Committed
Since 2002
Responsible Investment Expertise
should be aware of long-term ESG (Environmental, Social, Governance) challenges. As our world is changing at a rapid pace, it is key to studying secular ESG trends such as climate change, demographic growth, air pollution and sound governance models. Responsible Investment aims to integrate these challenges into investment processes and analytical models.

At Degroof Petercam Asset Management (DPAM), we believe that Responsible Investment should be able to present investors with companies and states respecting current and future ESG challenges. In that way, companies can create sustainable added value in both senses of the word, and states are able to ensure that the wellbeing of future generations is not compromised by neglecting current challenges.

As an asset manager, DPAM does not pretend to have full wisdom about ESG challenges. After all, asset management remains our core business. But we do know we should take into account these challenges in our Responsible Investment strategies, in the fixed income, equity and multi-assets space.

That is why DPAM has a rich learning experience in Responsible Investment, which dates back to 2002, when our first sustainable strategy was launched. Ever since, client demand for Responsible Investment has grown significantly. We have established an in-house Responsible Investment Steering Group (RISG) spearheading all ESG and Responsible Investment initiatives in the company, an external board for fixed income investments, as well as long-standing relationships with external ESG research providers. Becoming a signatory to the Principles for Responsible Investment backed by the UN in 2011 has also greatly helped our understanding of ESG principles, and provides the necessary input to our models.

These various sources of input provide a checks and balances to our process, of which the independent extra-financial data providers Sustainalytics and MSCI ESG research are among the most important. Additional external sources of great repute such as the World Bank, IMF, Freedom House, The Economist and dedicated NGO’s broaden our views and allow for a controlling of our data.

In the following pages, you will see how we put these principles and convictions into practice in our main sustainable funds. Their common objective is to generate double alpha, on the financial as well as on the extra-financial level, and to improve the risk/return proposition by limiting tail risks which have not been captured by purely financial analysis alone.
## Our Sustainable Expertise

<table>
<thead>
<tr>
<th>Major ESG criteria</th>
<th>OECD Gov. Bond</th>
<th>IG Corp. Bond</th>
<th>EM Gov. Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Compact compliant</td>
<td>![Green Icon]</td>
<td>![Red Icon]</td>
<td>![Green Icon]</td>
</tr>
<tr>
<td>Tobacco, Armament, Pornography and adult entertainment excluded</td>
<td>![Red Icon]</td>
<td>![Red Icon]</td>
<td>![Red Icon]</td>
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<tr>
<td>Most controversial companies excluded</td>
<td>![Red Icon]</td>
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</tr>
<tr>
<td>Worst in class approach</td>
<td>10%</td>
<td></td>
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<tr>
<td>Qualitative assessment</td>
<td>![Green Icon]</td>
<td>![Green Icon]</td>
<td>![Green Icon]</td>
</tr>
<tr>
<td>Best in class approach</td>
<td>50%</td>
<td></td>
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</tbody>
</table>

### Norms-screening

<table>
<thead>
<tr>
<th>Balanced Strategy</th>
<th>Index Equity</th>
<th>Europe Equity</th>
<th>World Equity</th>
<th>Agricultural Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>![Green Icon]</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>![Green Icon]</td>
</tr>
<tr>
<td>![Red Icon]</td>
<td>Min. 40% in top quartile Max. 10% in bottom quartile</td>
<td>![Green Icon]</td>
<td>![Green Icon]</td>
<td>![Green Icon]</td>
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</tbody>
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<table>
<thead>
<tr>
<th>5 key pillars</th>
<th>Norms-screening</th>
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Government bond portfolios largely follow an in-house model which has been developed and enhanced over the past decade. We do believe that states must be capable of ensuring the wealth and wellbeing of their citizens, without compromising the ability of future generations to live fulfilling lives in a sound democracy, with strong institutions, no corruption and clean resources. These criteria are assessed using various sources and inputs which we elaborate below. The FISAB (Fixed Income Sustainability Advisory Board) gathers 4 internal and 4 external experts which are a checks and balances of the sustainability process. This is an added value to our analysis and management approach.

