



# ESG Policy for Sustainable Investment Products

Belfius Investment Partners SA

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## 1. ABOUT BELFIUS INVESTMENT PARTNERS

Belfius Investment Partners SA is a management company recognized by the FSMA for UCIs (Undertakings for Collective Investments) and mutual investment funds, including alternative funds, is a subsidiary of Belfius Bank, and is therefore strongly anchored in the Belgian financial sector. Our activities mainly consist of the management, administration and distribution of investment solutions through a diversified range of investment funds.

Our objective is to add value to our end investors, both from a financial and from a wider societal perspective, by managing our portfolios proactively and by working together with a number of renowned asset management partners. We strive to create long-term and sustainable value and to be meaningful and inspiring for Belgian society in a credible manner. Belfius Investment Partners has a long history in managing sustainable investment products, allowing our clients to invest in the transition to a more sustainable economy.

Belfius Investment Partners currently has two distinct models of investing:

1. Via Belfius Investment Partners funds of funds: These are financial products for which our internal fund selection and portfolio management teams analyse and select Exchange Traded Funds (ETFs) and mutual funds of third-party asset managers. These mutual funds are collective investment vehicles that we select based on various aspects, such as investment strategy, financial performance, costs, and Responsible Investment approach and capabilities.
2. Via delegated funds: These are financial products for which we have appointed an external manager to manage the assets. These are currently Candriam, BlackRock Investment Management, and JP Morgan Asset Management.

## 2. BELFIUS INVESTMENT PARTNERS RESPONSIBLE INVESTMENT FRAMEWORK

We are convinced that the systematic data-driven incorporation of sustainability or Environmental, Social and Governance (ESG) factors allows investors to better understand both the risks and opportunities in financial markets and therefore generate better risk-adjusted returns. In addition, we fully recognize the role we have as an investor and our ability to use the capital we invest on behalf of our clients to not only generate financial returns, but to also create beneficial change. We have therefore developed a responsible investment approach that is aimed at allowing us to achieve strong investment returns, while also mitigating the adverse impacts of our investment decision-making and delivering societal returns, in line with the expectations of our clients and other stakeholders.

Please refer for more information to our Responsible Investment Policy, which can be found on our Sustainability page: [www.belfiusip.be/fr/esg/index.aspx](http://www.belfiusip.be/fr/esg/index.aspx) or [www.belfiusip.be/nl/esg/index.aspx](http://www.belfiusip.be/nl/esg/index.aspx).

### 3. ABOUT THIS POLICY

The Belfius Investment Partners ESG policy for Sustainable Investment Products (*hereafter*: this Policy) describes our approach to sustainable investment products. This Policy is a sub-policy of the Belfius Investment Partners Responsible Investment Policy. The scope of this Policy includes all Belfius Investment Partners financial products with a sustainability label and financial products with a sustainable investment objective. This includes both the Belfius Investment Partners funds of funds and the delegated funds.

### 4. MANAGER AND FUND SELECTION

#### ***Belfius Investment Partners funds of funds***

In order to select funds (and external managers) in our fund of funds offering, Belfius Investment Partners classifies all investment funds based on quantitative and qualitative parameters, including the funds' responsible investment policy. The classification methodology is described in a separate document, internally called "the fund selection policy". Below is a summary description of the applicable methodology.

In order to classify the investment funds, the funds are screened on risk adjusted return parameters in the quantitative analysis, as well as on sustainable investment related parameters, which includes various parameters that are defined in the Sustainable Finance Disclosure Regulation (SFDR). This first step in the analysis generates a shortlist of funds as output, which serves as input for the second step of the fund selection process: the qualitative analysis. In this phase of the due diligence process we look at specific qualitative criteria for both the fund and the fund's manager.

For products that qualify as sustainable investment products, the fund selection team at Belfius Investment Partners assesses various qualitative sustainable investment criteria in the due diligence process of investment funds of third-party managers, such as the investment strategy, policies, and implementation approach. The following criteria are screened on:

- Being a signatory of the Principles for Responsible Investment (PRI);
- Adopting a convincing responsible investment policy that is in line with this Policy;
- Reporting in a clear, transparent and consistent manner related to their responsible investment policy, the selection and exclusion of companies, and the results of their active ownership;
- Providing insight into the underlying investments on a monthly basis.
- Conducting structural, documented engagement on relevant sustainability aspects with investee companies, regardless of the fact they are stockholders or bondholders;
- Being active shareholders who exercise their voting rights;
- Being open to dialogue with Belfius Investment Partners about their responsible investment policy and respond constructively to the requirements stipulated by Belfius Investment Partners.



For Belfius Investment Partners' investment products with a Towards Sustainability label, only funds will be selected that themselves have the Belgian label, or alternatively, the respective fund managers have signed a commitment to respect the rules described in the Belgian Febelfin Quality Standard, the so-called "Towards Sustainability" label.

Belfius Investment Partners monitors these criteria on a regular basis and engages directly with the asset manager in case of potential violations. When the asset manager is consistently not able or willing to meet our criteria in the management of the fund, we will divest from the underlying investment fund.

