Integrating sustainability risks into Belfius Insurance's investment process

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04-2021

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1. SUSTAINABLE AND RESPONSIBLE INVESTMENTS

Today, more investors want to have a clear idea of how their money will be used.

In order to know the impact of their investments, these private, corporate or institutional investors are increasingly interested in the non-financial criteria used in the composition of their portfolios, mainly relating to the respect of the environment, social issues and sound governance, i.e. criteria relating to sustainable investments, also known as "ESG criteria" (Environment, Social, Governance).

In other words, they want their investments to be more in line with their personal convictions on sustainable development, their corporate values or their vision on society.

The European Union also wanted to improve transparency in investment matters by adopting, at the end of 2019, the "SFDR"[1] regulation. It requires actors offering financial services within the European Union to publish additional information on the sustainability of their investment products. Both at the level of the product itself and at the level of the entity managing, distributing or marketing these products information and transparency are expected.

2. SUSTAINABILITY RISK MANAGEMENT WITHIN THE ENTITIES OF BELFIUS GROUP

In recent years, Belfius Group has gradually put in place the governance bodies that allow better managing sustainability risks.

The Group's mandate in the area of savings is to effectively manage our clients' assets over the long term. Investing responsibly is intrinsically linked to the fulfilment of this mission and is in line with a number of decisions taken in the course of 2020 by the Group's Board of Directors. Two major investment decisions are indeed to be retained.

On the one hand, ten concrete commitments for the period 2025-2030 have been defined. These include the ambition to offer customers only "sustainable" investment products in the long term.

On the other hand, in May 2020, the Board also took a position on a list of controversial sectors of activity. Known as TAP ("Transition Acceleration Policy"), this policy, applicable to all the group's activities, is intended to be both exclusionary (e.g. tobacco or arms sectors) and supportive of activities in transition (e.g. energy sector). It will be implemented progressively throughout the portfolios. All products and portfolios will be in line with this policy by 31/12/2022 at the latest. It will be implemented within the same timeframe by the external privileged management partners we work with.

The internal organisation is carried out within our Management Board supervised by the Board of Directors. This committee brings together representatives from the banking, insurance and asset management businesses as well as the risk departments. This committee will steer the concrete implementation of the decisions with regard to sustainability taken by the Board of Directors of Belfius Group.

[1] This is the EU Regulation 2019/2088 on the disclosure of sustainability information in the financial services sector, the "Sustainable Finance Disclosure Regulation" (SFDR).

3. BELFIUS INSURANCE AND THE SUSTAINABILITY RISK

Sustainability risk is defined as any environmental, social or governance event or condition which, if it occurs, could have a material adverse impact on the value of the investment.

Sustainability risk can be divided into three categories:

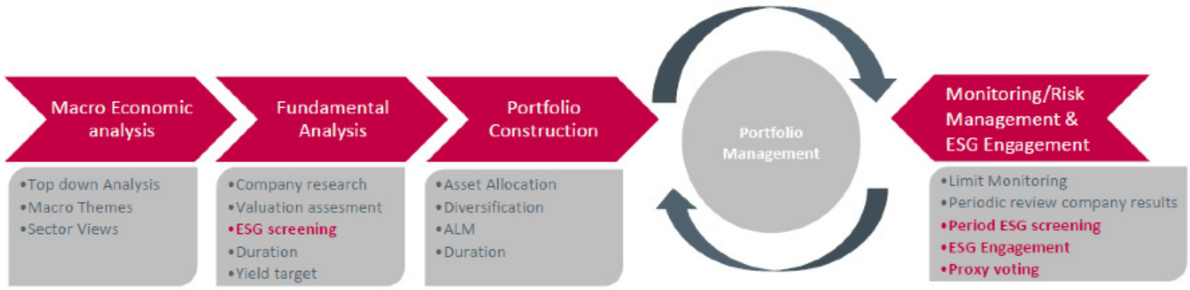
- **Environmental**: environmental events may create material risks for the portfolio's companies. These events may arise, for example, from the consequences of climate change, biodiversity loss or other factors. Companies may also be negatively impacted by mitigation measures adopted to address environmental risks. Exposure to mitigation risks varies and differs depending on how companies adapt to them.
- **Social**: This refers to risk factors related to human capital, the supply chain and how companies manage their impact on society. Issues related to gender equality, remuneration policies, health and safety, working conditions and human rights are part of the social dimension.
- **Governance**: This relates to governance management structures such as the independence of the board of directors, labour relations, remuneration and compliance with legal and tax obligations. Governance risks generally have in common whether they arise from a lack of oversight of the company or the absence of incentives for management to enforce high standards of governance.

