Sustainable Investment Policy

Nagelmackers' definition of 'sustainable investment' under Sustainable Finance Disclosure Regulation (SFDR)

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Introduction

Aligned with the European Green Deal and the 2030 Agenda, the European Union's Action Plan on Sustainable Finance outlines three primary objectives: (1) reorienting capital towards sustainable investments; (2) manage financial risks stemming from climate change, resource depletion, and environmental degradation; (3) and fostering transparency and long-termism in financial and economic activity.

To achieve these goals, the European Union has introduced regulatory initiatives like the Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, Corporate Sustainability Due Diligence (CSDD), and the Corporate Sustainable Reporting Directive (CSRD), etc. SFDR, a pivotal component of the plan, enhances transparency through sustainability-related disclosures to financial products, marketed in the EU, and to their manufacturers and financial advisers.

Side to committing to transparency and disclosure in line with SFDR, Bank Nagelmackers nv also commits to act as a responsible investment manager, notably by integrating Environmental, Social and Governance (ESG) criteria in its investment decisions and operations; and by making well-informed decisions within this ever-evolving financial landscape. This requires a coherent and consistent approach, a holistic and critical mindset, and more importantly a sense of responsibility towards all stakeholders.

We believe incorporating ESG enhances value creation for our investors over the long term by providing a holistic understanding of our investments (on financial, operational, reputational aspects) and allowing us to fulfill our fiduciary duty while considering long-term risks and opportunities.

Bank Nagelmackers' ambition is to apply its responsible policies to investments under portfolio management wherever possible and although methodologies could differ according to the investment strategy managed, the objective of the financial product, the asset class or investment type (corporate, sovereign, UCI's), or a combination.

Our ambition is also to utilize various approaches that can be exclusive or combined: activity-based or sector-based negative screening, norms-based screening, ESG-integration, best-in-class, thematic sustainable investing, impact investing, engagement and/or voting. Independent the ESG approach, they mainly share the same objective: minimize negative impacts and maximize positive societal impacts; through various approaches, enriching the overall investment strategy. Those approaches can be complementary but might also bring some complexity.

This policy provides Bank Nagelmackers' definition to 'sustainable investment' under the Sustainable Finance Directive Regulation (SFDR). Bank Nagelmackers developed a proprietary Sustainable Investment framework to define what it considers a 'Sustainable investment' under SFDR. 'Sustainable investment' is defined by Bank Nagelmackers nv for corporate investments on company level. As for now, Bank Nagelmackers has not yet defined 'sustainable investment' for sovereign investments.

The policy is approved by the Sustainability Committee ('SC') of the Asset Management Department of Bank Nagelmackers, made available on Bank Nagelmackers' website and updated on a regular basis.

Sustainable investment under SFDR

Under the current regulatory context, the definition of 'sustainable investment' is described within the European Union's Sustainable Finance Disclosure Regulation (SFDR 2019/2088).

The Sustainable Finance Disclosure Regulation (SFDR) defines a Sustainable Investment as one made in an economic activity that **(1)** contributes to an environmental or social objectives, **(2)** provided it does not significantly harm other objectives (DNSH), and **(3)** follows good governance practices (GG).

In SFDR article 2(17), a 'sustainable investment' is defined as: *"an **investment in an economic activity that contributes to an environmental objective**, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, **or an investment in an economic activity that contributes to a social objective,** in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, **provided that such investments do not significantly harm any of those objective**s and **that the investee companies follow good governance practices,** in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance"*

Good to know:

- SFDR is originally not made to classify investments, but instead to be transparent and disclose on sustainability methodologies and results.
  For example, for financials products complying with Article 8 or Article 9 disclosure requirements under SFDR assets managers are expected to disclose on the E and S characteristics of the product and if any commitment to a minimum proportion of their investments in 'sustainable investment' (without any obligation to make sustainable investments for a financial product that complies with the Article 8 disclosure requirements).

- Currently, the regulatory definition of 'sustainable investment' is rather broad and leaves room for interpretation. For example, the SFDR does not clearly state what criteria or thresholds should be incorporated in the assessment, leaving assets managers some flexibility to determine measurements and leading to differences between financial market participants' definition of the 'sustainable investment'. There is currently no harmonized definition or methodology. However, we see some common market practices developing such as the use of the United Nations Sustainable Development Goals (UN SDG's) as a reference value.

