

SUSTAINABLE AND RESPONSIBLE INVESTMENT POLICY



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1. Introduction

With more than one million men and women placing their trust in the company and sharing its values, Ethias is an insurer aware of its social, societal and environmental responsibilities. Since its very beginnings, Ethias has also distinguished itself by its desire and ability to innovate in a sustainable manner.

Through its financial investments, Ethias wants to act in the long-term interest of its policyholders, shareholders and society as a whole.

Every year, Ethias invests its policyholders' paid premiums in order to make them grow and to honour all its insurance services. Through these investments, Ethias is committed to playing an important societal role, hoping to better prepare the world of tomorrow and contribute to a more sustainable society. Ethias sees its role as a responsible investor in the long term, particularly in the management of statutory and supplementary pensions and in supporting the economy.

In addition, in 2015, the United Nations defined a set of 17 Sustainable Development Goals (SDGs)¹ as the roadmap to a better and more sustainable future for all by 2030. These SDGs address the global challenges we face, including poverty, inequality, climate, environmental degradation, prosperity, peace and justice. Through its CSR², strategy, Ethias has selected several goals that translate into concrete actions. Ethias' sustainable and responsible investment policy is a natural extension of this strategy, in order to have the greatest possible impact on the achievement of the principles defined by the SDGs.

Being convinced that the integration of environmental, social and governance (ESG) criteria in the evaluation of an investment contributes to value creation and optimises the risk/return trade-off over time, Ethias adopts a sustainable and responsible investment strategy within the various asset classes. This strategy aims at generating performance through the controlled management of sustainability risks while relying on extra-financial expertise.

In terms of ESG approach the proposed guidelines are included each year in the Ethias investment strategy. These guidelines are validated by the Executive Committee and the Board of Directors after presentation to the Audit and Risk Committee.

This role as a responsible investor therefore consists of integrating environmental, social and governance (ESG) considerations into the investment process. Ethias believes that these ESG factors have the potential to impact investment portfolios across the regions, companies and sectors in which we invest. Furthermore, ESG issues can affect the risk and return of portfolio positions and, as such, require special monitoring. Ethias' investment strategy aims to go beyond the risk/return analysis of our investments, by integrating the impact on the world around us into our investment decisions.

The sustainable and responsible investment policy is intended to be part of both Ethias' Corporate Social Responsibility (CSR) strategy and overall investment strategy.

Its goal is to contribute to strategic objectives through responsible investment choices.

¹ <https://www.un.org/sustainabledevelopment/sustainable-development-goals/able>

² https://www.ethias.be/content/dam/ethias-investors/INVESTORS/PDF/rapports-ethias/2020_RNF_EN.pdf

UN PRI

In 2020, Ethias became a signatory of the UN PRI (*United Nations Principles for Responsible Investments*). This organization, through its principles, is the leading advocate of responsible investment worldwide.

By signing the Principles of Responsible Investment, Ethias has publicly committed to taking into account the importance of the environment, society and good governance, as well as the United Nations principles, in its investment choices. This is the logical continuation of Ethias' CSR policy.

UN PRI will carry out recurrent analyses of Ethias' investment policy, which in turn will provide full transparency, through a detailed report, on its investment policy, as well as on the progress made in complying with the UN PRI principles.

The six Principles for Responsible Investment propose a range of possible actions to integrate ESG aspects into investment activities:

- Ethias will incorporate ESG issues into investment analysis and decision-making processes;
- As an active owner, Ethias will incorporate ESG issues into our ownership policies and practices;
- Ethias will seek appropriate disclosure on ESG issues by the entities in which it invests;
- Ethias will promote acceptance and implementation of the Principles within the investment industry;
- Ethias will work together to enhance its effectiveness in implementing the Principles;
- Ethias will report on its activities and progress towards implementing the Principles.

In short, Ethias is a responsible investor who ...

- defines and adopts a committed responsible investment strategy,
- manages its investments with a long-term perspective on behalf of its policyholders and shareholders,
- holds a majority of its investments directly, thus allowing for a stronger integration of its responsible investment strategy,
- ensures, in the context of the delegation of asset management, that the designated management companies share the same values.

