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Climate policy

Belfius Asset Management



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1. About Belfius Asset Management

Belfius Asset Management (hereafter: Belfius AM) is a management company recognized by the FSMA for UCIs (Undertakings for Collective Investments) and mutual investment funds, including alternative funds. Belfius AM is a subsidiary of Belfius Bank, and is therefore strongly anchored in the Belgian financial sector. Our activities mainly consist of the management, administration and distribution of investment solutions through a diversified range of investment funds.

Our objective is to add value to our end investors, both from a financial and from a wider societal perspective, by managing our portfolios proactively and by working together with a number of renowned asset management partners. We strive to create long-term and sustainable value and to be meaningful and inspiring for Belgian society in a credible manner. Belfius AM has a long history in managing sustainable investment products, allowing our clients to invest in the transition to a more sustainable economy.

Belfius AM currently has four distinct models of investing:

- 1) **Belfius AM funds of funds:** These are investment funds for which our internal fund selection and portfolio management teams analyze and select underlying Exchange Traded Funds (ETFs) and Undertakings for collective investments (UCI) of third-party asset managers. These UCIs are collective investment vehicles that we select based on various aspects, such as investment strategy, financial performance, costs, and responsible investment approach and capabilities
- 2) **Delegated funds:** These are investment funds for which Belfius AM is the management company and for which we have delegated the investment management of the assets to an external manager. These external investment managers are currently Candriam & BlackRock Investment Management.
- 3) **Funds in direct lines** managed by Belfius AM's fund management teams: These are investment funds for which Belfius AM invests directly in individual securities.
- 4) **Private Portfolio Management:** This concerns discretionary portfolio management (discretionary portfolios) and investment advice (advisory portfolios) for private clients of Belfius Bank, with Belfius AM appointed as delegated investment manager by Belfius Bank. For these mandates, the private portfolio management team can invest in ETFs, funds, individual securities, alternative investments and/or derivatives.

2. Belfius Asset Management Responsible Investment Framework

We are convinced that the systematic incorporation of sustainability or Environmental, Social and Governance (ESG) factors allows investors to better understand both the risks and opportunities in financial markets and therefore generates robust risk-adjusted returns. In addition, we fully recognize the role we have as an investor and our ability to use the capital we invest on behalf of our clients to not only generate financial returns, but to also create beneficial change. We have therefore developed a responsible investment approach that is aimed at allowing us to achieve strong investment returns, while also mitigating the adverse impacts of our investment decision-making and delivering societal returns, in line with the expectations of our clients and other stakeholders.

Please refer for more information to our Responsible Investment Policy, which can be found on our Sustainability page: <https://www.belfius.be/belfiusam-fr-esg> or <https://www.belfius.be/belfiusam-nl-esg>.

3. Introduction & Scope

Belfius AM recognizes the crucial significance of climate change and the pivotal role it plays in society and several sectors. The actions taken by companies that are exposed to climate risks can have profound effects on the environment and the welfare of humanity. To address this issue, Belfius AM is committed to integrating climate change considerations into our investment strategies. First, we aim to reduce negative effects by excluding particularly harmful sectors, such as, for instance, thermal coal. Secondly, and more importantly, we engage with external fund managers and investee companies to promote positive impacts, and mitigate risks related to climate. To that end we monitor a range of indicators, including PAI indicators, that provide us with an indication on negative climate change impact of an investee company's activities.

In addition, we encourage our external asset managers to formulate a comprehensive policy on climate as part of our ongoing efforts to promote sustainable practices. The policy aims to ensure that our investments are aligned with our commitment to mitigate climate-related risks. Therefore, we encourage our external asset managers to consider the impact of their investments on climate change and to develop strategies that promote responsible and sustainable business practices.

When assessing climate risks, Belfius AM pays attention to a number of specific sectors and risks, which are set out below. This Climate Policy outlines how climate change is integrated into the investment process of funds managed by Belfius Asset Management.