Nagelmackers' definition of 'sustainable investment'

Side to incorporating ESG by excluding companies exposed to controversial activities or behaviors, or selecting leading ESG-performing companies (i.e. best-in-class), Bank Nagelmackers extended company assessments to also consider positive impacts of companies and promote those companies which either offer solutions to ESG challenges or are transitioning their business models to integrate those ESG challenges and which turn those challenges into opportunities.

Bank Nagelmackers Sustainable Investment Framework aligns with the SFDR definition for 'sustainable investment' and embraces a set of criteria and indicators used to assess the sustainability characteristics of an investment.

Based on our assessment for a company being a 'sustainable investment' is one that invests in an economic activity:

1. that contributes to an environmental or social (E/S) objective;	For the contribution to an environmental or social objectives, a company should contribute positively through one of the following criteria (**contribution assessment**): • Performing in the top three deciles of its peer group on minimum two mandatory, quantitative **Principal Adverse Impact** (PAIs) indicators; • **OR** have minimum 7% of its total revenues aligned with an environmental or social objective as defined in the **European Taxonomy;** • **OR** have minimum 20% of its revenues aligned with the **Sustainable Development Goals** of the United Nations.
AND **2. does not significantly harm any E/S objectives (Do No Significant Harm, DNSH);**	If a company passes the contribution assessment, we then ensure that it is not having any other material negative environmental or social impact. A company will 'pass' the **DNSH assessment** if it is: • Not scoring in lowest decile on one of the mandatory, quantitative PAIs; • **AND** not subject to PAI 10 (violations of UNGC or OECDG) or PAI 14 (exposure to controversial weapons); • **AND** not on Bank Nagelmackers' blacklist; • **AND** not receiving the worst NM ESG Rating.
AND **3. follows good governance practices (GG).**	A company must adhere to Good Governance practices, by 'passing' the **GG assessment** if it is: • Not subject to PAI 10 (violations on UNGC or OECD); • **AND** not on Bank Nagelmackers blacklist; • **AND** not among the worst NM ESG Rating.

With this assessment, we make sure that companies positively contribute either through their products and services, or through their practices or conducts. The assessment combines:

- "Product contribution", providing products and services to support a sustainable planet and society (based on business activities and their contribution to sustainability challenges on climate change, health, digitalization, etc.)

- and “Operational contribution”, having sustainable practices towards their stakeholders to avoid harm (referring for example to international norms and conventions on respect of human rights, fight against corruption and bribery, etc…) and ensure good governance quality.

This Sustainable Investments Framework enables to assess whether investments can be considered as a ‘sustainable investment’, and to disclose the minimum proportion of “Sustainable Investments” within financials products or portfolios managed by Bank Nagelmackes nv, that commit to a minimum proportion. It also allows monitor the compliance of the product or portfolio to the minimum level of commitments.

Good to know:

- **This policy explains Nagelmackers’ framework for defining a ‘Sustainable Investment’. Currently, this framework only applies to Corporate entities (equities and bonds). In the future, an extension of the framework with specificities linked to Sovereign, or indirect investments via UCI’s will be investigated.**

- While each criterion or indicator selected can be useful to understand the sustainability characteristics of the investment, the criteria and indicators can evolve over time as new data becomes available and as regulatory requirements change. Keeping up with these changes can be challenging, and outdated data may not reflect current sustainability issues accurately. Accurate assessment requires high-quality, reliable data, which might not always be available. It therefore remains essential that each indicator is considered alongside other metrics and frameworks to obtain a comprehensive view and is completed by a qualitative analysis to put the figures into perspective.

- Despite potential limitations on some indicators, we expect those to undoubtedly increase in importance in the coming years.

- Besides, Bank Nagelmackers is a strong believer of active ownership: engagement and dialogue to enable all stakeholders to improve the data and disclosure in order to achieve the objectives of the EU regulation.

More information on the environmental or social objectives promoted at by the financial products managed by Bank Nagelmackers nv, can be found in the SFDR pre-contractual disclosure (Annex II) or Website disclosure at www.nagelmackers.be

1. Contribution to an environmental or social objective

To determine whether an investment contributes to an environmental or social objective, a set of criteria and indicators with specific thresholds are defined for the contribution assessment. Note that these criteria, indicators and thresholds can be modified in the future in function of a review of the proprietary framework.

