

ARVESTAR

Principal Adverse Sustainability Impacts Statement

In line with article 4 of the Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sectors (SFDR), this document provides a statement on how Arvestar Asset Management (“Arvestar”) takes into consideration the principal adverse sustainability impacts at entity level in its capacity as a financial market participant.

The Arvestar ESG Investment policy that underwrites this statement can be found via the link :

<https://www.argenta.be/content/dam/argenta/documenten/beleggen/fondsen/arvestar/duurzaamheid/arvestar-esg-investment-policy.pdf>

<https://www.argenta.be/content/dam/argenta/documents/investir/fonds/arvestar/durabilite/arvestar-asset-management-politique-d-investissement-ESG.pdf>

INTRODUCTION

Arvestar is a joint venture between Argenta Asset Management SA (“AAM”, a subsidiary of Argenta Spaarbank SA) and Degroof Petercam Asset Management (“DPAM”).

Arvestar is part of the Argenta Group and has been appointed as the management company of the Argenta pension saving funds and of Argenta DP (the “Funds”).

Degroof Petercam Asset Management, appointed by Arvestar as Investment manager of the funds, implements the ESG strategy in the investment process of the Funds.

DPAM as Investment manager has a long track record in implementing ESG strategies. The portfolio managers accordingly integrate quantitative and qualitative ESG insights and research in the investment processes, with the aim of improving the long-term performance of the Funds and reducing the sustainability risks.

DESCRIPTION OF PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

Principal Adverse Impact (PAI)

Principal adverse sustainability impacts should be understood as impacts of investment decisions that result in negative effects on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

More concretely, the SFDR framework will require the consideration of 18 mandatory indicators on climate and other environment-related indicators, social and employee, respect for human rights, anti-corruption and anti-bribery matters applicable to companies, sovereigns and supranationals, and real estate assets. The regulation also provides for additional indicators on which integration and reporting should be determined based on materiality and availability of data.

Table 1 details the PAIs currently considered by Arvestar.

Measures taken to mitigate PAI

DPAM, appointed by Arvestar as Investment manager of the Funds, systematically integrates Environmental, Social and Governance (ESG) factors in the investment process of the Funds for both investments in listed equities, corporate bonds and sovereign bonds. Investing in companies and

states which integrate ESG considerations into their business models or do their best to ensure the long-term welfare of their citizens, exposes shareholders and bondholders to fewer “tail risks”.

The chapter 4 entitled “ ESG as part of the investment process” of our ESG Investments Policy describes how the ESG integration is organized for the different asset classes.

Environmental factors

Arvestar fully welcomes and supports the energy transition and calls for the effective mitigation of climate change.

Environmental factors which are monitored and integrated in the investment decision making of Arvestar’s strategies concern amongst others climate change, circular economy, natural resources conservation, etc.

To measure these factors, and the potential associated negative impact, a number of indicators are used (non-limitative list):

- Carbon emissions or weighted average carbon intensity;
- Renewable vs. non-renewable energy consumption or production;
- Water emissions;
- Water stress;
- Hazardous waste or non-recycled waste.

Social factors

Next to environmental indicators, also social factors are monitored and integrated in the investment decision making of Arvestar’s strategies. These concern amongst others human or labour rights, health & safety, corruption, diversity, human capital, etc.

To measure these factors, and the potential associated negative impact, a number of indicators are used (non-limitative list):

- HR policies;
- Policies on bribery and corruption;
- Exposure to severe HR issues;
- Existence of health and safety policies.

Governance factors

Thirdly, also governance factors are monitored and integrated in the investment decision making of Arvestar’s strategies. Examples of such governance factors are Board composition, shareholder structures or oversight.

To measure these factors, and the potential associated negative impact, a number of indicators are used (non-limitative list):

- Board independency;
- Executive remuneration;
- Voting rights structure;
- Controversies.

Governance also involves business ethics, so mainly issues related to bribery and corruption or competitive behaviour.

DESCRIPTION OF POLICIES TO IDENTIFY AND PRIORITISE PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

Arvestar is committed to defend the fundamental rights i.e. human rights, labour rights, fight against corruption and protection of the environment. Furthermore, Arvestar is committed to reduce its negative impact by avoiding activities or behaviours which can significantly harm a sustainable and inclusive growth as promoted by the EC 2030-2050 Program.

The monitoring and integration of Environmental, Social and Governance factors, via the use of indicators and metrics, are translated in Arvestar's policies on exclusions, engagement and voting in order to properly identify and prioritize key negative impacts.

