ARVESTAR

ESG Investment Policy

Contents

1 Scope and objectives of the policy

This ESG policy aims at describing and explaining Arvestar's choices regarding investments with environmental and/or social characteristics in alignment with the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (hereinafter called "SFDR regulation").

It 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.

The Policy is applied to all investment funds which are managed by Arvestar.

2 Arvestar commitment towards sustainability

Sustainability is deeply embedded in Argenta Group's DNA. Sustainable investing refers to the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.

Arvestar Asset Management (or "Arvestar"), as a subsidiary of Argenta, is very much committed to sustainability and therefore undertakes responsibility with regard to social and environmental impact. Every investment decision has an impact.

Arvestar, as a management company, has a key role in defining the ESG strategies of the funds under management:

- Argenta Pensioenspaarfonds (ARPE) and Argenta Pensioenspaarfonds Defensive (ARPE Defensive)
- Argenta DP Dynamic Allocation and Argenta DP Defensive Allocation (two compartments of Argenta DP)

Thanks to the joint venture with Degroof Petercam Asset Management (DPAM), Arvestar benefits from the expertise of DPAM which allows to add a dynamic and proactive dimension in the sustainable strategies and notably the benefit from:

- The expertise of the specialized ESG and buy-side analysts and portfolio managers to identify key sustainability drivers for each sector, assess companies ESG performance and challenge ESG data provided by external data providers;
- An active voting policy to defend and encourage ESG principles;
- A systematic process to engage in dialogue with companies to promote best practices in terms of corporate governance and ESG challenges. Engagement is also a tool to better understand the sustainable profile of companies and to reward the runners-up which are making efforts to improve.

The Arvestar approach to integrate ESG considerations in the investment strategy of the Funds can be summarized as follows:

- To defend the fundamental rights (as per the UN Global Compact) pertaining to the respect for human rights, labor rights, anti-corruption and environmental protection and assess the seriousness of controversies that issuers may face;
- To avoid financing controversial activities that are deemed unethical and / or irresponsible and / or unsustainable;
- To promote companies having the best ESG performance while fostering on-going efforts and evolutions towards sustainability.
- To pursue/commit itself to a minimum proportion of sustainable investments

3 Organization & Resources

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.

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

DPAM as Portfolio 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 risks related to substandard ESG practices.

The portfolio managers can capitalize on the extensive internal DPAM expertise of:

- Responsible Investment Steering Group (RISG): Reflects on ESG challenges by promoting responsible investing, spreading ESG knowledge and enhancing RI & ESG expertise internally and externally.
- Responsible Investment Competence Center (RICC) : Guides all initiatives, methodologies and projects related to the ESG aspects of the investment processes.
- Buyside research analyst team: sustainable and responsible investment indicators are integrated in all buy-side investment cases (top down and/or bottom up).

The Investment manager (DPAM) uses a broad range of external ESG research providers such as Sustainalytics, MSCI ESG Research and Trucost to implement the ESG strategies of the Funds.

Moody’s VE ESG Solutions is the data provider of Arvestar for the exclusion lists concerning controversial activities and controversies. The controversy database notifies real time allegations against companies in the portfolios. Besides, Arvestar monitors the ESG performance of the funds via Moody’s VE ESG Solutions data lab. Customized analysis files and reports on issuer profiles ensure that ESG objectives are achieved.

4 ESG as part of the investment process

By entrusting the implementation of the ESG investment strategy to DPAM, the Funds benefit from the long track-record of DPAM as a sustainable and responsible investor.

4.1 ESG factors

ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.

On the other hand, these factors can also be negatively influenced by investment decisions. Hence, the need to quantify those negative impacts.

Environmental factors

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

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.

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.

It should be noted that the monitoring and integration of these 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 targets environmental, social and governance factors, e.g. corporates breaching ILO conventions or human rights are excluded from the investible universe;
- Controversial activities screening targets environmental, social and governance factors, e.g. corporates exposed to severe controversies (i.e. category 5) involving water emissions, waste, corruption and bribery, etc. are excluded;
- Best-in-class ESG screening targets environmental, social and governance factors, e.g. 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.
- Commitment to a minimum proportion of sustainable investment targets, environmental, social and governance factors, e.g. investment in green/impact bonds or in companies that contribute through their products and services to the 17 Sustainable Development Goals (SDGs) defined by the United Nations (UN)

4.2 ESG Factors integration

Corporate issuers

The objective is to integrate ESG factors in the investment process, from the research phase to the final decision-making, by integrating key factors in all asset classes. The focus is on criteria that could affect the core drivers and most important financial metrics of the company. Section 6 mentions the different methods for incorporating ESG criteria in the investment strategy.

- In a first step, strategic challenges regarding ESG issues are identified (top down).
- In a second step, the approach concentrates on the materiality of the ESG issues i.e. identifying short and medium-term risks and opportunities and how the companies or countries are preparing to address them. Whilst a range of ESG criteria is assessed, the focus is on identifying issues with a material impact on the sustainability of a company's activity and subsequently long term profitability and shareholder value creation (bottom up).

The evaluated factors typically include sector specific ESG criteria. Within each sector and sub-sector, a number of specific sectorial ESG criteria are retained to reflect sector-specific drivers and accurately identify the companies with a better position to face the challenges identified.

