Controversial Activities Policy

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1. Executive Summary

The Controversial Activities Policy (CAP) describes Degroof Petercam's (DP) standpoint on business activities that stimulate debate among various parties and tend to be controversial. This policy identifies the activities excluded from DP's investment universe and criteria activities should meet in order to be included.

This policy details the investment policy of DP's on-balance investments and for off-balance investments held for its private and institutional customers. Besides, DPAM has elaborated an additional **policy** regarding their own investment universe, which can be considered as more restrictive.

This policy is not only applicable to DP's current on- and off-balance portfolio, but it also consists in decision making guidelines on Investment Banking prospects and DP suppliers. Doing so confirms DP's firm stance with respect to controversial activities.

The differences of DP business units' investment universes (whether in the number of issuers considered, underlying methodology or different dataproviders) lead to discrepancies in the used analysis methods. Nevertheless, the view on individual issuers is common, shared and mutually accepted based upon thorough discussions among the different bodies of DP. For more info, please refer to our **Non Financial Reporting 2022 page 95**.

The summary table lists different topics considered as controversial by DP both for its on-balance and off-balance portfolio (i.e., own investments vs. customer investments). More info on the different topics can be found in the annex.

The red color alone indicates the exclusion of the considered investment type both from the mainstream investments and the so called sustainable strategies. Whereas an X along with the red color implies that the exclusion is limited to the sustainable strategies.

Topic	DPs' own investments	Asset Management	Asset Services	Private Banking
Anti-personnel landmines (APL), cluster munitions (AM), and depleted uranium munitions and armours (DPU)				
Biological and/or Chemical weapons				
Nuclear weapons				
White phosporus		X	No Ex.	
Other armaments		X	X	X
Tobacco				
Thermal coal				
Electricity generation from Fossil Fuels & Non-Renewable Energy Sources				
Unconventional oil & gas: Shale gas, Shale oil, Oil sands and Arctic drilling				

Topic		DPs' own investments	Asset Management	Asset Services	Private Banking
	Democratic requirements				
	Gambling		X		
	Adult Entertainment		X		
	Alcohol		X	No Ex.	No Ex.
	Conventional Oil & Gas		X	No Ex.	X
	Nuclear energy		X	No Ex.	No Ex.
	Palm Oil production & Deforestation		X	No Ex.	X

For instance, when it comes to investments in the spirit industry, this activity is considered as controversial and is thus excluded from DP's own investments, while they are only excluded from DPAM sustainability strategies. Indeed, they are allowed when it comes to DPAM mainstream investments. Nonetheless, such investments never lead to exclusions within DP's Private Banking offer & within DP's Asset Services.

The difference in these strategies can be explained as follows:

- As for DP's own investments:
  - DP investments are limited to its Assets and Liability Management, and concern a limited number of issuers. Main part of DP's own investments is done to ensure regulatory requirements (especially liquidity);
  - The assessment whether to exclude a corporate asset (e.g. bond issue) is performed when acquiring the asset by going through the CAP applicable at the time. If the company at a later stage becomes part of the controversial universe, DP does not necessarily act as this entails complicated accounting issues (accounting classification from held to maturity).
- DPAM's views are based on a long tradition interest in sustainability: DPAM is a relentless innovator and research driven. The sustainability process does not limit itself to third party ESG scores and ratings. DPAM is also active in dialogue and engagement with companies, (data) providers and investment teams. This dynamic and pro-active approach enables to continuously improve the investment process.
- DPAS as an asset service company has its own CAP used to challenge the fund managers it serves.
- DP's Private Banking view is inspired by the DPAM expertise and further complemented by a more data driven approach as the investment universe is broader. On top that it includes a.o. a broader offer of third party funds.

2. Objective

The CAP aims at describing and explaining DP's choices in terms of exclusions and restrictions on investments in corporate activities that are deemed unethical and/or irresponsible and/or unsustainable. As such, this policy plays an important role in DP's effort to avoid sustainability risks and to reduce as much as possible the negative impact of its investments. This CAP provides a high level overview of the different stances taken by the different business lines on all topics which are considered controversial by (at least) one of our activities, and details the exclusions and/or investment restrictions DP is applying to its own investments as well as to investments held for its customers.