To identify if a company contributes to an environmental or social objective and passes the **contribution assessment**, we assess the alignment of the company to three criteria below. Once the company contributes by one of the criteria, the company "passes" the contribution assessment.

In our Sustainable Investment framework:

1. Contribution to an environmental or social objective

An investment will 'pass' the contribution assessment if the company:

- Is performing in the top three deciles (among best performers – PAI score 1, 2 or 3) of its peer group on minimum two mandatory, quantitative Principal Adverse Impact (PAIs) indicators;
- **OR** has minimum 7% of its total revenues aligned with an environmental or social objective as defined in the European Taxonomy;
- **OR** has minimum 20% of its revenues aligned with the Sustainable Development Goals of the United Nations.

The three contribution criteria are further described in the next paragraphs.

1.1. Contribution through Principal Adverse Impact (PAIs) indicators

The first criteria to assess the contribution of an investment to an environmental or social objective is defined by using the Principal Adverse Impact (PAIs) indicators.

The Principal Adverse Impact indicators are a set of indicators, mandatory and additional ones, provided at European Union level that allow to assess the negative, material effects of an investment decisions on sustainability factors related to environmental matters, social and employee matters, respect for Human rights, anti-corruption and anti-bribery matters.

List of mandatory (SFDR, Table 1) and selected Additional PAIs of Bank Nagelmackers nv:

Sustainable theme	PAI Indicator
Climate	GHG Emissions (PAI 1)
	Carbon Footprint (PAI 2)
	GHG Intensity of Investee Companies (PAI 3)
	Exposure to Companies in Fossil Fuels (PAI 4)
	Share of Non-Renewable Energy (PAI 5)
	Energy Consumption Intensity (PAI 6)
Environment	Activities Negatively Affecting Biodiversity-sensitive Areas (PAI 7)
	Emissions to Water (PAI 8)
	Hazardous Waste (PAI 9)
	Investments in companies without carbon emission reduction initiatives (Additional PAI)
Social Issues, Human Rights and Controversies	Violations of UNGC principles and OECD (PAI 10)
	Lack of Processes and Compliance Mechanisms to Monitor Compliance with UNGC and OECD (PAI 11)
	Unadjusted Gender Pay Gap (PAI 12)
	Board Gender Diversity (PAI 13)
	Exposure to Controversial Weapons (PAI 14)
	Incidents of Discrimination (Additional PAI)
	Lack of anti-corruption and anti-bribery policies (Additional PAI)

The integration of PAIs into investment decisions and processes means that the investment manager aims to limit its negative impact on the selected themes by monitoring the indicators and reducing their impact.

PAIs are considered in multiple ways in Bank Nagelmackers' sustainability processes and through several different means. For example, in the proprietary Nagelmackers ESG scoring model[1] all relevant mandatory PAIs and a set of additional PAIs are integrated in the NM ESG Rating. Each PAI indicator is assessed within its peer group and gets ranked from 1 to 10, where 1 is the best and 10 is the worst. This allows us to conduct an in-depth assessment of the risks and opportunities linked to PAIs.

In our Sustainable Investment framework:

1.1. Contribution through Principal Adverse Impact (PAIs) indicators

An investment will contribute positively to an environmental or social objective is the company is **performing in the top three deciles** (among the best performers - PAI scores 1, 2 or 3) within its peer group **on minimum two mandatory, quantitative Principal Adverse Impact (PAIs)** indicators applicable to their industry;

The mandatory, quantitative PAIs (SFDR, Table 1) selected are: Carbon intensity (PAI 3), Share of Non-renewable energy consumption and production (PAI 5), energy consumption intensity per high impact climate sector (PAI 6), emissions to water (PAI 7), hazardous waste (PAI 9), unadjusted gender pay gap (PAI 12) and board gender diversity (PAI 13).

Note: An exception was made for the mandatory PAI 1, 2 and 3 where we identified potential overlaps between the three PAIs (as they measure similar things). Scoring well across PAI 1, 2 and 3 could therefore lead to an overestimation of sustainability performance. Of the three PAIs, we therefore only consider PAI 3 on Carbon Intensity in the contribution assessment of the Sustainable Investment framework.