**Norms-based screening**
Adherence to international treaties: merely signing a treaty is not satisfactory to us, we look at whether states really put these treaties into practice.

**Best-in-class approach**
The five pillars are used to assess not only the OECD countries, but also the Emerging/Frontier markets. This results in the construction of a sustainable government bond portfolio.

The **five pillars** which are used to rank OECD as well as emerging economies and to construct sustainable bond portfolios:

1. **Transparency & democratic values**
2. **Population, health & wealth distribution**
3. **Environment**
4. **Education**
5. **Economics**

A high conviction responsible investment portfolio of OECD government bonds with a proprietary ESG country screening. The fund provides a compelling alternative to the traditional fixed income universe, being a core building block for any balanced portfolio, as a diversifier of equity risk. The fund boasts a solid track-record of nearly ten years.

**Sustainability analysis**
Twice a year, the 35 OECD countries are evaluated on 61 measurable and comparable criteria on the basis of independent reports from the World Bank, United Nations Development Program and NGO Transparency International, etc. on the five dimensions of sustainability.

**Fundamental and valuation analysis**
The portfolio managers analyse countries’ macroeconomic and geopolitical outlooks, monetary policy, credit quality and liquidity in order to assess risk and identify bonds that are undervalued and have upside potential.

**Investment process**

- **Best-in-class approach**
  Countries that score in the top 50% can be invested in, if a country is relegated to the bottom 50%, a strict selling discipline is applied.

- **Trend criteria**
  The five pillars are weighted as follows: 26%, 19%, 19%, 19%, 19%.

**DPAM L Bonds**

**Government Sustainable**

- **Best-in-class and best effort approach in OECD government bonds**

**OECD sustainability model**

- **Transparency & democratic values**
- **Population, health & wealth distribution**
- **Environment**
- **Education**
- **Economics**
EM sustainability model

DPAM L Bonds Emerging Markets Sustainable

The strategy offers potentially higher yields than conventional fixed-income products in a low rate environment. It is a diversification to traditional government bond portfolios. The country screening in Emerging and Frontier Markets allows investing with greater sustainability and provides attractive yields. The investment universe includes emerging market government bonds and supranational with a focus on local currency debt. The fund has shown a solid track-record since inception.

Best-in-class and best effort approach in EM government bonds

Investment process

Sustainability screening
An independent board of four external sustainability experts and DPAM investment professionals meets twice a year to assess emerging market countries in several fields.

- The first step is to exclude countries which are considered ‘not free’ or undemocratic from the investment universe. Their status is determined on the basis of reports by NGO Freedom House and the Economist Intelligence Unit’s Democracy Index.

- The second step is to rank countries on the basis of their best efforts regarding the five dimensions of sustainability. Countries are attributed a score and ranked in four quartiles.

- A ‘best-in-class’ approach is applied: the fund invests at least 40% of its assets in countries ranked in the top quartile. Up to 10% of assets can be invested in bottom-quartile countries which are committed to making some improvements and often include higher yielding opportunities.

Country, currency and individual security analysis
The portfolio managers, in collaboration with the macro and fixed-income teams, assess the qualitative and quantitative merits of local currency EM debt.

The result is a diversified portfolio of 40 to 100 positions.

The portfolio has an atypical allocation resulting from the strong convictions. It predominantly invests in local currency debt with a sustainable overlay.
**Sustainability within Corporate Bonds expertise**

The expertise invests in investment grade corporate bonds of issuers with strong sustainability characteristics. It applies a quantitative filter to select the issuers which are best positioned towards ESG challenges.

The portfolio is screened on the ten Principles of the UN Global Compact, while non-compliant companies are not-investable. A controversy assessment bars companies facing the most severe controversies. The best-in-class approach rules out investments in the worst 10% ranked companies according to the peer group Iboxx Corporate All Maturities. It retains only high-quality issuers.