Sustainability risk can be specific to a company, depending on its activities and practices, but it can also be due to external factors. If an unforeseen event occurs within a company, such as an employee strike, or more generally an environmental disaster, this event may have a negative impact on the performance of the company or its portfolio.

In order to manage exposure to sustainability risk, Belfius Insurance generally uses the following mitigation measures:

- exclusion of controversial activities or sectors,
- integration of sustainability risks in the selection of companies in which we hold shares (i.e. securities, bonds, share in private equity...),
- screening of the commitment and sound management of the companies in which we hold shares (i.e. securities, bonds, share in private equity....),
- application of our Engagement policy, i.e. by actively participating in the Boards of Directors and General Meetings of companies in which we have a significant shareholding.

4. INTEGRATING SUSTAINABILITY RISK WITHIN BELFIUS INSURANCE



Belfius Insurance wants to contribute to a better Belgium by enabling the transition towards a sustainable Belgian society and economy.

In 2003, Belfius Insurance has started the project "Portfolio 21" to contribute to sustainable developments by integrating non-financial criteria in the management of investment portfolios and by being transparent about this process.

The project is concerned with human rights in the workplace and with severe environmental damages. In addition to this the, in 2021 approved, Transition Acceleration Policy (TAP) will boost positive transitions and limit negative impacts of our activities by discontinuing or limiting our support to non-sustainable activities.

ESG integration in the investment process of Belfius Insurance

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The ESG screening is an important part of the investment process of Belfius Insurance.

In our Macro Economic analysis and in the Belfius Conviction Committee we analyze the economic situation on the short and medium term and also assess the different asset classes. Our ESG considerations can influence our macro themes and sector views and can lead to exclusion of certain sectors.

In the Fundamental Analysis the portfolio manager will measure the security's intrinsic value by analyzing related economic, financial and also non financial factors (ESG analysis).

Additionally, before making an investment, Belfius Insurance will always ask an external ESG screening by an independent international provider. If the ESG screening of the investment opportunity has been approved the portfolio manager can start to invest in line with our Investment Risk Framework. Once invested there is a continuous limit monitoring and a periodic ESG screening of all the issuers in our investment portfolio.

5. ESG SCREENING AND MONITORING

5.1 Human Rights

All issuers (companies or countries) of shares, bonds or investment funds are screened on the basis of the 8 core conventions of the ILO (International Labour Standards) which also aims to ensure respect for human rights in the workplace. When issuers are accused of not respecting human rights (e.g. violence on the person, degrading treatment on the person, no decent living conditions, slavery, etc.) in the workplace, a dialogue (engagement) is started to ask them for explanations and to improve their handling of stakeholder's human rights. The result of this dialogue determines whether or not the share (i.e. securities, bonds, share in private equity or investment fund) in question is accepted or retained in the portfolio.

An independent international provider of ESG research examines companies allegedly infringing on the ILO labour standards to determine whether the allegation is true. If this is the case, they also check whether the problem is incidental or structural. For screening and further analysis, the research team relies on its in-house database, media reports, NGO and trade union documents, the internet, external research, and direct contact with the parties concerned. This provider reports to an independent Technical Committee, consisting of experts in the field of labour rights.