[1] Nagelmackers' proprietary ESG scoring model is defined in other documentation available on the website www.nagelmackers.be

Good to know:

- European legislation does not prescribe how financial products should take into account PAIs. This can be done in various ways, such as monitoring indicators, setting a threshold, applying exclusions, engaging with issuers, or establishing a voting policy or a combination of different methods. As a result, assessing how the industry will develop on this aspect is complex.

- Besides, it is important to underline the challenge that the accessibility and quality of the requested PAI's represent today. It is recognized that not all companies report on these indicators; that the measures are not standardized and at the discretion of the company itself. However, the availability of data should improve with company reporting as CSRD (Corporate Sustainability Reporting Directive).

- PAIs primarily focus on negative impacts, such as adverse environmental or social effects. This focus might not provide a complete picture of an investment's overall sustainability performance, especially if positive impacts are not considered by its side.

1.2. Contribution through European Taxonomy

The second criteria to assess the contribution of an investment to an environmental or social objective is defined by using alignment to the European Taxonomy.

With Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investments (the "Taxonomy Regulation"), the European legislator has established a classification system for economic business activities that are considered "sustainable" from an environmental or social perspective.

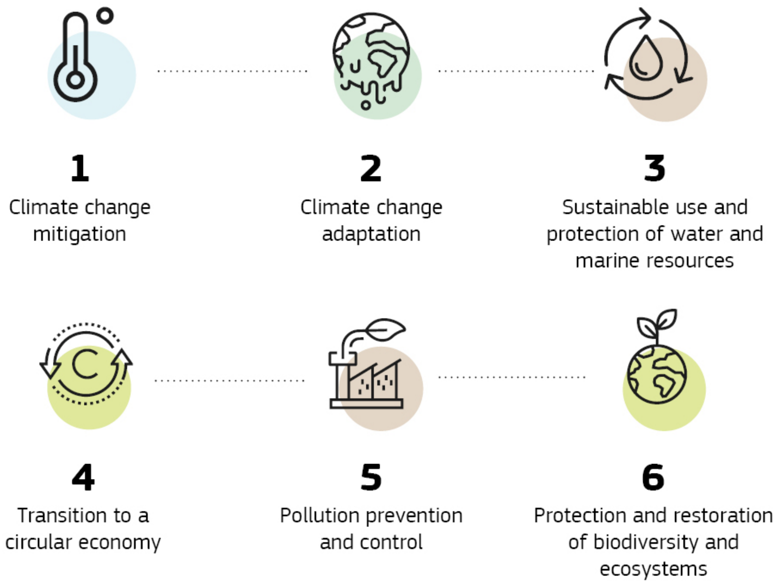
In order to be considered having alignment with the Taxonomy and be classified as "sustainable" by the Taxonomy, economic activities need to be in line with the following elements:

1. Substantially contribute to *at least one of the objectives* as defined in *the Taxonomy Regulation* through meeting the Technical Screening Criteria (TSC) which are sector-specific, granular and scienced-based requirements and thresholds for an activity to be considered as significantly contributing to a sustainable objective;
2. without causing significant harm to any of the other objectives (and with no involvement in any significant controversy);
3. and while meeting minimum safeguards (social or governance criteria) provided by the Taxonomy Regulation (with for example, alignment with OECD guidelines or no involvement in any significant controversy relating to social or governance topics).

Taxonomy-aligned activities can be expressed as a share of:

- **Turnover** reflecting the share of the revenues from environmental activities of the investee companies
- **Capital expenditure** (CapEx) that shows the investment spendings made by the investee companies towards environmental activities, e.g. for a transition to a green economy.
- **Operating expenditure** (OpEx) that reflects operational spendings made by the investee companies towards environmental activities.

The 6 environmental objectives in the European Taxonomy regulation:



Source: European Commission

This means that companies will have to analyze their activities themselves, and provide the percentage of revenues (or CapEx or OpEx) from eligible activities and their alignment to the EU Taxonomy; *or in other words, the total revenues from products or services on the list of eligible activities and their alignment with the Technical Screening Criteria that define how the activity must be conducted to be sustainable*. For companies that do not report on this (yet), estimations can be made.

Only the revenues that comply with all the steps can be used to calculate the percentage of alignment with the EU Taxonomy.