Key ESG factors are reviewed regularly by the data providers and DPAM analysts since the relevance and materiality of ESG factors can change over time.

The analysis essentially capitalizes on the ESG scoring reports of the research providers. In the event these research reports reveal important deficiencies or if ESG criteria are of significant importance for the company's long term sustainability , DPAM's analysts will perform more in depth analysis and additional actions like engagement are considered.

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 issuers[1] 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

5 Investment Compliance

The Risk Management team of Arvestar receives the daily investment compliance reporting in the perspective of the oversight function over essential subcontracted activities. Besides this, an automatic control is in place to verify if any position in the portfolios is in breach with the exclusion list provided by Moody's VE.

In case of a breach due to the change of the eligibility status of a security that was already part of the portfolio, the security should be sold within three months (in the best interest of the shareholder) and the position cannot be enlarged. Issuers failing to meet the norms-based screening criteria (while already invested) should, to the extent possible, be sold within 5 business days.

The commitment % sustainable investing also makes part of the monitoring process.

6 ESG Strategies

6.1 Sustainability Risks

A sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.

Sustainability risks are generally categorized as follows :

- Physical risks : potential loss of value of an asset due to detrimental exposure to a physical event such as global warming or shortage of raw materials.
- Transition risk : potential loss of value of an asset related to the transition to a green and sustainable economy. For example, due to the introduction of new legislation.
- Reputational risk : potential loss of value of an asset due to an event which undermines the reputation of an issuer.

These Sustainability risks are closely interconnected with the ESG factors which are integrated at the asset/sector level (as explained above).

Beyond data on the principal adverse indicators (PAI), the Investment manager (DPAM) relies on a broad suite of ESG data, research and services to assess sustainability risks, sustainable corporate governance and climate risks in particular.

ESG challenges are explicitly and systematically part of the investment analysis via the following strategies:

- Norms-based screening: Screening of investments according to their compliance with international standards and norms, e.g. the United Nations Global Compact principles.
- Exclusionary screening
    - Controversial activities: Excluding companies involved in controversial activities.
    - Controversial companies: Excluding companies exposed to significant controversies/controversial behavior.
- Best-in-class screening: Selecting the best ESG profiles within a sector.
- Commitment to a minimum proportion of sustainable investments: investment in green/impact bonds or in companies that contribute through their products and services to the 17 Sustainable Development Goals (SDGs) defined by the United Nations (UN).

6.2 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 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. If either Sustainalytics or MSCI-ESG consider that an issuer is non-compliant, the issuer is excluded. In other words, DPAM does not require both Sustainalytics and MSCI-ESG to declare an issuer non-compliant. One source is enough to trigger the exclusion.

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.

Research providers for the norms-based screening are Sustainalytics and MSCI ESG Research.

6.3 Exclusionary screening

6.3.1 Controversial activities

The screening leads to a reduction in the portfolio exposure to contentious sectors, and sometimes to a fully divestment from these sectors.

The funds incorporate a blacklist on a semi-annual basis based on the research from VigeoEiris. In addition to the blacklist, DPAM Portfolio management also integrate MSCI ESG Research and Sustainalytics data on controversial activities, as well as with their dedicated research to define the eligible investment universe of the Funds.

The screening of the level of involvement in a controversial activity is mainly measured by the degree to which the income from this activity contributes as a percentage to the total revenue of a company. CO_2 emissions and other business criteria can also apply as described below.

Summary of the revenue thresholds that apply with regard to controversial activities[2] :

Controversial Activity	Description	Threshold
Animal Welfare	Production of cosmetic products tested on animals Companies that produce cosmetics tested on animals, including companies subcontracting production to third parties and companies selling their own-branded products	≥5%
	Production of non-cosmetic products tested on animals Companies that produce household chemicals, detergents and other products tested on animals, including companies subcontracting production to third parties and companies selling their own-branded products	≥5%
	Production or sale of fur products	≥5%
	Intensive farming operations Intensive farming operations: factory farming of cattle, pigs, salmon, shrimps, cage hens. Also included are companies involved in certain activities considered to be a form of cruel treatment of animals, such as geese fattening for foie gras	≥5%
Weapons*	Controversial weapons Controversial weapons: Arms for which the production or proliferation is regulated by international treaties (cluster munitions, antipersonnel landmines, nuclear weapons, biological and chemical weapons, blinding laser weapons, incendiary weapons, undetectable fragments weapons). Also covers arms that are not yet regulated by international treaties, but that are subject to stakeholder campaigns and discussions in international institutions regarding possible future regulation (depleted uranium or any other industrial uranium weapons and white phosphorus weapons)	>0%
	Conventional weapons Any weapon that is not controversial	≥5%
	Key parts or services for conventional weapons	≥5%
	Aerospace and defense sector (GICS terminology)	>0%
Civilian Firearms*	Civilian Firearms Firearms and associated products destined for use by civilians (hunting, sporting, etc.) and not primarily by government users (e.g. armed forces, etc.)	≥5%
Chemicals of concern	Production of pesticides Manufacturers of pesticides, including insecticides, herbicides, fungicides and nematicides not used in organic agriculture and companies selling their own branded product	≥10%
Gambling*	Gambling operations or products	≥5%
Pornography*	Pornography, adult entertainment services or facilitating access	≥5%
Tobacco*	Production of tobacco Ownership of tobacco plantations and the manufacture of tobacco products, including revenues from the sale of own products	>0%
	Distribution of tobacco Wholesaling and retail of tobacco products manufactured by other companies	≥5%
	Support to the tobacco industry Companies providing dedicated products or services essential to the tobacco industry	≥5%
Coal**	Thermal coal	>0%
Oil & Gas	Unconventional O&G Tar/oil sands, shale oil, shale gas and Arctic drilling	>0%
	Conventional O&G Exploration, extraction and refining of oil and gas	>0%