4. Our Approach

4.1 Transition Acceleration Policy: exclusion of high-emitting activities

The [Transition Acceleration Policy](#) guides Belfius' transition to a low-carbon economy. The TAP is applied to all Belfius subsidiaries and has tailored expectations on controversial activities for investments. Belfius AM assures the adherence to the TAP of both the internally managed funds and the funds for which management is delegated to external partners. The TAP establishes criteria for activities with high impact on climate change:

- **Progressive exit from coal throughout the coal value chain**

According to the [NZE scenario](#) provided by the International Energy Agency (IEA), the world can only stay within safe limits of global warming and meet the goal of net zero emissions by 2050 if it refrains from opening new coal mines or mine extensions. Moreover, a decline in the global demand for coal is a projected trend across all the scenarios (STEPS, APS, NZE) according to the IEA [World Energy Outlook 2023 \(Figure 1\)](#). In the STEPS scenario, coal demand declines gradually. In the APS scenario, it drops 25% below current levels by 2030, and 75% by 2050. In the NZE Scenario, global demand falls by around 45% in 2030 and 90% by 2050.¹

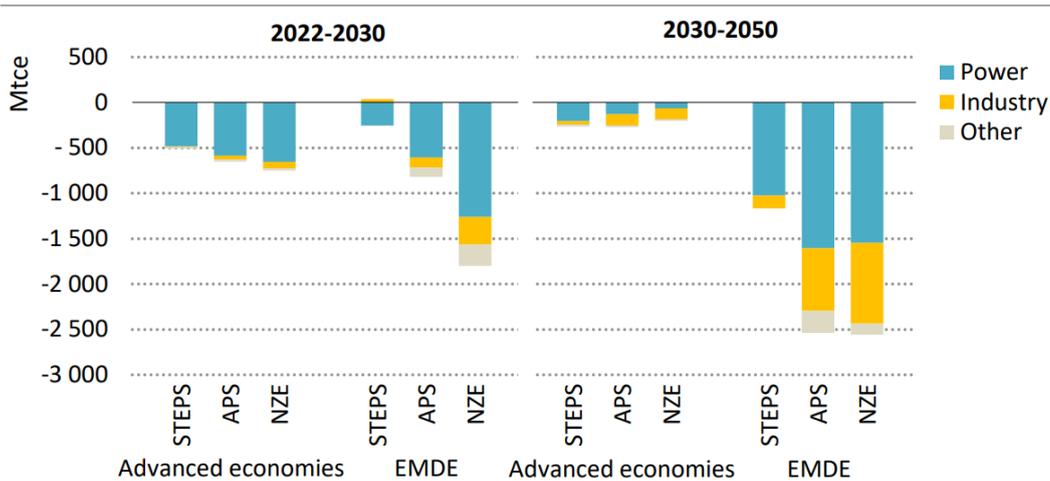
Considering these global projected trends of global coal demand decline and the critical need to tackle coal emissions due to its severe impact on climate change, Belfius AM foresees a progressive phase out of the coal value chain until 2030 in its investment portfolios:

- *From 2030 onwards all coal companies are excluded, in line with Belfius' energy vision.*
- *Moreover, already from 1 August 2024 onwards all coal extraction companies are excluded as well as any company with expansion plans in coal mining or coal-based power generation*

¹ [World Energy Outlook 2023 \(windows.net\)](#), p.141

Figure 1. Projection of global coal demand (World Energy Outlook 2023, IEA)

Figure 3.27 ▸ Change in coal demand by region, sector and scenario, 2022-50



IEA. CC BY 4.0.

Coal demand drops sharply in the NZE Scenario from 2022 and in the APS from 2030, mostly due to pledges from China and India to achieve net zero emissions after 2050

Notes: Mtce = million tonnes of coal equivalent; EMDE = emerging market and developing economies. Other includes buildings, agriculture and other energy sector.