The Technical Committee discusses these reports to determine which violations are serious and structural and start an Engagement Process. By distinguishing between serious and minor non- compliance we aim to eliminate as far as possible any bias in public image of companies and differences between cultures. Some companies, due to their activities in a sensitive industry or their focus on brands are more vulnerable to stakeholder campaigns on labour standard infringements. In certain countries, labour legislation is weak, and workers have only few opportunities for redress, e.g. anti-discrimination laws. The Technical Committee assesses compliance objectively, taking into account such factors.

5.2 Other Fundamental Rights

Fundamental right other than human rights mentioned above are also considered. All issuers are assessed on the basis of the 10 Principles of the UN Global Compact. These principles are, in addition to human rights, grouped into these categories: labor rights, environment and anti-corruption efforts.

An independent international provider will be asked to screen every investment opportunity on the respect of 10 Principles of the UN Global Compact Issuers of securities that are deemed to have breached one or more of the 10 United Nation Global Compact Principles are excluded.

The total investment portfolio will be screened on a yearly basis. If there are breaches detected within this periodic screening, discussions and checks will be initiated with that issuer in order to find a solution to comply with our ESG criteria. If complying with ESG norms and engagement process are not satisfactory, a disinvestment will be undertaken where possible.

6. SUSTAINABILITY RISK EXPOSURE AND THE TAP[2] WITHIN BELFIUS INSURANCE

6.1 Transition Acceleration Policy

The Transition Acceleration Policy includes 10 controversial' or 'sensitive' sectors, for which we like to boost positive transitions and limit the negative impact of our activities by discontinuing or limiting its support of non-sustainable activities. But, when doing so, Belfius insurance also wants to encourage and support businesses in their shift towards more sustainable activities.

The ESG screening is not only an important part of our fundamental analysis, it is also part of our Portfolio Management/Monitoring and Risk Management and can be divided into three tasks namely:

> **Periodic ESG Screening**

Issuers in which we have invested will be monitored on a regular basis to see if they still comply with the Belfius ESG Policy. This monitoring is done by the portfolio managers and an independent screening company.

> **ESG Engagement Policy**

Belfius occupies a unique position in the Belgian financial landscape: it is a 100% Belgian bank and insurance company that focuses its activities exclusively on the Belgian socioeconomic fabric of private individuals, the self-employed, professionals, SMEs, large corporations, social institutions, public authorities and local administrations.

Within this context, Belfius Insurance is determined to play a major role by contributing in an ethical, accountable and sustainable manner to the economic growth of Belgian society. Working with our customers, employees and long-term partners, our aim is to have a significant influence on Environmental, Social and Governance (ESG) challenges and invest in long-term solutions that contribute to a more sustainable society.
The ESG challenges and sustainable development objectives are detailed in our Engagement Policy. Each year, Belfius Insurance will report on the implementation of this Engagement Policy.

> **Proxy Voting**

In 2021, Belfius Insurance will implement a Proxy Voting policy. As a responsible and committed shareholder Belfius Insurance will exercise its voting rights in line with its Engagement Policy and will try to boost positive transitions and limit negative impacts of our activities by discontinuing or limiting our support to non-sustainable activities.

7. FINAL CONSIDERATION

Belfius Insurance is determined to play a major role by contributing in an ethical, responsible and sustainable manner to the economic growth of Belgian society. Working with our customers, employees and long-term partners, our aim is to have a significant influence on Environmental, Social and Governance (ESG) challenges and invest in long-term solutions that contribute to a more sustainable society.

The foregoing information is published in March 2021 and may be updated or adapted to take into account future regulatory requirements directly or indirectly related to the implementation of the SFDR regulation and accompanying European or domestic regulations.

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[2] The Transition Acceleration Policy (TAP) was formerly - before January 2021- the Sectors Limitation Policy (SLP).