**Aligned with MSCI ESG Research, **Aligned with S&P Trucost*

[2] See also detailed description and exact scope in the next pages

Exclusions based on CO2 emissions:

Fossil-fuel power generation	Companies involved in the generation of power/heat from non-renewable energy sources	Max gCO2/KWH defined by the International Energy Agency

ANTI-PERSONNEL LANDMINES (APL), CLUSTER MUNITIONS (CM), AND DEPLETED URANIUM MUNITIONS AND ARMOURS (DPU)

Anti-Personnel Landmines (APL), Cluster Munitions (CM) and Depleted Uranium Munitions and armours (DPU) are subject to prohibition of financing in several countries including Belgium.

The exclusion of these families of controversial weapons is regulatory in nature. The Funds are effectively divesting from any issuer which has **any direct revenue exposure** in anti-personnel landmines, cluster munitions, or depleted uranium munitions and armours (in line with MSCI SRI index methodology).

Issuers can be involved in legally excluded controversial weapons through various means:

- The issuer can be the manufacturer of a legally excluded weapon system (APL, CM, and DPU). This is a case of “direct involvement”.
- The issuer can be a supplier of critical components or critical services for a legally excluded weapon system. This is another case of “direct involvement”.
- The issuer can provide financing to an issuer which is directly involved in a legally excluded controversial armament (the cases of the first two bullet-points above here). This is then a case of indirect involvement (no exclusion at this stage).

Secondly, for a component or service to be considered a “critical component” or a “critical service”, and constitute a cause for the exclusion of an issuer, the component or the service must meet cumulatively the following two conditions:

- The component or the service must be specifically designed or specifically made or specifically modified for the legally excluded weapons. In other words, issuers providing so-called dual-use components or dual-use services are not excluded.
- The component or the service must play a relevant role in the weapons system. This means Arvestar would not exclude an issuer providing products and services which are part of the supply-chain of a legally excluded controversial armament but which would play a negligible / not relevant role in the armament system. For instance, facility cleaning services at a site involved in a controversial armament’s supply-chain does not play a relevant role in the controversial armament weapon system, and therefore does not constitute a reason for the exclusion of an issuer.

In practice, screening corporate involvement in these controversial weapons requires some dedicated research and data. Next to the Blacklist from Vigeo Eiris, DPAM uses the research from the ESG rating agency: “ISS-Ethix”, which has a qualified and specialized team of analysts based in Stockholm. ISS-Ethix provides a comprehensive overview of all the companies/issuers (both listed issuers and unlisted issuers) across the world, which are involved in these controversial armaments. ISS-Ethix classifies companies/issuers into three categories to constitute an “alert system”: Green (no involvement), Amber (suspected involvement but lacking evidence) and Red (proved involvement).

All Red companies/issuers, i.e. companies/issuers with a proved involvement in these controversial weapons, are excluded from the Funds.

The Amber companies/issuers, meaning companies/issuers which are strongly suspected of being involved in these controversial armaments, but for which evidence of involvement is still lacking (usually because of a lack of transparency) are also excluded from the investment universe of the Funds.

BIOLOGICAL AND CHEMICAL WEAPONS

Biological and chemical weapons are widely considered to be controversial weapons, because of the indiscriminate and disproportionate effect they have on civilian populations. They are banned following the Biological Weapons Convention of 1972 (which was the very first international treaty to ban the production of an entire type of weapons of mass destruction (this highlights how controversial these armaments are)) and the Chemical weapons convention of 1992, which have both been signed and ratified by almost all countries in the World.

All issuers involved in Biological and Chemical weapons are excluded from the investment universe of the Funds. **Any direct revenue exposure** leads to exclusion : issuers involved in activities related to Biological or Chemical weapons or providing critical dedicated equipment or services.

WHITE PHOSPHORUS WEAPONS

Initially intended to generate smoke, white phosphorus munitions have become increasingly controversial as they have been extensively used as an offensive weapon. White-phosphorus weapons are particularly cruel as they cause very deep burns, and as the absorption of phosphorus into the body cause very serious medical complications like organ failures. The inhalation of the smoke can also cause permanent respiratory damage. White-phosphorus munitions are also likely to have a disproportionate and indiscriminate impact on civilians, due to their lack of precision, the severity of the burns they cause, and the toxicity of white-phosphorus for the human health even weeks after the victim has been affected.

Similarily to what is being done for other controversial armaments, DPAM sources dedicated data from three ESG rating agencies, namely ISS-Ethix, MSCI-ESG and Sustainalytics. In practice, DPAM first and foremost refers to the list of involved issuers drawn up by ISS-Ethix. The ISS-Ethix's list provides a comprehensive overview of all the issuers (both listed and unlisted) across the world, which are involved in white-phosphorus weapons (WP). ISS-Ethix classifies issuers into three categories to constitute an "alert system": Green (no involvement), Amber (suspected involvement but lacking evidence) and Red (proved involvement).