- **In addition, the Transition Acceleration Policy addresses and establishes thresholds for companies involved in fossil fuels**

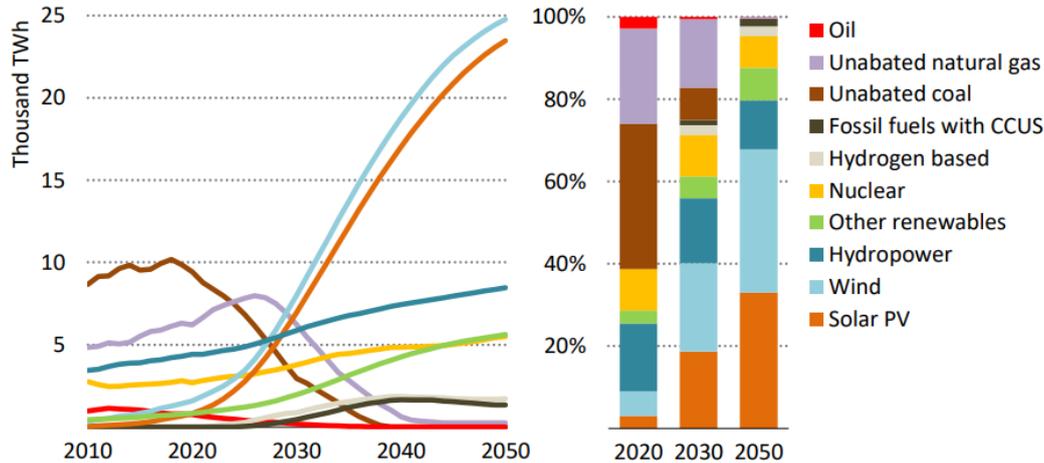
A major contraction of fossil fuels is envisioned by the NZE scenario, with far-reaching implications for the companies that produce fossil fuels. Similarly to coal, no fossil fuel exploration is required in the NZE scenario as no new oil and gas fields are required beyond those that have already been approved for development. The following rules are applied to companies active in fossil fuels:

- **Unconventional oil & gas.** Companies active in unconventional oil and gas extraction (shale gas, shale oil, tar sands, arctic drilling, deep water drilling, extra heavy oil) are excluded
- **Conventional oil & gas.** to be eligible for investment, the company's CAPEX for renewable energy activities shall be higher than 20% and the company shall not have expansion or exploration plans in relation to fossil fuels
- **Electricity generation.** The transformation of the electricity sector is central to achieving net-zero emissions in 2050. According to the [NZE scenario](#), CO₂ emissions from electricity generation fall to zero in aggregate in advanced economies in 2030 (Figure 2). In the emerging markets and developing economies this shift is estimated to happen around 2040. The TAP has the following requirements for electricity companies to be eligible for investment:

The carbon intensity (expressed in gCO₂/kWh) of these companies must be below the predefined Paris-aligned thresholds. If data is not available, then thresholds are defined for coal-based and oil & gas electricity production.

Figure 2. Global electricity generation by source in the NZE scenario (Net Zero by 2050, IEA)

Figure 3.10 ▶ Global electricity generation by source in the NZE



IEA. All rights reserved.

Solar and wind power race ahead, raising the share of renewables in total generation from 29% in 2020 to nearly 90% in 2050, complemented by nuclear, hydrogen and CCUS

4.2 Transition Acceleration Policy - Controversy Screening

Belfius AM apply a norms-based analysis on its investments which is built on the foundation of the 10 Principles of the United Nations Global Compact. Any company breaching the Global Compact's principles by being involved in controversies related to climate change, is identified, sanctioned, and excluded. This approach ensures that Belfius AM remains committed to upholding the highest standards of environmental responsibility and sustainability.

4.3 Engagement

• Engagement with individual securities' issuers

We monitor the evolution of PAIs related to climate, and in case a concerning evolution is observed, we engage with the company with the aim to improve the companies' performance. Companies breaching UN Global Compact or having a high level of controversies can be also subject to engagement.