It applies to investments with environmental and/or social characteristics as well as to investments with sustainable objectives, in full alignment with the Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27, 2019 on sustainability-related disclosures in the financial services sector (hereinafter called "SFDR regulation"). This policy also covers exclusions and restrictions applying to investments classified as "other" following the SFDR regulation.

By excluding or restricting investments in these controversial activities, DP takes a clear stance in favour of sustainable and responsible investing. These exclusions and restrictions further evidence DP's commitment as a sustainable actor acknowledging that those exclusions may have an impact on performance in certain market circumstances.

3. Controversial Activities

A controversial activity refers to a business activity that stirs-up debate among various parties and which is contentious. DP considers three factors enabling to identify any controversial activity:

- There are diverging opinions on a particular topic or question, fuelling a debate, with exchanges of arguments between several parties;
- There is a discussion taking place among the parties over a period of time;
- The debate cannot be resolved easily.

This illustrates the complexity of the topic or issue at hand and the difficulty of settling diverging opinions. In the context of sustainable finance, the key stake is to define the position of DP on each of these controversial activities, and to eventually decide whether to fully divest from the companies involved in controversial activities, or to only recommend a reduction of our portfolio's exposure.

Although there is an overall view on the Controversial Activities as described in this policy, specific Businesses can work out additional measures as to be more severe if deemed necessary. Therefore, this CAP can be considered as the baseline on which business units can build further investment restrictions.

Finally, it is explicitly mentioned that investments in Green bonds according to the European Green Bond Standard (July 6, 2021) are not considered as excluded in terms of controversial policies unless the considered Green bond is issued by companies with controversies or with a negative screen on UNGC. A Green bond issued by companies having oil & gas activities on the other hand can be part of the investment universe in the event no controversies are reported.

3.1. Recognized Global Standards & ESG controversies

Before looking at controversial activities in general, DP ensures alignment with global standards such as the United Nations Global Compact, probably the most widely recognized. Launched in 2004, the United Nations Global Compact principles have quickly established themselves as the framework of reference for sustainability normative screenings. Hence, in 2018, 42% of the European sustainable strategies applying a normative screening were based on the ten principles of the United Nations Global Compact. DP fully endorses the ten principles, as evidenced by that the normative filters applied on all DP's sustainable funds including the U.N. Global Compact and other global standards such as ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs and Underlying Conventions and Treaties. Therefore, DP excludes any global standards non-compliant issuer from both its own investments and its product offer classified as SFDR art.9, SFDR art.8plus and SFDR art.8.

For all DP actively managed strategies classified under the “other” SFDR category, DP is monitoring the alignment of the portfolios with the recognized global standards. However, this monitoring neither triggers any systematic exclusion nor any formal portfolio management constraint. Consequently, it remains possible for portfolio managers to invest in non-compliant securities. Nonetheless, DP encourages its portfolio managers to consider these criteria.

Moreover, DP continuously monitors and analyzes ESG controversies for the companies/issuers it invests in. The non-compliance with the global standards is always a result of a controversy that a firm faces, or a distinct business activity it is exposed to. The ESG controversy screenings goes beyond this binary norms-based screening and analyses in-depth any controversy faced by a company. This deeper analysis might lead to further exclusions, but this is outside the scope of this policy.

4. Responsibilities

With the ever-evolving environment and society, the list of controversial activities is immutable. Scientific and social views do change over time. Hence activities considered today as acceptable, might no longer be considered acceptable in a (near) future.

The integration of Environmental, Social & Governance (ESG) factors is the shared responsibility of all investment professionals at DPAM, DPAS, DPB & DP itself. Overall, several governance bodies are involved in the SRI process – a description can be found in the Non Financial Report of Degroof Petercam LINK:

This policy is integrated in DP’s internal control framework

5. Glossary

APL	Anti-Personnel Landmines
CM	Cluster Munitions
DP	Degroof Petercam
DPAM	Degroof Petercam Asset Management
DPAS	Degroof Petercam Assets Services
DPU	Depleted Uranium Munitions And Armours
ESG	Environment, Social & Governance
RSPO	Roundtable for Sustainable Palm Oil
Sustainable Strategies	Strategies applied to product offer defined as Article 8plus/ art 9 according to SFDR
SFDR	The Sustainable Finance Disclosure Regulation (SFDR) imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants with substantive provisions of the regulation effective from March 10, 2021. In that respect DP uses next to categories ‘other’, art 8 & art 9 also a category art 8plus in which additional requirements are defined compared to an article 8.