In our Sustainable Investment framework:

1.2. Contribution through EU Taxonomy

An investment will contribute positively to an environmental or social objective if it has **minimum 7% of its total revenues aligned with** one of the environmental or social objectives defined in the **European Taxonomy**; *calculation based on the Technical Screening Criteria* for the eligible activities of the company.

Good to know:

- The European Taxonomy is still at the beginning. The activities listed represent only a segment of our economic life. For example, catering activities are currently not included. Consequently, few activities can be considered “aligned with the Taxonomy” for now. As new sectors and activities are added, there may be uncertainty and a need for continuous adaptation by investors and companies.
- Besides, some industries might find it easier to meet the criteria, while others, particularly those in transition or with complex supply chains, might struggle to align with the standards. The need to collect and report detailed data to comply with the Taxonomy can be burdensome, time-consuming and costly, especially for smaller companies or those with limited resources.
- The criteria set by the Taxonomy are fixed and might not adapt quickly to technological advancements or new sustainability practices. This rigidity can make it difficult for innovative solutions to be recognized as sustainable.
- The inclusion of nuclear power and gas remains a point of discussion.
  The Taxonomy primarily focuses on environmental sustainability, which might lead to a too narrow assessment of sustainability. Social and governance aspects are less emphasized, which can result in a less comprehensive view of an investment's overall sustainability performance.
- Third party data providers can only provide estimates of alignment with the Taxonomy Regulation. The European Commission therefore recommends asset managers to avoid committing and disclosing percentages of investments in environmentally sustainable economic activities when reliable data is not available.

1.3. Contribution through Sustainable Development Goals of the United Nations (UN SDGs)

The third criteria to assess the contribution of an investment to an environmental or social objective is defined by using alignment to the Sustainable Development Goals of the United Nations.

United Nations’ 17 Sustainable Development Goals (SDGs), adopted in 2015 and for 2030 horizon, address the major challenges of our time and our world; by covering environmental challenges as climate change and the preservation of natural ecosystems, of course, but also the ability to meet everyone's basic needs and emancipation in the broadest sense; It sets out goals such as to end poverty, fight inequality, ensure access to water and education, reduce major pandemics risks, safeguard the planet, etc.

Although the SDGs were initially created by and for governments, the United Nations also stressed from the outset that businesses also had a crucial role to play, by taking their responsibilities to the world to heart and by seeing this as a long-term opportunity too. Furthermore, given SDGs are broadly defined, businesses and investors can also use them to report on their contribution to sustainability objectives.

17 Sustainable Development Goals of the United Nations:

Source: United Nations

A company can have revenues aligned to the SDGs if its activities, products and services contribute, for example, to sustainable infrastructure, responsible consumption and production, the fight against climate change; by inventing alternative business models such as: the circular economy, the functionality economy, the collaborative economy, or biomimicry; or by inventing concrete solutions such as new forms of energy and storage, or innovative materials.

This contribution can either be direct - through products and services that directly address one of the goals – or be indirect, (i.e. supply chains) - through products and services sold to companies that are themselves direct contributors. For example, products and services helping diagnose or treat health issues have a direct contribution while their suppliers (e.g. technology and devices manufacturers) have an indirect contribution to the health objective.

In our Sustainable Investment framework:

1.3. Contribution through Sustainable Development Goals of the UN (UN SDGs)

An investment will contribute positively to an environmental or social objective if it has **minimum 20% of its revenues aligned with the Sustainable Development Goals** of the United Nations.

The SDG's can be grouped and linked to an environmental or social objective. Environmental linked SDGs are SDG 6, 7, 9, 11, 12, 13, 14 and 15. Social linked SDGs are SDG 1, 2, 3, 4, 5, 8, 10, 16, 17.

Within the SDG contribution assessment, a company must positively contribute by minimum having 20% of its revenues aligned to an environmental or social SDGs to be considered as an investment with an environmental or social objective. Note that not all SDGs are investable.

<u>Good to know:</u>

- There is no single, universally accepted methodology for quantifying contributions to the SDGs. This lack of standardization can lead to inconsistent assessments and difficulty in comparing investments.
- Many SDG targets are qualitative rather than quantitative, making it difficult to measure and compare the impact of investments. For instance, achieving "decent work" (SDG 8) involves various qualitative factors.
- The SDGs are interdependent, meaning progress in one area might affect others. For example, increasing industrial productivity (SDG 9) could conflict with environmental sustainability goals (SDG 13). Assessing investments based on their SDG impact requires careful consideration of these interdependencies.
- SDGs are broad and encompass a wide range of objectives, from ending poverty to ensuring sustainable consumption. This breadth can make it challenging to measure specific investment impacts accurately.

