PRINCIPAL ADVERSE IMPACT POLICY

Scope:	DPAS
Author: **Pre review:** **Approval:** **Approval date:** **Second level approval:** **Approval date:** **Entry into force:**	Investment Management Legal DIRECTOIRE
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Version History

Version	Date	Trigger of the changes	Approved by
V1.0	19/05/2022	Creation of the policy	DIRECTOIRE

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1. SCOPE

The aim of a Principal Adverse Impact (hereafter "PAI") Policy is to address Article 4 of the Sustainable Finance Disclosure Regulation ("SFDR" level 1), under the EU Regulation 2019/2088. Supplementing this Regulation, the Delegated Regulation (as of 06/04/2022) describes the Regulatory Technical Standards (RTS) which must be applied. Article 4 of SFDR refers to the consideration of PAI on sustainability factors at entity level. Financial Market Participants ("FMP") shall publish their policy on their website.

Each investee company has an impact on environmental, social and governance factors (be it good or bad). FMP will have to report on the adverse impacts on sustainability resulting from their investments. The EU describes these impacts as the "negative, material or likely to be material effects on sustainability factors that are caused, compounded by, or directly linked to investment decisions and advices performed by the legal entity".

The compliance with disclosure requirements under Article 4 should incentivise investments in activities that do not harm the environment or social justice. It should also stimulate investee companies to transition away from unsustainable activities. The negative impacts are also called adverse impacts, whereby the most significant Adverse Impacts are referred to as Principal Adverse Impacts (PAI).

Article 4 (1) of SFDR also sets an "explain mechanism" under which FMP must, by way of example, provide clear reasons for why they would not consider degradation of the environment or social injustice caused by their investments. All FMP are therefore concerned by this Regulation.

The European Supervisory Authorities (ESAs) confirmed that the principal adverse sustainability impact statements on an entity level set out in the RTS should apply from 1 January 2023. By 30 June each year, FMP shall publish Principal Adverse Sustainability Impact Statements on their website. The first statement should therefore be published by 30 June 2023 in respect of a reference period corresponding to the calendar year of 2022.

2. SCOPE OF APPLICATION

Degroof Petercam Asset Services ("DPAS") acts as Alternative Investment Fund Manager and Management Company under chapter 15 of the Law of 17 December 2010 concerning Undertakings for Collective Investments.

DPAS is a subsidiary of Banque Degroof Petercam Luxembourg, part of Belgium's premier independent private and investment bank named Bank Degroof Petercam ("The Group"). Being part of a larger Group, DPAS does not have a derogation under SFDR Article 4. The PAI of DPAS should be reported at the Group level.

DPAS delegates most investment decisions to third-party managers. DPAS aims to engage with clients to enhance their practices towards ESG integration. For the funds it manages directly, with or without the help of an advisor, DPAS may not be able to consider PAI on sustainability factors as the strategies implemented may have divergent investment objectives and/or the availability of data can be too poor (small caps, emerging countries…).

Nevertheless, DPAS welcomes the initiative of considering PAI in investment decisions. Sustainability risks have been incorporated into DPAS' Risk Management Process.

To ensure comparability among different FMP, the RTS set out a mandatory reporting template to describe how PAI on sustainability factors are taken into consideration in investment decisions. The RTS divide indicators into a core set of universal mandatory indicators (irrespective of the result of the assessment by the FMP) and additional opt-in indicators (for both environmental and social factors) to identify, assess and prioritise the consideration of PAI. In addition, the RTS also require a summary section and information on policies on the identification of PAI as well as actions taken and planned to mitigate the PAI (i.e. reduction of carbon emissions by means of engagement or other policies), or adherence to international standards and historical comparisons.

It is important to ensure that adverse impacts of investment decisions on climate, or other environment-related sustainability factors, are considered as important as adverse impacts of investment decisions on social, employee, human rights, anti-corruption or anti-bribery sustainability factors.

FMP that consider PAI for the first time in a given calendar year should be treated appropriately while it should also be ensured that end investors receive sufficient information before taking their investment decisions. FMP should disclose the actions they plan for the subsequent reference period to avoid or reduce any PAI identified. They also should disclose information about their policies to identify and prioritise PAI on sustainability factors and the international standards they will apply in that subsequent reference period.