As the sustainable investment policies followed by the asset managers may differ from one asset manager to another, there can be differences in the way sustainable investment is implemented. However, in all cases the requirements mentioned in this Policy need to be adhered to.

### ***Belfius Investment Partners delegated funds***

The selection approach and requirements for the Belfius Investment Partners delegated funds are similar as for the funds of funds, with the key difference that for delegated funds Belfius Investment Partners can agree bilaterally with the asset managers on how the fund is managed.

## **5. EXCLUSION CRITERIA**

Financial products included in the scope of this Policy shall not invest in companies that are continuing or not phasing out practices that are widely regarded as unsustainable. In order to achieve this, we have identified a range of exclusion criteria that have to be implemented at the holdings level. The exclusions cover listed equities as well as other securities such as bonds, and certificates. In the following sections of this chapter the exclusion areas and their relevant exclusion thresholds are described in detail.

### **United Nations Global Compact principles**

Belfius Investment Partners has defined criteria for the exclusion of companies that are operating in violation of any of the ten UN Global Compact principles (Human Rights, Labour Rights, Environment, Anti-corruption)<sup>1</sup>.

Financial products that fall within the scope of this Policy shall not invest in companies that pose an unacceptable risk to contribute to or be responsible for:

- a) serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour;
- b) serious violations of the rights of individuals in situations of war or conflict;
- c) severe environmental damage;
- d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions;
- e) gross corruption;
- f) other particularly serious violations of fundamental ethical norms;

The severity of the violation and the structural character of the involvement should be taken into account by the asset manager when deciding upon suitable actions, whereby Belfius Investment Partners expects asset managers to exclude companies that structurally and severely violate any of the criteria listed above.

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<sup>1</sup> The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, 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.

See <https://www.unglobalcompact.org/what-is-gc/mission/principles>

## Weapons

Weapons can be used for attack or defense, in other words to threaten and protect. But a weapon or a weapon system is an instrument designed to injure or kill an opponent. This raises ethical questions. While armaments may be necessary for the maintenance of peace, its ultimate goal is to threaten or destroy human life.

When used for military purposes, weapons are typically divided into three main categories:

1. Controversial weapons;
2. Non-conventional weapons; and
3. Conventional weapons.

### *Controversial weapons*

Belfius Investment Partners does not invest in companies involved in the development, production, maintenance, or trade of controversial weapons, which we define as weapons that have a disproportionate and indiscriminate impact on civilians. A company is deemed to be involved in the following cases:

- A company is directly involved in the development, production, maintenance or trade in controversial weapon systems or provides essential and specifically adapted components or services for such weapons; and
- A company owns (>20%) or is owned by (>20%) a company that is directly involved in controversial weapons as described above.

In line with the Belgian “Loi Mahoux”, Belfius Investment Partners has implemented a list of companies (identified with the support of a specialized research firm) with involvement in controversial weapons that are excluded for all funds that fall within the scope of this Policy. This list covers companies involved in the following weapon types:

- Anti-personnel mines
- Cluster munitions
- Depleted uranium

In addition, we screen on company involvement in Biological<sup>2</sup> and Chemical<sup>3</sup> weapons.

### *Non-conventional weapons*

This category relates to nuclear weapons. Financial products that fall within the scope of this Policy do not invest in companies that manufacture or sell nuclear weapons or tailor-made components of nuclear weapons to countries that have not signed the non-proliferation treaty.

### *Conventional weapons*

This category relates to weapons such as small arms, bombs, missiles, and rockets. The identified producers contribute to the realization of the weapon system and / or its platforms. Financial products that fall within the scope of this Policy do not invest in companies that generate 10% or more of their revenues from the production of weapons or tailor-made components<sup>4</sup> thereof.

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<sup>2</sup> Based on the definitions of the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction.

<sup>3</sup> Based on the definitions of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.

<sup>4</sup> Weapons are defined as products or basic components of products that have been ‘designed to injure/kill’ and are used exclusively for military purposes. Tailor-made components are components that are developed primarily in order to be integrated into a weapon system.

### **Tobacco**

It is scientifically proven that all forms of tobacco cause health problems at all stages of life, often leading to death or disability. Smokers have a significantly increased risk of cancer and a greater risk of heart disease, stroke and emphysema, in addition to other fatal or non-fatal consequences.

Financial products that fall within the scope of this Policy do not invest in:

- Companies that derive 10% or more of their revenues from the production of tobacco or products that contain tobacco
- Companies that derive 10% or more of their revenues from tobacco related sales

### **Gambling**

Gambling has a highly addictive nature and can cause severe social, financial, and psychological harm to those engaged in this activity.

Financial products that fall within the scope of this Policy do not invest in companies that derive 10% or more of their revenues from ownership or operation of gambling-related business activities.

### **Coal and unconventional Oil & Gas extraction**

Coal is a combustible black or brownish-black sedimentary rock, formed as rock strata called coal seams. As a fossil fuel burned for heat, coal used to supply an important part of the world's primary energy and of its electricity. The extraction and use of coal causes many premature deaths and much illness. The coal industry damages the environment, and significantly contributes to climate change as it is the largest anthropogenic source of carbon dioxide.