All "Red" companies/issuers are excluded from the investment universe of the Funds. **Any direct revenue exposure** leads to exclusion : issuers involved in White-Phosphorus weapons related activities or providing critical dedicated equipment or services.

NUCLEAR WEAPONS

Nuclear weapons have by design indiscriminate and disproportionate effect on populations (notably through the effects of radiations and radioactive pollution which subsists and causes harm long after the blast).

Hence, Arvestar views nuclear weapons as controversial weapons and a dedicated nuclear weapons exclusion policy has been defined.

Arvestar considers issuers to be directly involved when they engage in the development, testing, production, manufacturing, maintenance, sale or trading of nuclear weapons-related technology, parts, products or services. Their involvement can occur through the weapon system as a whole, through "critical components" and/or "critical services", or through delivery systems / delivery platforms. In order to be considered as "critical components" and/or "critical services" of nuclear arms, two conditions must be met simultaneously:

- The component must be a key element of the fully-fledged weapon system, i.e. it must play a "relevant role" in the weapons system (we apply the same principle as for legally excluded controversial armament)
- And it must have been designed specifically to be integrated into a fully-fledged nuclear weapon system. In other words, we do not exclude issuers providing so called dual-use components or dual-use services

Any direct revenue exposure leads to exclusion.

OTHER UNCONVENTIONAL ARMAMENTS

In addition to the exclusion of anti-personnel landmines (APL), cluster munitions (CM), depleted uranium munitions and armours (DPU), and biological weapons and chemical weapons, all issuers deriving any direct revenues from blinding lasers, non-detectable fragments or incendiary weapons are also excluded from the investment universe of the Funds.

CONVENTIONAL ARMAMENTS

Funds' exposure to conventional armaments is also restricted :
The **whole** Defense and Aerospace sector (based on the MSCI-GICS typology) is excluded.
All issuers involved in conventional weapons related activities are excluded **from a 5% revenues exposure** threshold.
Civilian firearms and civilian ammunitions are also excluded **from a 5% revenue exposure** threshold.

Issuers involved in the support systems (critical dedicated equipment or services) for conventional weapons related activities are excluded **from a 5% revenues exposure** threshold (in line with MSCI SRI index methodology).

Issuers shall have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.

GAMBLING

Gambling is considered as a controversial activity mostly because of addiction issues, and the associated risk of personal bankruptcy. Gambling addiction is recognized as a mental condition by the World Health Organization since 1982.

All issuers deriving **5% or more of their aggregate revenue**s from gambling-related business activities are excluded from the investment universe of the Funds.

ADULT ENTERTAINMENT / PORNOGRAPHY

The adult entertainment / pornography industry is widely criticized firstly for the suspected adverse effects it has on society in general (regressive and stereotypical image of genders, dreaded impact on human psychology, etc.). It is also denounced for inherently attempting against human dignity, for its deplorable labour conditions and for contributing to spread communicable diseases.

There is a significant risk that the adult entertainment / pornography industry indirectly fails to comply with human rights principles, both because of labour practices (notably the risk of human exploitation) and because of its societal impact on consumers.

For these reasons, all issuers deriving **5% or more of their consolidated revenues** from adult-entertainment / pornography-related activities are excluded from the investment universe of the Funds.

TOBACCO

Tobacco is first and foremost a controversial topic because of the massive adverse effect its consumption has on human health._ The premature deaths caused by tobacco consumption are a significant contributor to poverty and social difficulties for the affected families, particularly in low- and middle-income countries. Tobacco is also a significant drain on national health budgets. Moreover, tobacco farming impacts negatively the health of workers while the land used for tobacco cultivation could be used for some specific food farming which would help curbing food scarcity.

For these reasons,_all tobacco producers are excluded : **any direct revenue exposure** as well as all issuers **deriving 5% or more of their aggregate revenue** from the distribution, retail and supply of tobacco-related products or from ancillary products or services that support the tobacco industry.
Issuers shall have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.

THERMAL COAL

The climate change and the Paris Agreement requires a complete phasing-out of coal power plants, worldwide by 2050 the latest, and probably mush earlier. Generating electricity from coal is particularly carbon intensive. Coal power generation is also a major cause of atmospheric pollution, as coal power-plants release mercury, lead, sulphur dioxide, nitrogen oxides, particulates, and various other heavy metals.

Issuers involved in the exploration, mining, extraction, transportation, distribution or refining of thermal coal are excluded from the investment universe of the Funds. **Any revenue exposure** leads to exclusion. Note that for companies involved in refining, distribution or transport, or providing dedicated equipment or services therefor, this is assessed on an ad-hoc, best effort basis due to current data limitations.

Issuers providing critical dedicated equipment or services for thermal coal-related activities are eligible in the investment universe of the funds if the issuer meets at least one of the following criteria:

- Have a SBTi5 target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment;
- Derive less than 5% of its revenues from thermal coal-related activities;
- Have less than 10% of CapEx dedicated to thermal coal-related activities and not with the objective of increasing revenue;
- Have more than 50% of CapEx dedicated to contributing activities.

Issuers shall have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.

