
Integration of sustainability preferences in MiFID II

[1] SRI: Social Responsible Investment.
[2] PRI: Principles for Responsible Investment.
[3] ESG: criteria related to Environment, Social and Governance.

Rigorous and specific methodology

Our 3-step approach

Before investing in a financial instrument (a share, a bond, or an investment fund - in the case of a fund, the underlying assets of this fund are analyzed), Degroof Petercam focuses on three types of "extra-financial" questions, i.e., questions that stand out from the purely financial performance of the company.

1 Exclusion of controversial conducts and activities for companies and states

- Is the activity or conduct of the company controversial?
  If yes, then we will exclude further investments.

2 Analysis of how companies manage extra-financial risks

- How does the company manage extra-financial risks?

3 Analysis of the extra-financial impact of company activities

- What is the environmental and social impact of the company's activities?

1 Exclusion of controversial conducts and activities for companies and states

Exclusion of companies linked to controversial behaviors

We analyze four aspects of these controversial behaviors:

1. the general risk of poor management of extra-financial risks by the company
2. corporate governance
3. history of 'serious' scandals
4. the company's compliance with the 10 United Nations Global Compact Principles.

Exclusion of companies linked to controversial activities

The company will be excluded based on the percentage of the company's revenues from the following controversial sectors:

- Armaments
- Tobacco
- Gambling
- Pornography
- Coal
- Oil and gas

However, an **exception** is made for green bonds issued by energy companies that finance environmentally friendly projects, for companies whose carbon targets are aligned with the Paris Climate Agreement thresholds, as well as for companies that meet the requirements of the Belgian Towards Sustainability label (especially if transition investments are made).

Exclusions for states based on their adherence to democratic values.

A country that does not meet minimum democratic requirements and is therefore classified as 'not free' or 'authoritarian' will be excluded.

2

Analysis of how companies manage extra-financial risks

We analyze how the company minimizes the risk of extra-financial factors on its operations and production process.

Companies that apply best practices in managing these risks will emerge as best-in-class in their sector.

3 Analysis of the extra-financial impact of company activities

In our approach, we look for companies whose activities have a positive environmental or societal impact.

At Degroof Petercam, we consider an investment to have a positive impact:

- if the company's activities contribute to the Sustainable Development Goals (SDGs) of the United Nations
- if the company's activities contribute to the environmental objectives of the European Union, as defined in the European Taxonomy
- if the issue contract is deemed to comply with a credible framework that allows the company to make the transition to more sustainable practices (e.g., sustainable, green, social or transition bonds).

Contribution to the United Nations Sustainable Development Goals

The activities of a company are considered to have a positive impact when they contribute positively to the **17 United Nations Sustainable Development Goals (SDGs)**, which were adopted in 2015 and which address the concrete challenges of our time affecting people, nature, and peace.

The underlying activities of a company will be aligned with the Sustainable Development Goals if more income contributes positively to these 17 development goals. A company will be aligned if its activities contribute, for example, to sustainable infrastructure, responsible consumption and production, and the fight against climate change.

Contribution to the environmental objectives of the European Union

A company has a positive impact if its activities contribute to the environmental objectives as defined by the European Union in its Taxonomy. The six European environmental objectives are: **climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, the protection and restoration of biodiversity and ecosystems.**

Instrument aligned with the principles of sustainable bonds: green, social, or transition

Bonds aligned with the principles of sustainable, green, social, or transition bonds are considered as having a positive impact. For reference, a sustainable bond is distinguished from a conventional bond by how the funds are used and a detailed report on the sustainable, green, social, or transitory purpose of the projects financed.

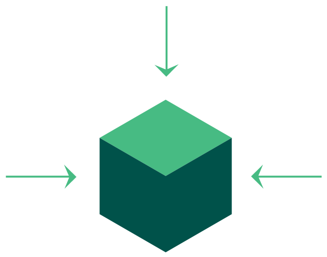
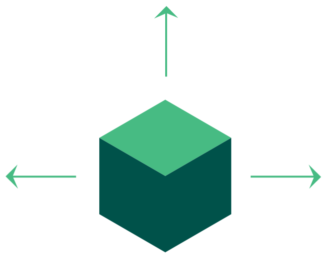
- **green bond**: issued to finance projects that contribute to the environmental transition (renewable energy, energy efficiency, sustainable waste and water management, clean transport, etc.)
- **social bond**: issued to finance social projects, e.g., social housing
- **transition bond:** as an alternative to the first two types of bonds, where funds can only be used to finance a newly specified social or environmental project, some companies use "Sustainability Linked Bonds" to finance the overall sustainability journey of the company, and on the condition that certain environmental or social indicators are achieved, subject to a penalty in the form of a higher interest rate.

Distinction between 'risk management' and 'impact' in extra-financial analysis

The main purpose of extra-financial risk management is to measure a company's resilience to the environmental, social and governance risks. In other words, it is not an assessment of the 'quality' of a company or a barometer for issues such as climate, water, or health, but the overall integration of relevant environmental, social and governance issues that may pose significant risks and/or opportunities for the company or its sector.