2. Do Not Significant Harm (DNSH)

In line with the definition of 'sustainable investment' under SFDR, once defined whether the investment meaningfully contributes to an environmental or social objective, the investment is assessed on the Does Not Significant Harm (DNSH) criteria, meaning not having a material negative environmental or social impact to any other E/S objective.

This principle of not seriously compromising other environmentally or socially sustainable investment objectives as laid out in SFDR is linked to the "Principal Adverse Impacts" and to the so-called "**minimum safeguards**" in the European Taxonomy.

The minimum safeguards under the European Taxonomy Regulation ensure that economic activities are carried out in alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO), the eight fundamental conventions of the ILO and the International Bill of Human Rights.

In our Sustainable Investment framework:

2. Do Not Significant Harm (DNSH)

An investment will 'pass' the DNSH assessment if the company:

- is not scoring in the lowest decile (among worst performers - PAI score of 10) within its peer group on one or more mandatory, quantitative Principal Adverse Impact indicators;
- **AND** is not subject to PAI 10 (violations of UNGC principle and OECD guidelines; 'fail' or 'watchlist') or PAI 14 (exposure to on controversial weapons);
- **AND** is not on Bank Nagelmackers nv blacklist (according to Bank Nagelmackers' Exclusion policy);
- **AND** is not receiving the worst NM ESG Rating (among worst performers – NM ESG Rating of 10) within its peer group based on the Nagelmackers ESG scoring model.

To ensure minimum environmental or social safeguards, the Nagelmackers Sustainable Investment framework sets out specific requirements, including the consideration of PAI indicators and the alignment with OECD Guidelines for Multinational Enterprises and the Guiding Principles on Business and Human Rights, in the DNSH assessment:

- The *Principal Adverse Impacts* on sustainability factors are taking into account and assessed by integrating them into the ESG scores of Bank Nagelmackers nv's ESG scoring model:
  - Based on the manager's analysis, companies may not score in the lowest decile (= score 10) of one or more *mandatory, quantitative* indicators of the main adverse effects (selection of indicators Table 1 of Annex 1).
  - Based on Bank Nagelmackers nv's ESG scoring model, companies are not allowed to score in the lowest decile (= NM ESG Rating of 10).
- Negative screening of companies that includes standards-based exclusion and exclusion of companies involved in controversial activities:
  - Companies that the administrator judges to have violated one or more "global standards" or are involved in the production of controversial weapons (PAI 14) are excluded from investment and therefor do not 'pass' the DNSH assessment.
  - To assess whether a company is involved in a breach of a global standard, the investment manager observes the principles of the UN Global Compact and the OECD Guidelines (PAI 10). Companies that repeatedly violate one or more of the ten principles of the UNGC and do not take appropriate action to remedy that violation, or that are marked as being on the "watch list" do not 'pass' the DNSH assessment, and therefor do not qualify as being a sustainable investment. The areas taken into account to determine whether an issuer is a violating the UNGC include the areas covered by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions set out in the International Labour Organization Declaration on Fundamental Principles and Rights at Work, and in the International Bill of Human Rights.
- Negative screening of companies in accordance with the Exclusion Policy of Bank Nagelmackers nv:
  - Exclusion of entities subject to an embargo or international sanctions imposed by the United Nations, the United States or the European Union.

- Exclusion of companies involved in the production of controversial weapons or weapon components (including cluster munitions, anti-personnel mines and depleted uranium) in accordance with Belgian law (Mahoux law).
- Exclusion of companies that repeatedly violate one or more of the ten principles of the UNGC and do not take appropriate action to remedy that violation. The areas taken into account to determine whether an issuer is a violator of the UNGC include the areas covered by minimum safeguards under the European Taxonomy.
- Companies that are involved in a range of controversial activities within their business operations, such as weapons (controversial as conventional, civilian firearms, nuclear weapons), tobacco, pornography, and gambling, are excluded from investment and therefor do not 'pass' the DNSH assessment.