**United Nations Global Compact**

10 Principles of the UN Global Compact are key requirements: human & labor rights, anti-corruption & environment

No investment in non-compliant companies

**Controversy assessment**

Controversy assessment to check implementation of ESG policies

Severity level from 1 (minor) to 5 (most severe)

No investment in companies facing at least 1 controversy level 5 – level 4 controversies are challenging and debating

**Best in class approach**

ESG quantitative scoring

No investment in the worst 10% ranked companies – peer group Iboxx Corporate All Maturities

**DPAM L Bonds EUR Quality**

An investment grade corporate bond fund, actively managed by adapting duration, yield curve positioning, sector allocation and bond picking. It has a clear value tilt, as it looks for undervalued bonds and attractive yields. The security selection is based on ESG and fundamental research as well as on relative value analysis.

The portfolio may also invest in green bonds, as we believe this fast-growing asset class is aligned with our Responsible Investment convictions. Adding green bonds contributes to a sustainable commitment in the portfolio.

**Investment process**

**Top-down macro-economic analysis**

- Collaboration with the macro-economic research team regarding the positioning in terms of duration and yield curve.
- Proprietary models
  - a combination of econometric models, regression, correlation and consensus analysis to assess the valuation of bond markets.

**The selection process**

- Of corporate bonds is based on ESG, fundamental as well as relative value analysis.

**The portfolio construction**

- Is final responsibility of the portfolio manager, deciding to invest or not and in which proportion, based on a reject/accept model with the Credit Analyst Team, monitoring various aspects of diversification and ESG, while looking for the sectors that offer the greatest value.
Multi-asset portfolios draw on DPAM’s asset allocation process, and use the equity and fixed income expertise as building blocks. The objective is to create responsible investment portfolios which are in line with our clients’ investment horizon and objectives, just like our regular multi-assets portfolios.

### Expertise in balanced asset allocation
- Balanced asset allocation – 40/60 equities/bonds
- Expertise in stock picking

### Expertise in responsible investment
- 10-year track record
- ESG research from independent data suppliers

### Pragmatic approach
- Promote best practices – invest in committed ESG companies
- Engage dialogue – understand ESG profiles and controversies
- Encourage progress and improvement

### Risk control – Avoiding tail risks
- No investment in non-compliant Global Compact companies
- No investment in most controversial companies
- No investment in tobacco, armament, pornography and adult entertainment

### Risk management
- Fully integrated into the investment process. No currency hedging nor use of derivatives

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**DPAM Global Strategy L Conservative Balanced Sustainable**

This sustainable fund invests in a global universe of fixed income and equity securities. Its objective is to generate long-term value by means of active management. It has a natural bias towards sectors like consumer discretionary and technology.

- Combined expertise of DPAM’s portfolio managers, analysts and macro-economists.
- Top-down asset allocation and bottom-up security selection.
- Buy-and-hold philosophy to avoid excessive turnover in the portfolio
- Holistic long term approach towards ESG themes

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**Investment process**

1. **SCREENING UNIVERSE**
   - Based on a quantitative screening, the 25% worst companies in terms of ESG score are excluded. In qualitative terms, the track record of the management is assessed.

2. **ASSET ALLOCATION**
   - In-house expertise of DPAM Global Asset Allocation Committee (GAC). Dynamic allocation is done in equities, bonds and cash.

3. **SECURITY SELECTION**
   - Selection of the most compelling investment: quality and track record, valuation, balance sheet health, dividend potential and competitive advantage.