2. General framework of the sustainable and responsible investment policy

As a long-term investor, Ethias supports the development of a sustainable economy by generating stable returns for its various stakeholders while limiting and diversifying risk. This approach to managing sustainability risks in a controlled manner is likely to result in a positive performance.

Ethias' sustainable and responsible investment policy applies to all assets under management, i.e. to all geographical areas and all asset classes.

Ethias' investments incorporate this long-term vision based on prudence, sustainability and responsibility.

The integration of environmental, social and governance (ESG) criteria into the investment policy is an essential vector of Ethias' values. This integration, articulated around 3 general principles, reflects its commitments and is an inherent component of the governance of its investment strategy.

3. General principles

3.1. ESG integration, a vehicle for Ethias' values

To apply its values in its investment activities, Ethias relies on a sustainable and responsible investment policy in order to:

- » secure the commitments made to policyholders, in particular to offer an optimised performance over time;
- » become a long-term investor and responsible shareholder;
- » contribute to the development of the economy by providing public and private actors in all sectors of activity with the stability necessary for their growth projects.

Application

Long-term commitments

As assets are backed by long-term commitments, Ethias holds the shares with a long-term perspective and keeps the bonds most of the time until maturity, while maintaining an active management ensuring its annual commitments to its policyholders.

A responsible shareholder

Ethias adopts an active shareholder policy with regard to the listed companies in which it holds shares. It ensures that the rights of minority shareholders are respected and supports the long-term development of the companies.

Support for the real economy

Through its investments, Ethias supports the development of the real economy, in particular through investments with an environmental and social impact.

3.2. ESG integration, four guiding conditions

As a signatory of the United Nations Global Compact and the Principles for Responsible Investment (PRI), Ethias is convinced that taking ESG criteria into account when evaluating an investment contributes to value creation and optimises the risk/return trade-off over time. Hence, Ethias deploys a responsible investment strategy.

The four conditions that guide the integration of ESG criteria are the following:

- » respect human and civil rights as defined in the Universal Declaration of Human Rights;
- » respect the principles of the International Labour Organisation (ILO), including respect for freedom of association and the right to collective bargaining, the elimination of forced and child labour and discrimination;
- » promote environmental protection, energy and ecological transition, initiatives to reduce or adapt to climate change;
- » contribute to the fight against corruption.

Application

Integration of four conditions

Ethias considers that ESGs are integrated in an asset class when all the securities in this class are filtered through these four conditions, which form a common base.

A three-pillar balance

The methodology applied balances the three pillars E, S and G, with particular attention to governance, which determines the quality of the commitment in the long term.

An exclusion policy

Ethias excludes specific sectors and areas of activity.

3.3. ESG integration as an inherent component of the investment strategy governance

The responsible investment strategy is drafted by the Asset Management department (within the Finance department) together with Ethias' corporate social responsibility team and the Risk Management department.

It is defined within the investment policy approved by the General Management and the Board of Directors.

Application

Ethias shall:

- » translate principles #1 and #2 into operational terms by providing the necessary human and financial resources;
- » report publicly each year on the approach implemented and the progress made.

3.4. Integration of sustainability risks

Sustainability risk is defined as an environmental, social or governance (ESG) event or condition that, if it occurs, could have a material adverse effect, actual or potential, on the value of an investment.

Ethias has identified the main sustainability risks on which it focuses its efforts and resources in order to deploy its responsible investment strategy. This is implemented operationally through the shareholder engagement policy, the exclusion policy and the selection of investments based on ESG criteria.

Sustainability risk	Selection of investments based on ESG criteria			Exclusion Policy	Shareholder engagement policy (votes & dialogue)
	Equities	Bonds	Real estate		
Climate change	✓	✓	✓	✓	✓
Loss of biodiversity	✓	✓	✓	✓	✓
Discharges to water	✓	✓	✓		
Hazardous waste	✓	✓	✓		
Poor governance	✓	✓	✓	✓	✓
Non-respect of Human Rights	✓	✓	✓	✓	
Tax evasion	✓	✓	✓	✓	
Corruption	✓	✓	✓	✓	
Terrorist financing and money laundering	✓	✓	✓	✓	
Non-compliance with labour law	✓	✓	✓	✓	
Lack of diversity	✓	✓			✓
Harm to health or safety of persons	✓	✓	✓	✓	

The prioritisation of negative impacts depends on the type of assets and sectors of activity.