This approach differs from the analysis of the extra-financial impact of the activities of a company, where the aim is to identify those activities that make a positive contribution to these themes and that have a measurable social or environmental impact.

These different approaches are not mutually exclusive and can even provide a complementary analysis to support decisions and pursue specific objectives. That is why we use both.

Analysis of extra-financial risks to the company	Analysis of the extra-financial impact of company and its activities
	
Linked to its operations and production process	Linked to its products or services
Approach: risk	Approach: impact
Does the company minimize the negative environmental or social impact on the production process and operations?	Does the company maximize the positive impact of its products on the environment or society?
Extra-financial issues that concern shareholders	Extra-financial topics that concern all stakeholders

Data providers

To apply this sustainability approach, our internal analysis selects the most reliable data from several external sources, leaders in the field, such as extra-financial rating agencies, academic publications, NGO reports, etc.
This data, which is collected periodically and analyzed by our experts, is internally reprocessed because it is not always comparable.

The combination of different sources and data has advantages:

- complementary analysis to gain a better understanding of the risks and opportunities and to improve granularity
- use data from the strongest data provider in each field.

However, there are still some risks:

- biased coverage: size, geography, etc.
- self-reporting and subjectivity
- missing data: after all, companies will only be required to report on their sustainability aspects annually from 2023 onwards.

A sustainable impulse for your investments

Given the increasing importance of sustainability in our society and the investment world, you as an investor may also have certain sustainability preferences.

You can indicate your **sustainability preferences** using a series of questions additional to the MiFID questionnaire you already know. Your answers result in a neutral, moderate, or strong sustainability profile.

If you have specified your sustainability preferences, Degroof Petercam offers you two types of **investment strategies** that correspond to your preferences and are tailored to your risk profile.

A strategy that corresponds to a **moderate** level of sustainability preferences

This strategy has the following extra-financial features:

- a 'moderate' exclusion analysis of controversial activities and behavior
- an analysis of the extra-financial characteristics related to the activities of the underlying enterprise
- a 'moderate' analysis of environmental and/or social objectives related to the products and/or services of the underlying company.

A strategy that corresponds to a **strong** level of sustainability preferences

This strategy has the following extra-financial features:

- a 'strong' exclusion analysis of controversial activities and behavior
- an analysis of the extra-financial characteristics related to the operations of the underlying enterprise
- a 'strong' analysis of environmental and/or social objectives related to the products and/or services of the underlying company.

Conclusion

In summary, here are **4 points to remember:**

1 Sustainability is here to stay and will continue to impact investments.

Taking **sustainability** into account seems to us= inside out, just put forward the ideas, the reader knows it is US essential and necessary, and also even inevitable.

All levels of society are now aware that climate change poses risks and that the energy transition from fossil fuels to renewable energy represents a major challenge.

In this way, the **public authorities** formulate clear environmental and social objectives, such as the United Nations Sustainable Development Goals or the classifications of activities that are considered sustainable, as defined in the European Taxonomy.

This evolution also applies to **banks**, which must take their responsibility by not being complicit in controversial behaviors or sectors, and by promoting best practices and activities that benefit society as a whole.

At your level, as an **investor**, you could also be willing to put more emphasis in your portfolio on investments that make a positive contribution to environmental or social goals.

2 You have the opportunity to express your sustainability preferences.

It is therefore relevant that your **MiFID investor profile**, which classically evaluates your risk appetite or risk aversion, is supplemented by some questions on your **sustainability preferences**.

At Degroof Petercam Bank, we believe this is an opportunity to address these topics together, and to reflect on the one hand on the influence of sustainability aspects on your portfolio, and on the other hand, on the influence of your portfolio on sustainability aspects. These questions will enable you to express your views and choose wisely if you wish to contribute to the acceleration
of this ecological transition.

3 Slowly but surely on the path to a sustainable financial sector.

We are definitely in a transitional phase.
Apart from the reference to the United Nations, Europe also has its aspirations, namely to be **climate-neutral as a continent by 2050**.

We are well aware that there is still a long way to go, with some parts of the regulatory framework being established gradually. Moreover, not everything is clearly or objectively measurable. And this means that we sometimes have to be careful or pragmatic in our approach.

4 Degroof Petercam's expertise at your service.

Bank Degroof Petercam is an ideal partner to guide you in these choices.
Beyond 'external' regulatory or investors requests, we are above all inherently convinced that **sustainability** is the way forward, regardless of legal obligations or investor requests.
For the past few years, we have been developing our sustainability policy to limit risks, anticipate the tomorrow's successes and participate in a more sustainable society.
We have developed a **credible strategy** that takes into account both the impacts of the changing world on your portfolio and the impact of the companies we invest in on society and the outside world.

You have a role to play here if you wish. This questionnaire to capture your sustainability preferences is your opportunity to get involved, and we are at your side to guide you in these choices.

If you have any questions about sustainability, **please don't hesitate to get in touch with your private banker or your usual contact person.**

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