ELECTRICITY GENERATION FROM FOSSIL FUELS & NON-RENEWABLE ENERGY SOURCES

As stated previously in the section on Thermal coal, Arvestar fully welcomes and supports the energy transition and calls for the effective mitigation of climate change. To achieve the ambitious target of limiting global warming to +2°C above pre-industrial levels, and preferably to max. +1.5°C, the utilities sector must notably shift its electricity generation mix towards renewables, upgrade the transport and distribution grids, develop storage solutions to alleviate the intermittent and fluctuating energy supply from renewables, and overall increase the diversification of energy sources, away from fossil fuels. Hence, electric utility companies must align their business models and strategies with this climate-friendly model.

In order to allow companies making the required transition, in line with the Paris Agreement, Arvestar prefers not to adopt a binary "hard-exclusion approach" on the whole power-utilities sector, which would mechanically exclude most companies involved in power production. We rather favour the option of assessing whether the transition path of the investee companies aligns with the 1.5°C or 2°C scenario.

All issuers involved in the generation of power/heat from non-renewable energy sources, or providing critical dedicated equipment or services are excluded if the average carbon intensity of the electricity generation is not clearly in line with (i.e. "well below") the 2°C scenario thresholds (and preferably with a 1.5°C scenario). These thresholds, which become stricter every year, are based on the scenario of the International Energy Agency (IEA) as outlined in its 2017 Energy Technology Perspectives report. Figures are offset by 1 year to account for data availability:

	2019	2020	2021	2022	2023	2024	2025
Max. gCO_2/kWh	429	408	393	374	354	335	315

* Source: International Energy Agency (2017). *Energy Technology Perspectives 2017*. Paris: OECD/IEA.

Arvestar also requires that :

- The issuer's absolute production of or capacity for coal-based or nuclear-based energy-related products/services shall not be structurally increasing.
- The issuer's absolute production of or capacity for contributing products/services shall be increasing
- Issuers shall have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.
- Issuers will not derive more than 10% of their revenues from coal fired power generation and not more than 33% of their revenues from nuclear power generation

We clearly favour screening power utility companies based on their maximum carbon emission intensity. Yet, in case carbon emission intensity data are not available, the issuer must meet at least one of the following criteria:

- Have a Science Based Target initiative (SBTi) target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment;
- Derive more than 50% of its revenues from contributing activities;
- Have more than 50% of Capex dedicated to contributing activities.

UNCONVENTIONAL OIL AND GAS: SHALE GAS, OIL SANDS, SHALE OIL AND ARCTIC DRILLING

Shale gas, oil sands, shale oil and Arctic drilling are considered controversial activities mostly because of their significant environmental impact. Shale gas is a water-intensive extraction process and generally requires the use of chemical additives which are injected into the ground. Oil sands extraction often leads to soil pollution. Arctic drilling also entails higher risks of pollution of the environment due to the extreme weather conditions in these regions.

Moreover, these activities are also very energy-intensive, and by definition they aim at extracting more fossil fuel from earth, while climate change mitigation actually require that humanity doesn't consume all extractable fossil fuels reserves. As such, shale gas, oil sands and shale oil are increasingly criticized for their direct and indirect contribution to greenhouse gases emissions and ultimately these activities are increasingly considered to be contravening international efforts to mitigate climate change.

In light of the above, **all issuers involved** in the exploration or extraction of unconventional oil and gas are excluded from investment universe of the Funds (i.e. shale gas, shale oil, oil sands and Arctic drilling). **Any revenue exposure** leads to exclusion.

Issuers providing critical dedicated equipment or services to exploration or extraction of unconventional oil and gas activities are eligible in the investment universe of the funds if the issuer meets at least one of the following criteria:

- Have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment;
- Derive less than 5% of its revenues from unconventional oil and gas-related activities;
- Have more than 50% of CapEx dedicated to contributing activities.

Issuers shall have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.

CONVENTIONAL OIL AND GAS

Conventional oil and gas exploration, extraction, refining and transport are controversial activities due to their negative contribution to climate-change, while at the same time gas is sometimes presented as a complement to renewables for future electricity generation mix. Moreover, the oil and gas sector still plays a significant role in the economy as it is used extensively as raw material input in a large variety of industrial processes.

Nonetheless, in the light of its negative contribution to climate-change, all issuers involved in the exploration, extraction, refining of oil and gas shall be excluded from the investment universe of the Funds. **Any revenue exposure** leads to exclusion.

Issuers involved in the transportation of oil and gas or providing critical dedicated equipment or services to oil and gas-related activities are eligible in the investment universe of the funds if the company meets at least one of the following criteria :

- Have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
- Derive less than 5% of its revenues from oil and gas-related activities
- Have less than 15% of CapEx dedicated to oil and gas-related activities and not with the objective of increasing revenue
- Have more than 15% of CapEx dedicated to contributing activities

Issuers shall have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.

Phase-out margin

Some companies are currently not yet aligned with the above-mentioned criteria but are nevertheless within the best of their peer group in transitioning their business model.

The funds are allowed to invest a maximum of 5%[3] of their Net Asset Values in aggregate in issuers involved in the transportation of conventional oil & gas failing the exclusion criteria.