With regard to climate change risk, the goal of Ethias' sustainable and responsible investment policy is to reduce exposure to climate risks, both physical and transitional.

More specifically, Ethias is committed to the fight against climate change through achieving carbon neutrality in its investment portfolio by 2050 at the latest.

The shareholder engagement policy, the exclusion policy and the selection of investments based on ESG criteria provide for the monitoring of specific negative impact indicators as explained in detail in the relevant document.

4. Local and regulatory context

The sustainable and responsible investment policy is in line with Ethias' CSR strategy and its investment strategy.

It also ensures that the required regulatory framework is in place, particularly in terms of non-financial reporting in relation to investments.

5. Gouvernance

A dedicated Responsible Investment Governance is implemented to enable the Board of Directors, the Executive Committee, other committees involved in investment governance and the investment teams to integrate ESG matters into decision making and operational processes.

5.1. Investment Strategy and Board of Directors

The overall investment strategy is approved by the Executive Committee and the Board of Directors as part of the update of the company's multi-year goals.

Within this framework, **the overall investment strategy defines the company's goals with regard to sustainable and responsible investment management, including climate issues.**

In this way, ESG issues relating to investments are presented to the Board of Directors. The main trending issues are discussed. An explanation is provided on how they are integrated into the investment process. Directors are thus kept informed of the latest ESG trends and their impact on the organisation's investment performance, enabling them to decide whether or not they should adjust the overall investment policy.

5.2. General investment policy and sustainable and responsible investment policy

The general investment policy sets out the key management principles related to the company's investment and asset management process. It addresses a series of the company's principles in terms of sustainable and responsible management of its portfolio.

The sustainable and responsible investment policy is an annex to the general investment policy. It defines in more detail the goals, management principles and initiatives implemented in order to integrate sustainable and responsible management at the heart of the investment decision-making process.

5.3. Validation, review and continuous improvement

Ethias applies a continuous improvement process to its approach to sustainable and responsible investment. As such, this policy is reviewed at least once a year.

After an internal review and approval process, the sustainable and responsible investment policy is approved by the Executive Committee and the Board of Directors. It is also sent to the Ethics Committee (an internal national body composed equally of staff and management representatives) for information.

The review and validation process consists of the following steps:

Committee	Function
CSR Operational Committee	For advice
Sustainable & Responsible Investment Management Meeting	For approval
SRI Commission	For advice
Ethics Committee	For information
ALCO	For approval
Executive Committee	For approval
Audit and Risk Committee	For advice
Board of Directors	For approval

One of the aims of this review is to identify the strengths and areas for development of this approach.

5.4. Roles and responsibilities

5.4.1. Sustainable & Responsible Investment Management Meeting

Overseeing the implementation of this Policy is primarily the responsibility of the **Sustainable & Responsible Investment Management Meeting (« SRIMM »)**. This body is part of the asset management governance system and replaces the former Ethical Investment Committee.

5.4.2. Independent Commission on Sustainable and Responsible Investment

In order to apply the best practices to the ESG approach of investments, Ethias aims to set up a committee of independent experts in sustainable and responsible investment strategy (« SRI Commission »).

This committee will have the task of making recommendations independently, based on sufficient information and without any interference, on the SRI strategy, the sustainable and responsible investment policy and their implementation.

5.4.3. Implementation

The operational and effective implementation of the sustainable and responsible investment processes is the responsibility of the Asset Management department, which reports to the company's CFO.

This implementation is carried out across all asset classes within the scope of this policy and through the Management Meetings defined within the General Investment Policy and responsible for the management of each asset class.

5.4.4. Control & Monitoring

The assessment of the sustainable and responsible investment strategy and the effective implementation of the sustainable and responsible investment policy are presented annually to the ALCO.

The Middle Office of the Asset Management department is responsible for the first-line control of compliance with the sustainable and responsible investment policy.

Ethias' Risk Management department is in charge of second line control.

The main performance and risk indicators related to ESG management of investments are monitored through a dedicated section of the Investment Management Dashboard.