All Principle Adverse Impact indicators (i.e. to measure the negative impacts on ESG factors) are monitored on portfolio level and will be disclosed in line with regulatory requirements.

Within the corporate ESG assessment or screening approach, the above mentioned indicators/KPIs are included in several parts of the screening process :

- **Norms-based screening**

Normative screening is intended to defend fundamental rights by assessing compliance of the issuers with recognized Global Standards : UN Global Compact, ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs and underlying Conventions and Treaties.

The severity of the allegations is assessed based on national and international law, but it also takes into account internationally-accepted ESG standards (Global Standards). Following the assessment, companies are classified as compliant, non-compliant or are placed on a watch list.

Example : corporates breaching ILO conventions or human rights are excluded from the investible universe of the Funds.

- **Controversial activities**

The controversial activity screening has an important role to play in ensuring that the Funds are not exposed to corporate activities that are deemed unethical, irresponsible or unsustainable and therefore generate principal adverse sustainability impacts.

In its ESG Investment policy, Arvestar details which business activities and sectors are excluded as well as the thresholds applied to the level of involvement in controversial activities.

Example : controversial weapons are excluded from the investment universe of the Funds.

- **Mapping companies' controversies**

In addition, companies are assessed on the basis of the allegations they (might) face in relation to ESG controversies as these serve as an important indicator of the effectiveness of ESG-related policies and programs.

The severity of an allegation or how controversial the activity of the company is, is determined based on the impact, nature, scope, recurrence of the incident, the response of the company, the responsibility of the management and the overall CSR policies and practices that are in place within the company.

Example : corporates exposed to severe controversies involving water emissions, waste, corruption and bribery, etc. are excluded;

- **Best-in-class ESG screening**

Targets environmental, social and governance factors by excluding the 20% worst scoring companies per sector from the investment universe of the Funds.

Companies are evaluated per industry according to the peer group specific ESG scoring models of the data providers. The model assesses a company's exposure, policies, programs, management systems and qualitative and quantitative performance.

Example : ESG ratings by extra-financial rating agencies take into account material ESG topics and controversies related to the KPIs in their rating approach, hence excluding the worst performers.

For additional information on the integration of ESG challenges in the investment process of the Funds, reference is made to the chapter 6 'ESG Strategies' of the Arvestar ESG Investment Policy.

- **Sovereign issuers**

Next to the evaluation of companies business, the investment analysis also covers a screening for governments. A country sustainability model is used by the Investment manager (DPAM) to screen Sovereign bonds.

The Funds shall not finance :

- States that have not ratified or have not implemented in equivalent national legislation:
 - the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
 - at least half of the 18 core International Human Rights Treaties
- States which are not party to:
 - the Paris Agreement
 - the UN Convention on Biological Diversity
 - the Nuclear Non-Proliferation Treaty
- States with particularly high military budgets (>4% GDP)
- States considered 'Jurisdictions with strategic AML/CFT deficiencies' by the FATF
- States with less than 40/100 on the Transparency International Corruption Perception Index
- Countries that are considered undemocratic and qualified as "not-free" by the Freedom House 'Freedom in the World' survey and The Economist Intelligence Unit Democracy Index

The Funds can invest for reasons of diversification or (currency risk) hedging, in public debt instruments issued by core reserve (non-EURO) currency issuers¹ that do not comply with the above requirements, to a maximum of 30% (in total) of the portfolio.

¹ I.e. the US, Japan and the UK

SUMMARY OF ENGAGEMENTS POLICIES

Arvestar's policy on shareholder engagement in general and, within the meaning of the Directive (EU) 2017/828 of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement in particular, is comprised of the following policies:

- **Engagement Policy:**

Arvestar's engagement policy relies on the Investment manager (DPAM) engagement policy. The Funds are in scope of DPAM's engagement policy which is consistently applied to all investment funds managed by DPAM.

This policy makes a distinction between :

- entering a dialogue to improve the quality of the fundamental research for better-informed investment decisions and sustainable long-term performances and
- engaging formally with the issuers to contribute to a better society. This can be achieved by either:
 - reducing the negative impact of its investments, or
 - by defending values and convictions which are essential for the company and society.

The policy also details expectations towards investee companies, the means of engagement, the associated timeframes for engagements and the escalation processes.

- **Voting policy :**

Next to direct dialogues with investee companies, engagement is an important pillar for the Funds' shareholder responsibility. It can also be used to support voting decisions made at shareholders' meetings of investee companies, in accordance with a voting policy that actively supports best corporate governance practices.