Issuers can only be eligible for this exception rule if :

- They rank among the top 25% of their peer group (i.e. Best-In-Class criterion) based on climate-related indicators such as business strategy alignment with the Paris Agreement (e.g. based on CAPEX in renewables or the setting of a science-based emission reductions target), the quality of climate change management, proven emissions reductions, etc.
- Moreover, issuers can only be eligible for this exception rule if they have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.

[3] The 5% threshold includes all exceptions. This margin will decrease by 1pp (percentage point) per year as of 1/1/2023.

6.3.2 Controversial companies

In addition to excluding the companies involved in the usual controversial activities, the strategies do not invest in the most controversial companies, i.e. those companies exposed to significant controversies as defined by external ESG research providers.

The Sustainalytics' approach ranks a company's (possible) controversies on a scale from 1 to 5 (5 being the worst). Investments in companies exposed to a level 5 controversy are excluded. For level 3 and 4 controversies, companies can be blacklisted in case of a negative assessment by the internal steering group (RISG).

Another approach is one of VigeoEiris who analyses controversies within six domains: environment, HR, human rights, community involvement, corporate behavior and organizational culture. This blacklist contains this information. When a controversy occurs, the three following parameters are assessed.

- Severity: How severe is the event?
- Responsiveness: Reaction and actions taken by the company.
- Frequency: How many times the controversy has occurred.

The company is excluded in case of any of the following situations :

Severity	Responsiveness	Frequency Score
Critical	Non communicative	Persistent
Critical	Reactive	Persistent
Critical	Non communicative	Frequent

It is of utmost importance to understand what is behind the controversy and whether other weaknesses, in terms of corporate governance for example, may undermine the sustainable growth of the issuer.

A variety of data providers deliver data for the exclusionary screening: Sustainalytics, MSCI ESG Research, VigeoEiris, ISS Ethix…

In addition to the above, Arvestar also integrates the blacklist of the Norwegian Government Pension Fund Global, which was established through a Council on Ethics, to address the ethical norms of the Norwegian people. This major European sovereign fund puts in major resources and means to identify the controversies in which more than 8,000 invested companies may be involved, and to assess their legitimacy. Based on the seriousness and the scope of the violation, and in particular the tangible improvements an issuer is able to make, the Council on Ethics will judge whether an issuer violating the norms will be excluded.

6.4 Best-in-class Screening

Companies are evaluated per industry according to the peer group specific ESG scoring models of the data providers Sustainalytics and MSCI ESG Research. The model assesses a company's exposure, policies, programs, management systems and qualitative and quantitative performance. The best-in-class evaluation, which is applied on a sector level, includes metrics that assess both the current situation and historical efforts as well as forward looking metrics.

Scorecards can be used for companies which are poorly or not covered by ESG research providers. Companies with a smaller market capitalization for example, if they are covered, often lose a substantial amount of points since the scale of their organization doesn't require or enable them to have a large set of internal policies or detailed public reporting on sustainability. In addition, companies who initiate a public listing are often not (yet) covered by the external research providers.

The scorecard will be built on a set of ESG KPIs that are assessed in conjunction with the financial criteria that are tailored to the company under review. The KPIs result from collaboration between ESG specialists, portfolio managers and research teams of the Investment manager (DPAM). The internal analysis (scorecard) can overrule Sustainalytics or MSCI, as internal analysis is considered more relevant.

The 20% worst scoring companies per sector are excluded from the investment universe, so the 80% best scoring companies are eligible.

The data provider used for the best-in-class screening is Sustainalytics.

6.5 Commitment to a minimum proportion of sustainable investments

Funds under the management of Arvestar commit themselves to a minimum proportion of sustainable investments in their portfolios.

These Sustainable investments are green/impact bonds ('Green, Social & Sustainability bonds[4]) or investments in companies that:

(i) Have a positive alignment (>10%) with EU-Taxonomy criteria for sustainable activities; or
(ii) Contribute through their products and services to the 17 Sustainable Development Goals (SDGs) defined by the United Nations (UN) such as health products and services, education services, water conservation and supply solutions, energy efficiency solutions, digitization services, sustainable mobility services, etc.

The % sustainable investments for the Arvestar funds has been defined as the percentage of the issuers in portfolio (in weight) that have at least 10% revenue alignment with the Taxonomy, or a positive SDG score.

Arvestar follows the Argenta Group requirement concerning the minimum % sustainable investments of at least 20%, i.e. 20% of the issuers in portfolio (in weight) must have at least 10% revenue alignment with the Taxonomy, or a positive SDG score

To assess the funds % sustainable investments, the Investment Manager (DPAM) primary uses Trucost Taxonomy alignment data and complements these data with the Util SDG solution in case Trucost data are either lacking or below the 10% threshold Taxonomy alignment.

[4] Bonds that help finance ESG-related projects and are consequently designated as green, blue, social, sustainable, sustainability or transition bonds. They are eligible for investment only after a screening based on their compliance with the relevant normative framework (e.g. ICMA or EU GBS).

6.6 Policies about other key ESG issues

ENVIRONMENTAL DAMAGES

With regards to countries, states' level of environmental performance is reviewed on the basis of various criteria pertaining to the preservation of natural resources, their environmental strategies, their actual environmental impacts, and the ratification of several international agreements.

With regard to corporations, their commitments to respect and preserve the environment are also assessed and they are taken into account in the calculation of their overall ESG score.

Environmental criteria are defined for each sector so as to review whether companies are addressing the environmental challenges that are relevant to their sector of activity.