The principle of 'do not significant harm' environmentally or socially sustainable investment objectives in targeting (partial) sustainable investments by a portfolio managed by Bank Nagelmackers nv (as defined in the SFDR), applies to the proportion of assets in sustainable investments.

Good to know:

- The definition of what constitutes "significant harm" can be ambiguous and subject to interpretation. Different stakeholders may have varying views on what constitutes significant harm, leading to inconsistencies in how the principle is applied.
- It is difficult to assess, especially when evaluating complex or indirect investments. Not all side effects might be considered and a prudent approach is needed.

For further information on our Sustainability Risk Policy or Exclusion policy, refer to our website:

3. Good Governance

Finally, aligned with the definition of 'sustainable investment' under SFDR, we assess whether the investment follows good governance practices.

In our Sustainable Investment framework:

3. Good Governance:

An investment will 'pass' the Good Governance assessment if the company:

- is not subject to PAI 10 (violations of UNGC principle and OECD guidelines; "fail");
- **AND** is not on Bank Nagelmackers nv blacklist (according to Bank Nagelmackers' Exclusion policy);
- **AND** is not receiving the worst NM ESG Rating (among worst performers – NM ESG Rating of 10) within its peer group based on the Nagelmackers ESG scoring model, which includes a governance assessment based on several governance indicators, including PAIs.

The Good Governance assessment is done in multiple ways, by taking into account:

- **E, S, G indicators:** Governance is integrated into our proprietary ESG scoring model[2]. This governance score is a combination of multiple governance indicators.

[2] Nagelmackers' proprietary ESG scoring model is defined in other documentation available on the website www.nagelmackers.be

- **PAI indicators:** Some indicators get a high materiality in our proprietary ESG scoring model, such as anti-corruption and anti-bribery (additional Corporate PAI 15, Lack of anti-corruption and antibribery policies) and mechanisms for monitoring compliance with UNGC and OECD (PAI 11) [3]
- **Exclusions:** Exclusion of companies that do not adhere to global standards, such as repeatedly violating one or more of the ten principles of the UNGC without taking appropriate action to remedy the violation.

More information can be found in Bank Nagelmackers' entity-level PASI statement and in our Exclusion policy available on our website www.nagelmackers.be.

Good to know:

- Evaluating governance practices involves subjective judgments about corporate behavior and practices. Different investors might have varying criteria for what they consider successful governance, which can lead to divergent assessments.
- Bank Nagelmackers nv also has Voting guidelines with regard to sound corporate governance practices (such as the appointment and composition of the board of directors of investee companies and remuneration) and attention to improving gender diversity in our engagement, as described in Bank Nagelmackers' Voting policy and Engagement policy.

[3] Lack of processes and compliance mechanisms for monitoring compliance with the principles of the UN Global Compact and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises (PAI 11)

Sustainable investment consideration at portfolio level

Although a portfolio might not have sustainable investment as its main objective, it might partially invest a percentage of its assets in companies that qualifies as “sustainable investment” as defined within SFDR Regulation 2019/2088 and as assessed by our Sustainable Investment framework.

For more information on the Nagelmackers financial products that commit a minimum proportion of sustainable investments with environmental or social objectives, please refer to the SFDR pre-contractual disclosure of the product and the website disclosures on our website www.nagelmackers.be

Note that the percentage indicated in the financial product documentation is the minimum commitment percentage to ‘sustainable investment’ (SFDR), but the actual percentage may vary.

Monitoring

Sustainable investment monitoring involves the implementation and adherence to sustainable investing policies, governance by the Sustainability Committee, and independent compliance checks and risk oversight. Continuous monitoring of sustainable investments is essential. Therefore there are different levels of monitoring in place:

- The ESG officer and ESG team, supervised by the Sustainability Committee, are responsible to periodically review investment constraints and the selection of criteria and indicators used in the ‘sustainable investment’ assessment. On a quarterly basis, the ‘sustainable investment’ assessment is updated for companies within the eligible investment universe, including their sustainable characteristics to ensure alignment with the investment strategies and with regulation.
- The ‘sustainable investment’ assessment of companies is made available on a quarterly basis to all portfolio managers, which can select their investments according to their strategy and according to the sustainability characteristics of the investment. Note that a financial product may hold investments assessed as “other” or “not covered” when there is insufficient data for the ‘sustainable investment’ assessment or the instrument is out of scope of the sustainable investment framework.
- Risk Management performs period and ad hoc controls to detect potential breaches. If a control reveals that certain investments are in breach with the investment strategy (for example when the portfolio does not attain his minimum proportion of sustainable investments as required), the portfolio and its investments must be adapted accordingly within three months.
- Any breaches are reported to and investigated by the Sustainability Committee. The Sustainability committee is also responsible to review the policy at any time if needed.