Adopting a voting policy and participating in general and extraordinary shareholders' meetings are therefore an integral part of the Arvestar's responsibilities. The voting policy describes the values and principles of good governance supported by Arvestar for the Funds as investors, including the issue of environmental protection, social issues and governance in a global sense.

Arvestar's voting policy incorporates DPAM's voting policy. Arvestar has delegated to DPAM in its capacity as Investment manager of the Funds the exercise of the voting rights attached to shares of issuers (within the scope of DPAM's voting policy) held by the Funds. DPAM's voting policy describes the scope and the manner in which DPAM exercises the voting rights attached to the shares of issuers held by the Funds. This policy describes the implementation of its voting activities in line with its expectations on corporate governance, which consists of :

- the protection of shareholders with the aim of creating long-term value and the equal treatment of shareholders on the basis of the principle "one share, one vote, one dividend" and the protection of minority shareholders,
- a sound corporate governance, which is related to efficient and independent management and monitoring systems,
- transparency & integrity of information, which should be reliable, clear, comprehensive and communicated in a timely manner, and finally
- social, environmental & good governance responsibility of a sustainable company, ensuring that its human capital is put at the core of its interests and that the global environment in which it operates is respected.

- **Arvestar’s ESG Investment Policy:**

The ESG policy lists the commitments of Arvestar as a responsible actor and describes the adopted ESG strategies (ESG integration, best-in-class, norms-screening, etc.) and the manner in which sustainability risks and ESG factors are integrated in the investment making decision process. Through the different choices, approaches and applied methodologies, the aim is to optimize the positive net impact on the society and to reduce the negative impact of investments by integrating systematically the question of the harmful impacts any investment might have.

REFERENCE TO INTERNATIONAL STANDARDS

In relation to the alignment with the Paris Agreement, Arvestar is committed to reduce its negative impact by avoiding activities or behavior which can significantly harm a sustainable and inclusive growth as promoted by the EC 2030-2050 Program to achieve the ambitious target of limiting global warming to +2°C above pre-industrial levels, and preferably to max. +1.5°C.

Normative screening is intended to defend fundamental rights by assessing compliance of the issuers with recognized Global Standards : UN Global Compact, International Labour Organisation (ILO) instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs and underlying Conventions and Treaties.

The predominant recognized Global Standard probably is the United Nations Global Compact. The ten principles of the UN Global Compact are grouped into four major domains: human rights, labor rights, environment and anti-corruption efforts. Non-financial rating agencies carry out a compliance screening to identify which companies are facing severe controversies and incidents falling into the scope of the four domains of the Global Compact. The severity of the allegations is assessed based on national and international law, but it also takes into account internationally-accepted ESG standards (Global Standards). Following the assessment, companies are classified as compliant, non-compliant or are placed on a watch list.

All issuers which are not compliant with the recognized Global Standards are excluded from the investment universe of the Funds. The names on “watchlist” status are monitored over a longer period to determine whether structural progress is being made in risk management or performance, or whether the impact of the controversy is less than initially determined.

TABLE 1 : Overview of considered PAI

Overview Principal Adverse Sustainability Impacts

Scope	Theme	PAI indicator	Applicable	Table	Item
Investee companies					
	Climate and other environment-related indicators				
		GHG emissions	Yes	1	1
		Carbon footprint	Yes	1	2
		GHG intensity of investee companies	Yes	1	3
		Exposure to companies active in the fossil fuel sector	Yes	1	4
		Share of non-renewable energy consumption and production	Yes	1	5
		Energy consumption intensity per high impact climate sector	Yes	1	6
		Activities negatively affecting biodiversity-sensitive areas	Yes	1	7
		Emissions to water	Yes	1	8
		Hazardous waste and radioactive waste ratio	Yes	1	9
		Water usage and recycling : Average amount of water consumed and reclaimed by the investee companies per million EUR of revenue of investee companies	Yes	2	6
	Social and Employee, Respect for Human Rights, Anti corruption and Anti Bribery matters				
		Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Yes	1	10
		Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Yes	1	11
		Unadjusted gender pay gap	Yes	1	12
		Board gender diversity	Yes	1	13
		Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Yes	1	14
		Rate of accidents in investee companies	Yes	3	3
Sovereigns and Supranationals					
	Climate and other environment-related indicators				
		GHG intensity	Yes	1	15
	Social and Employee, Respect for Human Rights, Anti corruption and Anti Bribery matters				
		Investee countries subject to social violations	Yes	1	16
Real Estate					
	Fossil fuels	Exposure to fossil fuels through real estate assets	No	1	17
	Energy efficiency	Exposure to energy-inefficient real estate assets	No	1	18