Companies/issuers which are repeatedly involved in causing significant Environmental damages, and / or which are involved in causing severe Environmental damages, are excluded by means of the ESG controversy screening or even the norms-based screening.

The approach notably (but not exclusively) covers the following environmental aspects:

- Biodiversity (e.g. deforestation, palm oil);
- Water use;
- Pollution & waste (e.g. plastics).

BIODIVERSITY (PALM OIL AND DEFORESTATION)

Requirement on Palm oil:

Palm oil production is associated with a variety of environmental, social and governance issues. These are, namely, deforestation and related topics such as respect for the ecosystem, biodiversity and the rights of local communities, greenhouse gas emissions, the use of pesticides, working conditions and respect for the rights of indigenous peoples.
However, palm oil constitutes an important source of revenue for producer countries (including Malaysia and Indonesia, but also other emerging countries) and provides a livelihood to a significant part of their population.
Moreover, palm oil is also a source of nutrition for populations. It also has various other uses: food products, cleaning, pharmaceuticals, biodiesel, etc.
Finally, although palm oil is often criticized in the media, palm trees remain the most productive and efficient source of vegetable oil. In order to produce the same amount of vegetable oil, other potential sources would need far more land.

Arvestar approach aims to be pragmatic. In other words, it takes into account the many positive contributions palm oil has made, and it favours best practices rather than a total exclusion of the activity in order to reduce its adverse effects. In that regard several sector-based initiatives exist, the main one being the "Roundtable for Sustainable Palm Oil – RSPO". The objective of the RSPO is to promote the production and use of palm oil that is sustainable for the planet and the people and communities, and that favours general welfare. The RSPO is the most important sector-based initiative promoting Sustainable Palm oil, and arguably it is also the only one having reached the critical size which is required to affectively change practices along the international Palm oil supply chains. Furthermore, the RSPO has recently upgraded its requirements, in order to better tackle deforestation issues, and its requirements are updated every five years. For these reasons, Arvestar has adopted the criterion of RSPO Sustainable Palm oil certification, as a requirement for a producer of Palm oil to be eligible for the Funds.

It is required from producers of Palm oil (i.e. Palm oil growers, issuers operating Palm oil plantations) that **at least 50% of their plantations be RSPO certified**, in order to be eligible for the investment universe of the Funds.

In case a company/issuer operating palm oil plantations (i.e. a Palm oil producer) uses an alternative Sustainable Palm-Oil certification scheme, other than the RSPO, the Investment manager (DPAM) will verify whether the alternative certification could be used instead of RSPO (i.e. whether its requirements are demanding enough and grossly comparable to RSPO's), and if it is the case, the same threshold as for the RSPO certification will be applied.

Requirement on Deforestation:

Companies upstream or downstream in the Palm-Oil supply-chain (including Palm Oil producers, processors, distributors, traders, as well as owners of plantations and potentially food-processing companies sourcing from controversial companies) are also monitored by the Invesment Manager (DPAM).

When it comes to the Investment manager's knowledge that a company is involved either in severe cases of deforestation, or in the conversion of peat-land, or in the conversion of High Carbon Stock (HCS) forests, or in the conversion of High Conservation Value (HCV) forests, it will be analysed and presented to DPAM Responsible Investment Steering Group (RISG), which will decide whether to exclude the company.

TAXATION

The Investment manager (DPAM) has developed an approach with a view to identify issuers at risk of involvement in aggressive tax optimization with a dual objective : avoid or reduce risks of involvement in tax-related controversies or litigation among our investee companies, and (2) engage with issuers to promote responsible tax practices.

Issuers which might be at risk of involvement in aggressive tax-optimisation are identified thanks to selected indicators such as estimates measuring the degree (or depth) of the tax optimisation practices, the issuers' involvement in Tax-related controversies, the degree of transparency of the issuers' tax reporting, etc.

Responsible investors are confronted with a lack of reliable data about issuers' actual involvement in tax optimisation. By definition, a higher transparency would make tax optimisation more difficult, hence only few reliable data are available and therefore Arvestar must rely on estimates. For this reason, it is not possible to apply hard exclusion on issuers in a consistent and reliable manner. Consequently, Arvestar subscribes to the engagement approach implemented by the Investment manager, promoting best practices towards issuers.

OPPRESSIVE REGIMES -INTERNATIONAL SANCTIONS

Countries' adhesion to Transparency and Democratic values is paramount to be eligible in the investment universe of the Funds.

The Freedom House's Freedom in the World Index and the Economist Intelligence Unit Democracy Index are used to ensure that non-democratic countries are excluded from the portfolios of the Funds.

DEATH PENALTY

States whose legislation doesn't effectively prohibit the death penalty are subject to a negative screening criterion in the country sustainability model used by the Investment manager to screen Sovereign bonds.
For instance, Japan has not abolished the practice of the death penalty from its constitution and it still carries out several executions every year. The USA also continues to carry out the death penalty in certain states. As a consequence, both countries are penalized in the country scoring model. A country which does not apply the death penalty in practice but which has not legally banned it (e.g. Israel) will also be penalized.