4. **PORTFOLIO CONSTRUCTION**
   - Fixed Income (60%) at least investment grade
   - Equity (40%) Globally (predominantly Eurozone)
   - Cash may hold up to 10%

5. **RISK MANAGEMENT**
   - Fully integrated into the investment process. No currency hedging nor use of derivatives

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**Sustainability within the Multi-assets expertise**

Multi-asset portfolios draw on DPAM’s asset allocation process, and use the equity and fixed income expertise as building blocks. The objective is to create responsible investment portfolios which are in line with our clients’ investment horizon and objectives, just like our regular multi-assets portfolios.
Sustainability within the Fundamental Equity expertise

Sustainable equity portfolios are constructed according to normative as well as best-in-class criteria. These portfolios aim to create financial as well as sustainable added value. The management team is fully dedicated to active and fundamental equity expertise.

The ESG screening is based on data provided by sustainability research agencies such as Sustainalytics. Based on their data, DPAM excludes companies that do not comply with the UN Global Compact, companies with the worst 25% ESG scores per sector and companies facing the highest level of ESG controversies. Further, companies active in the tobacco, armament and gambling sectors are barred from investment.

UN Global Compact and Controversy assessment

No investment in non-compliant companies
Severity level from 1 (minor) to 5 (most severe)
No investment in companies facing at least 1 controversy level 5 – level 4 controversies are challenging and debating

ESG integration

Looking for the future leading companies, able to survive in a permanently changing world
Best-in-class approach: the worst quartile ranked companies are not eligible
DPAM Invest B Equities
Europe Sustainable

We are convinced that European equities are a core holding in a portfolio. By selecting leading companies in various sectors which adhere to strict ESG criteria, investors have a long-term portfolio of companies which stand a good chance of generating double alpha.

This is a concentrated portfolio of European stocks. The main focus is on quality companies with a sustainable business model. The integration of ESG aspects is made in the stock selection. The fund is diversified across Europe. The fund has shown stable and consistent track-record with lower volatility than traditional European equity funds. The fund manager aims to build a portfolio with a balanced sector and geographic diversification.

Investment process

The quantitative screening of European equities with a solid track record in terms of net profits and dividends.

- Minimum market capitalization of EUR 2.5 billion.
- Minimum 5-year track record of positive earnings per share and dividend yield.

In-depth qualitative assessment

looking at financial and economic characteristics as well as ESG aspects.

ESG integration & Thematic approach in European equities

DPAM Invest B Equities World Sustainable

We are convinced that global equities represent an excellent diversification in a portfolio. By selecting leading companies in various sectors which adhere to strict ESG criteria, investors have a long-term portfolio of companies which stand a good chance of generating double alpha.

A concentrated portfolio of global large-cap stocks. The main focus is on quality companies with a sustainable business model. The integration of ESG aspects is made in the stock selection. The fund is globally diversified with a preference for countries/regions such as emerging markets that are expected to post superior growth. The fund has shown stable and consistent track-record with lower volatility than traditional global equity funds. The fund manager aims to build a portfolio with a balanced sector and geographic diversification.

Investment process

The quantitative screening of global large cap equities with a solid track record in terms of net profits and dividends.

- Minimum market capitalization of EUR 2.5 billion.
- Minimum consecutive 5-year track record of positive earnings per share and dividend yield.

In-depth qualitative assessment

looking at financial and economic characteristics as well as ESG aspects.

ESG integration & Thematic approach in World equities

DPAM Invest B Equities Agrivalue

Agricultural stocks are a sector which is facing several key ESG challenges. To name but a few, cattle is the single largest emitter of CO2, while water use in this sector is very intensive, accounting for up to 80% of potable water consumption.

Sustainable agriculture is a secular theme and investing in the right companies may help to achieve food security and improve crop yields. The companies which are in the portfolio actively contribute to this without compromising on key sustainability requirements.

A sustainable approach to this sector makes sense and DPAM is well positioned to leverage on this. The portfolio managers avoid exposure to highly controversial companies. Also, the portfolio managers do not engage in any commodity trading.

Investment process

- Well diversified across the entire agricultural value chain
- In-depth security selection combined with sustainability overlay
- Experienced managers with many contacts in the industry
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