Unconventional oil and gas refers to the oil and gas resources which cannot be explored, developed and produced by conventional processes. Examples are arctic oil and gas extraction, shale energy, and oil sands.

Coal and unconventional oil and gas extraction pose significant environmental, climate and societal risks and should not be part of financial products that fall within the scope of this Policy.

Financial products that fall within the scope of this Policy do not invest in:

- Companies that derive 10% or more of their revenues from thermal coal extraction or unconventional oil & gas extraction.
- Companies with expansion plans for coal extraction or unconventional oil & gas extraction

### **Conventional Oil & Gas extraction**

Conventional oil and gas, or the generic term of conventional energy resources, applies to oil and gas which can be extracted, after the drilling operations, just by the natural pressure of the wells and pumping or compression operations. After the depletion of maturing fields, the natural pressure of the wells may be too low to produce significant quantities of oil and gas.

Conventional oil and gas products have an important role in our current economy and are expected to continue to fill that role in the coming years. This sector is key in the transition to a low-carbon economy. Natural gas, which can be considered as a transitional energy resource, can in that sense have a place in a sustainable portfolio. However, it should be approached cautiously and selectively to value positive evolution and to limit negative impacts.

Financial products that fall within the scope of this Policy shall not finance oil & gas extraction companies that derive less than 40% of their revenues from activities related to natural gas extraction or renewable energy sources.

Investee companies should have policies in place or have clear public statements confirming the aim of accelerating the transition to a low carbon business model and of supporting R&D in sustainable energy technologies.

### Nuclear Energy

The electricity generation & heat sector is the largest source of human-made CO<sub>2</sub> emissions. It is also the sector that can most readily be decarbonized. The scale of the challenge requires growth of all available clean energy technologies.

As such, the production of energy through nuclear reactors can be seen as part of the solution, but raises many questions linked to for instance:

- The risks associated with the operation of nuclear power plants, or
- The storage – often very long term – of the radioactive waste that is generated and for which there is for the time being no real clean solution.
- The dismantling of nuclear power stations and the proliferation of nuclear fuels.

Belfius Investment Partners understands the exit process of this industry may be long. Belfius Investment Partners will assess over time the commitment and the transition progress of companies using nuclear energy.

### Electricity generation

Electricity is key in the development of a zero-carbon economy and requires a specific focus to monitor how electricity is produced. Electricity utility companies that are on a transition path in line with the Paris agreement goals are eligible to be invested in by financial products that fall within the scope of this Policy.

On top of the ESG analysis that will be performed, a monitoring and evaluation of companies involved in coal-, oil-, gas- or nuclear-based power production will be done. The evaluation will use forward-looking metrics like the level and the management of carbon related risk, and the transition plans towards low carbon and renewable energy.

Financial products that fall within the scope of this Policy do not invest in electricity utilities with a carbon intensity that is not aligned with a below 2 degrees scenario<sup>5</sup>.

This can be translated in the following max thresholds:

	2019	2020	2021	2022	2023	2024	2025
Max. gCO <sub>2</sub> /kWh	429	408	393	374	354	335	315

In the case that carbon intensity data is not available, financial products that fall within the scope of this Policy shall not invest in:

- Electricity utilities of which more than 10% of the power production is based on coal;
- Electricity utilities of which more than 30% of the power production is based on oil & gas;
- Electricity utilities of which more than 30% of the power production is based on nuclear sources.

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<sup>5</sup> Scenario provided by the International Energy Agency (2017)



Furthermore, financial products that fall within the scope of this Policy do not invest in:

- Electricity utilities with expansion plans that would increase their negative environmental impact or that go contrary to below 2 degrees scenario alignment.
- Electricity utilities constructing additional coal- or nuclear-based power production installations.

### **Oppressive regimes**

Financial products that fall within the scope of this Policy do not invest in debt instruments of countries with oppressive regimes. The exact implementation may differ between asset managers, but should follow internationally recognized frameworks and standards, and at least include criteria related to international sanctions.

## **6. MONITORING**

We monitor the investments and the actions taken by the asset manager on an ongoing basis, both quantitatively and qualitatively. Multiple data providers are used in our monitoring, such as Morningstar, and ISS Ethix, and we conduct regular reviews with the asset managers to discuss their past decision-making and plans.

We engage directly with the asset manager in case of any potential violations or concerns about the implementation of the sustainable investment approach. In case the requirements described in chapter 4 and 5 have not been met, we expect the asset manager to resolve the issue within a reasonable amount of time. If after such a dialogue the asset manager does not take the necessary steps to bring the portfolio back in line with this Policy in a timely manner, the investment in the fund will be sold off over a period that protects the best interests of our clients.

In case we introduce new requirements or make existing requirements stricter, we provide asset managers with a period of up to 12 months to meet the requirements before we would decide to re-allocate the assets invested in the respective fund.