HUMAN RIGHTS AND LABOUR RIGHTS

All companies/issuers which are not fully compliant with human rights and labour rights are excluded from the investment universe of the Funds : the rights relating to the prevention of child labour, the mitigation of discrimination and forced labour, the freedom of association and the right to collective bargaining, the right to a healthy and safe workplace and the labour rights pertaining to remuneration and working time.
This list directly originates in the general principles mentioned in the fundamental conventions of the International Labour Organisation and the directives of the OECD and is part and parcel of the normative screening (Global Standards) in place.

Companies/issuers which are repeatedly involved in human rights or labour rights violations, and / or which are involved in severe violations of human rights or labour rights, are excluded by mean of the ESG controversy screening or even the norms-based screening.

The approach notably (but not exclusively) covers the following Human Rights and Labour Rights aspects:

- Gender & diversity;
- Controversial involvement with governments from Oppressive regimes;
- Reported involvement with Death penalty.

CORRUPTION

The prevalence of corruption and the measures taken to mitigate it are taken into consideration in the sustainability analysis of states as well as of companies/issuers.

The corruption index of the NGO Transparency International is part of the selection criteria used when selecting government bonds. The Funds do not finance states with less than 40/100 on the Transparency International Corruption Perception Index.

With regard to corporations, the measures taken to prevent corruption are taken into consideration for all sectors. Companies/issuers which are repeatedly involved into corruption or bribery cases, and / or which are involved into severe instances of corruption or bribery, will be excluded by mean of the ESG controversy screening or even the norms-based screening.

7 Corporate engagement and shareholder action

Investments by the investment funds (whose Arvestar is the management company and whose DPAM is the Investment manager) (the “Funds”) in shares traded on a regulated market established or operating in a Member State of the European Union (“Shares”) will be made in accordance with the corporate engagement policy described hereafter.

Arvestar believes that engagement is an important tool to drive impact. Intervention by investors can contribute to broader societal goals, such as those set out in the Paris climate agreement or in the United Nations’ Sustainable Development Goals.

Engagement initiatives helps to make better informed investment decisions, based on better understanding the sustainable corporate behavior of the issuer. Active dialogue with the issuers and other stakeholders improves the quality of fundamental research. Those that can deal with the sustainability challenges will be able to thrive financially and create sustainable added value in the long term.

Arvestar also believes that close collaboration with issuers encourages them to report on their efforts to incorporate ESG challenges and adopt best practices in the industry. Arvestar’s engagement policy integrates environmental, social and governance (ESG) factors and the long-term sustainability vision of the issuers whose assets are held by the Funds, taking into account all the stakeholders of the issuers concerned (customers, suppliers, employees, environment, shareholders, etc.).

Taking into account the impact of investments to the society as a whole is paramount in building a portfolio which integrates ESG characteristics. This is based, in particular, on the identification of investments that may be detrimental to the society. Exclusion filters, and in particular the review of controversial activities, play an important role in ensuring that portfolios of the Funds are not exposed to activities deemed unethical and/or irresponsible and/or unsustainable with reputational risks and material consequences resulting therefrom.

The integration of ESG issues into the investment process is more effective if it is based on an engaged dialogue with the relevant issuers. Active and sustained dialogue with the relevant issuers is a way to refine investment decisions based on fundamental research and to share best practices and innovative solutions to ESG challenges.

The engagement policy is a management tool used to better assess overall risks, support certain values and practices, evaluate opportunities and, in so doing, encourage the relevant issuers to become more sustainable.

Arvestar’s policy on this topic integrates DPAM’s engagement policy. This policy is available on DPAM’s website (https://funds.degroofpetercam.com/responsible-investment.html).

In addition to being a management tool, 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 having delegated the exercise of the voting rights into the Funds to DPAM in its capacity as Investment manager of the Funds). DPAM's voting policy (whose scope includes the Funds) describes the manner in which DPAM exercises the voting rights attached to the Shares of issuers held by the Funds. Arvestar refers to DPAM's voting policy, which is available on DPAM's website (https://funds.degroofpetercam.com/responsible-investment.html), for more information on this subject.

Each year, Arvestar will report information on how its engagement policy has been implemented on its website, including a general description of DPAM's voting behavior as Investment manager of the Funds and an explanation of the most important votes in order to assess the progress made and the objectives to be pursued. Arvestar will refer in particular to the voting and engagement activity reports published annually by DPAM on its website (https://funds.degroofpetercam.com/responsible-investment.html).

8 Conflict of Interest policy

Arvestar has a dedicated and comprehensive Conflicts of Interests Policy. It entails a definition of conflicts of interests, maintenance of an up-to-date conflict of interests' cartography and register. An inventory of potential conflicts of interests has been drafted and the compliance department has to report suspicions of market abuses to the FSMA (local regulators). These measures ensure potential conflicts of interests can be detected and avoided.

9 Derivatives

The Funds may use derivative products for the sole purpose of currency exposure hedging (FX Forwards et FX Futures).

Hence, the Funds do not invest derivatives as a source of return or for speculative reasons. In particular, the Funds do not invest in derivatives on agricultural commodities. Forward contracts or futures were originally used to protect food producers from the risks relating to price swings, which are typical of agricultural commodities. These days, such derivatives can be used for other purposes and thereby have an adverse impact, leading to increased volatility and rising prices. Two major risks are associated with speculation on food: on one hand, rising prices occur to the detriment of poorer populations who struggle feeding themselves, while on the other hand profit maximization leads to land grabs.