Some distinctions need to be made within DPAS between delegated fund managers (which need to disclose the information on their own website as long as they have one) and the funds managed directly by DPAS with or without the help of an advisor.

Each FMP applying PAI needs to disclose 18 mandatory indicators and 2 optional indicators.

PAI are not monitored within DPAS Risk Management Process but are available through the data provider used by DPAS. Depending on data availability, DPAS will work on a best-effort basis to collect the information. The lack of reliable information may remain a challenge in the near future.

DPAS is not signatory of an international initiative at this stage. Nevertheless, DPAS welcomes delegated managers who are signatories of such initiatives.

3. PRINCIPAL ADVERSE IMPACTS

3.1. Relevant adverse impacts

Annex I of Delegated Regulation provides definitions linked to principal adverse sustainability impacts and the formulas that must be applied to calculate some criteria. These definitions can be found on the following link:

https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_annexe_acte_autonome_part1_v6.pdf

The table below highlights the 18 mandatory indicators for FMP:

Indicators applicable to investments in investee companies						
Adverse Sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions				
		Scope 2 GHG emissions				
		Scope 3 GHG emissions				
		Total GHG emissions				
	2. Carbon footprint	Carbon footprint				
	3. GHG intensity of investee companies	GHG intensity of investee companies				
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector				
	5. Share of non-renewable energy consumption and production	Share of non -renewable energy consumption and non - renewable energy production of investee companies from non - renewable energy sources compared to renewable energy sources, expressed as a percentage of total				
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector				
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas				
Water	8.Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average				
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average				
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational				
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC				
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee				
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members				
	14. Exposure to controversial weapons (anti -personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				

Indicators applicable to investments in sovereigns and supranationals						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Environmental	15. GHG intensity	GHG intensity of investee countries				
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable,				
Indicators applicable to investments in real estate assets						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil				
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy inefficient real estate assets				

The optional PAI can also be found on the website stated above. Those optional PAI have not been yet decided within the Group and will also depend on data availability.

3.2. At the entity level

The Group consists of 4 major business lines: DPAM, Private Banking, Investment Banking and Asset Services. Each of them may have different needs, specificities or requirements in terms of sustainability.

The Group has established an ESG Strategy Governance Committee to coordinate the 4 business lines. PAI will be reviewed and coordinated at The Group level. The reporting of PAI must avoid double accounting so a methodology needs to be defined.

As DPAS is not always the sole investment decision maker, some of its investment managers and/or advisors may not consider sustainability. In consequence, some of its financial products may not follow the PAI which have been described. DPAS can nevertheless accompany those delegated managers to enhance their practices as DPAS recognizes the importance of taking environmental and social matters as well as governance into consideration.

3.3. At fund level

Article 7 of SFDR details that for each financial product where a FMP applies Article 4 (1) SFDR, the disclosures must include an explanation on how the financial product considers PAI on sustainability factors. In the case the FMP would not apply PAI, the disclosures of the financial product should nevertheless include a statement explaining the reasons therefor.

Financial products promoting environmental or social characteristics need to take PAI into account if they have a sustainable investment as an objective. The information provided to investors must not be misleading.

Each financial product will need to make disclosures by 31 December 2022.

4. DPAS Sustainable Meeting

DPAS has established a Sustainable Meeting gathering two members of the Management Board, the Risk Management, the Legal, the Investment Management, the Reporting and the Compliance Departments of DPAS. The Group Sustainability Manager as well as representatives of the Private Banking are also invited to the Meeting.

The Meeting gather all information on Sustainable developments across the different departments of DPAS. The Meeting will review the PAI policy as well as the Global Sustainable Policy when necessary and suggest the Management Board to validate propositions of change and/or adaptation of those policies.

5. LINKS WITH OTHER POLICIES AND PROCEDURES

This policy is linked to the following policies and procedures.

List	Procedure/policy
1.	Global Sustainable Investment Policy
2.	Remuneration Policy

6. LEGAL AND REGULATORY SOURCES

No.	Type (law, regulation, circular...)	Source
1.	Regulation	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
2.	Regulation	Taxonomy Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

7. ROLE AND RESPONSIBILITY

	Compliance	Business (DPAS)	Legal
Policy	C, I	R, A	C, I

R Responsible A Accountable C Consult I Inform