In addition, through our external data providers, Belfius AM participates in collaborative engagement initiatives, encouraging portfolio companies to achieve net zero emissions goals by 2050. To select companies for engagement, we take into account factors such as involvement in high-emitting industries, market share, exposure within major equity indices, as well as the weight of these companies in our portfolios.

The net zero transition collaborative engagement addresses the key stages of companies' net zero pathway:

- Governance:
- Risk Management and Impact Assessment
- Strategy

- Targets and Performance
- Transparency and Accountability

Our collaborative engagement initiative applies a structured and strategic engagement approach. The industries that are engaged in priority are those with the highest impact on climate change – utilities, chemicals, diversified metals, oil & gas producers, steel, construction metals, refiners & pipelines and transportation. Then, based on the engagement responsiveness of companies and their scope of changes made towards the engagement objective, a rating is made and a predefined escalation procedure is applied. The intermediate objectives of this collaborative engagement can be different, varying from enabling companies to set GHG reduction targets with SBTi and to align the reporting with TCFD framework guidelines.

- **Engagement with external fund managers**

Beflius AM engages with external funds at different stages of the fund selection and investment management processes. Portfolio managers can engage with funds to address positions that are not compliant to our Transition Acceleration Policy (TAP), including high-emitting companies that do not pass criteria for coal or/and oil & gas, breaching the environment pillar of UN Global Compact or having controversies related to climate and emissions. Portfolio managers can engage with external funds if a concerning evolution of climate-related PAIs is observed.

- **Towards Sustainability label – focus on climate**

In the framework of the [Towards Sustainability Quality standard](#), additional criteria are applied with regards to climate-related performance of our labelled products. Beflius-branded labelled products' GHG intensity must be at least better than the GHG intensity of the portfolio's reference benchmark(s).

If the portfolio does not have a reference benchmark, the GHG intensity of the portfolio shall be at least better than an appropriate regionalized GHG intensity level set by the Central Labelling Agency (CLA).

The regionalized GHG intensity levels will be determined annually by the CLA and based on the GHG intensity of regional broad market benchmarks. Regions are Europe, US, Rest-of-World (not Europe and not US), World. Current regionalized GHG intensity levels are:

Values, in tons CO ₂ e/M	Europe	US	Rest-of-World	World
Corporates – GHG Intensity Scope 1+2	215	169	683	460
Corporates – GHG Intensity Scope 1+2+3	811	973	1529	1237

Therefore, the labelled products are regularly monitored and their GHG intensity is verified to perform better than the portfolios benchmarks or regionalised market benchmarks.

In addition, the Towards Sustainability label addresses the high-emitting sectors and established exclusion criteria for the investee companies in the labelled portfolios to respect if they are active in the following activities:

- Coal
- Unconventional oil & gas
- Conventional oil & gas
- Power generation

Beflius AM engages with external fund managers to ask them to provide us with necessary information on how the underlying positions are compliant with the label's Quality Standard.

4.4 ESG integration

For our funds of funds, we have a dedicated fund selection team which identifies funds that are worth further consideration. One of the steps of Belfius AM fund selection process is a qualitative assessment. We require the portfolio manager of the fund to complete a detailed investment strategy questionnaire. The key aspects of the questionnaire include a synopsis of the fund characteristics, a description of the fund's risk and key ESG topics. In the context of this policy, we ask whether the fund manager has a climate policy, among other policies related to ESG.

5. Governance

Procedures for the implementation of this policy are reviewed regularly for continuous improvement. In our commitment to adapting and improving, this policy will evolve over time to accommodate new commitments, alterations in our practices, and shifts in regulations.

This policy was issued as at 26/06/2024.

Please refer to Belfius AM's website (<https://www.belfiusam.be/nl/index.aspx> or <https://www.belfiusam.be/fr/index.aspx>) for more details on the company's responsible investment approach.