5.4.5. Monitoring, Reporting & Communication

By signing the UN PRI, Ethias has committed to provide full transparency, through a detailed report, on its sustainable and responsible investment policy, as well as on the progress made towards compliance with the UN PRI principles.

Ethias adopts a transparent position by making the main policies and actions undertaken available on its website.

In addition, through the annual publication of its non-financial report, Ethias also communicates on the main progress made.

6. Breakdown by asset class

Summary table of operational management

	Management level Ethias	Operational steering provided jointly by the CSR and Asset Management departments of Ethias	Ethias Asset Management Department <i>A dedicated management team</i>	External management companies <i>Delegated asset management</i>
Directly held listed shares	Establishes sustainable and responsible investment policy and climate commitments for all asset classes. Together, these policies limit exposure to sustainability risks.	<ul style="list-style-type: none"> Defines company and country exclusions and monitors their correct application. Defines and implements its engagement policy. Prospective studies, assessment and monitoring of sustainability risk. 	Ensures the proper implementation of the sustainable and responsible investment policy and initiates projects to this end.	The asset management company: <ul style="list-style-type: none"> implements the investment policy using its own ESG and sustainability risk management systems; reports to Ethias on compliance with the sustainable and responsible investment policy, the achievement of targets and the consideration of sustainability risks.
Directly held corporate bonds				
Directly held sovereign bonds				
Real estate held directly or through wholly owned vehicles		<ul style="list-style-type: none"> Defines country exclusions and monitors their correct application. Defines the green charter that applies to all management mandates. Prospective study and review; and sustainability risk monitoring. 	Ensures the proper application of the SRI approach.	The agent management companies: <ul style="list-style-type: none"> conduct an ESG analysis that takes into account sustainability risks before acquiring a property; undertake to manage their real estate assets in accordance with the ESG principles defined by Ethias.
Infrastructure		Defines company and country exclusions and monitors their correct application. Defines and implements its engagement policy.	<ul style="list-style-type: none"> Strategic orientation of new investments towards sustainable risk management. Conducts due diligence prior to any investment. 	Managers who publish an annual ESG report inform Ethias about their compliance with the sustainable and responsible investment policy, the achievement of targets and the consideration of sustainability risks.
Directly held unlisted shares				Not applicable
Unlisted shares held via funds		Defines company and country exclusions and monitors their correct application. These exclusion rules are partly intended to limit exposure to sustainability risks.	<ul style="list-style-type: none"> Conducts due diligence before investing in new funds. Conducts an ESG rating of new funds. 	<ul style="list-style-type: none"> The management companies apply the investment policy using their own ESG processes and analysis. Management companies that publish an annual ESG report inform Ethias about their compliance with the sustainable and responsible investment policy and the achievement of targets.
Listed shares and bonds held via Ethias dedicated funds		Defines company and country exclusions and monitors their correct application. These exclusion rules are partly intended to limit exposure to sustainability risks.	<ul style="list-style-type: none"> Conducts due diligence before investing in new funds. Conducts a bi-annual ESG survey of management companies. And monitors the ESG performance and sustainability risk exposure of funds. 	The management companies apply an ESG strategy specific to the management company or co-constructed with Ethias respecting the exclusion constraints.
Other listed securities funds		Defines sustainability risks to be addressed with management companies in due diligence and investigations.	<ul style="list-style-type: none"> Conducts due diligence before investing in new funds. Conducts a biennial ESG survey of listed fund management companies. 	Management companies apply their responsible investment policy on a discretionary basis.

7. Implementation of the sustainable and responsible investment policy

Ethias' sustainable and responsible investment policy is based on two approaches:

- ESG incorporation,
- active engagement with investee companies and issuers in the investment portfolio.

7.1. ESG incorporation

To take ESG criteria into account in our investment decisions, Ethias relies on the following three axes:

- » integration of E, S and G criteria in investment decisions;
- » implementation of an exclusion policy from certain sectors and areas of activity and adherence to strong sustainability standards;
- » a search for positive sustainability impact (whether or not linked to a specific theme).

7.2. Active engagement with investee companies and issuers in the investment portfolio

In order to actively engage with the investee companies and issuers in its portfolio,

Ethias has developed a dual policy:

- » engagement policy,
- » voting policy.