Conclusion

By setting out a well-defined framework with specific requirements three criteria of Article 2(17) contribution, DNSH and good governance, Bank Nagelmackers nv assesses whether an investment can be defined as a 'sustainable investments' under SFDR.

An investment is defined a 'sustainable investment' based on Bank Nagelmackers nv's Sustainable Investment framework if it invests in an economic activity that:
(1) contributes to an environmental or social objective • by performing in the top three deciles (among best performers - PAI scores 1, 2 or 3) of its peer group on minimum 2 mandatory, quantitative Principal Adverse Impact (PAI) indicators; • **OR** having minimum 7% of its total revenues aligned with an environmental or social objective as defined in the European Taxonomy; • **OR** by having minimum 20% of its revenues aligned with the Sustainable Development Goals of the United Nations
AND (2) does not significantly harm any environmental or social objectives (DNSH) • By not scoring in the lowestt decile (among worst performers – PAI score of 10) within its peer group on one or more mandatory, quantitative environmental or social Principal Adverse Impact (PAI) indicators; • **and** by not being subject to PAI 10 (violations of UNGC principle and OECD guidelines; "fail" or "watchlist") or to PAI 14 (exposure to controversial weapons); • **and** by not being on Bank Nagelmackers' blacklist (according to Bank Nagelmackers' Exclusion policy); • **and** by not receiving the worst NM ESG Rating (among worst performers – NM ESG Score 10) within its peer group based on Nagelmackers' ESG scoring model
AND (3) follows good governance practices (GG) • by not subject to PAI 10 (violations on UNGC principle and OECD guidelines; "fail") • **and** by not being on Bank Nagelmackers' blacklist (according to Bank Nagelmackers' Exclusion policy); • **and** by not receiving the worst NM ESG Rating (among worst performers – NM ESG Score 10) within its peer group based on Nagelmackers' ESG scoring model, which a includes governance assessment.

Despite the complexity, evolving nature and potential limits of the underlying indicators and of the Sustainable Investment framework, Bank Nagelmackers nv believes the result of these three assessments allows investors to assess whether the investment is considered sustainable and in line with the definition of the Sustainable Finance Disclosure Regulation of 'sustainable investment', allowing to investors to attribute to the European objectives set out in the Sustainable Finance Action Plan.

In this way, the SFDR (which was first implemented in place in March 2021) should help support the more long-term objectives of the European Commission's Action Plan which intends to drive more capital towards sustainable investments.

Therefore, by following this framework, Bank Nagelmackers nv supports the European objectives of the Sustainable Finance Action Plan and strives to make sustainable investment decisions that not only promote financial growth, but also contribute to the long-term wellbeing of our planet and its inhabitants.

Sources

To apply the sustainable investment framework, data from a selection of reliable various external sources, data vendors and leading agencies is used. This data consists of raw data that internally is reworked (to make it comparable), sorted and analyzed by our specialists. ESG data providers are selected rigorously, but we acknowledge some limitations.

The combination of different sources and data has advantages:

- Complementary analysis to gain a better holistic understanding of the risks and opportunities and to improve granularity;
- Use of data from the most advanced data provider in each field.

However, there are also some risks to take into account:

- Biased coverage: size, geography, etc.;
- Self-reporting and subjectivity;
- Missing data and therefore data coverage and granularity issues.

We therefore keep engaging with all kind of stakeholders to improve data quality.

METHODOLOGIES AND METRICS	SOURCES
Principal Adverse Impact indicators	MSCI
European Taxonomy percentage revenue alignment	MSCI
United Nation Sustainable Development Goals percentage revenue alignment	ClarityAI
Exclusions based on controversial activities or behaviors according to our exclusions policy	MSC, Bloomberg
Nagelmackers ESG Rating	Proprietary model based on raw data from MSCI, ISS, Bloomberg