



Traditionally, companies are expected to try and maximize their commercial profit. Partly as a result of the growing internationalization of business, governments have lost some of their importance in the last quarter of a century as the stewards of social or ecological norms. Fortunately, a growing number of companies have themselves begun to feel a greater responsibility and to take their own initiatives with regard to 'sustainable business'. They are also facing increasing pressure in this regard from stakeholders in society. A Sustainable and Socially Responsible Business is one which consciously takes account - in both formulating and implementing its policy - of the economic, social, ecological or cultural impact of that policy in the short- as well as the long-term, and engages in dialogue on that policy with the relevant stakeholders in society.

Eurosif Transparency Guidelines

KBC is keen to respond to these new developments and to support its clients in the area of sustainable and socially responsible business and investment with its own services. With this in mind, since the second quarter of 2002, KBC has been the only financial institution in Belgium to carry out research via its own Sustainable and Socially Responsible Investment department into the relative sustainable and socially responsible character of companies and countries for inclusion in sustainable investment funds. In concrete terms, the aim is to support the selection of equities and bonds for its sustainable investment funds and to assist its clients in their choice of sustainable investments. The project also encompasses KBC's explicit desire to take up a broader social responsibility in addition to instilling a sustainable way of working within its own business.

Primarily to offer investors total transparency, KBC Asset Management created its website www.kbcam.be/sustainableinvestment for English-language clients. (This and other information is available for Dutch speakers via www.kbc.be/duurzaambeleggen). In January 2005, therefore, the Sustainable and Socially Responsible Investment department of KBC Asset Management signed up to Eurosif's Transparency Guidelines. Eurosif, the European Social Investment Forum monitors the performance of those companies which subscribe to the guidelines. KBC Asset Management's Sustainable and Socially Responsible Investment department will meet the first four criteria of the above guidelines, and criteria five through seven do not apply.



1 Basic Details

1a Provide the name of the funds and fund manager to which these guidelines apply.

1c What is the size of the fund?

FUND (start) – SIZE (at 30/06/2005)	FUND MANAGER
Bond, Mixed and Cash Funds	
KBC Institutional Fund Ethical Euro Bonds (2002) - +/- €16.6 million	Marc Vanbockryck
KBC Institutional Fund Global Ethical Defensive 1 (2002) - +/- €158.1 million	Marc Vanbockryck and Katia Hellemans
KBC Institutional Cash Year-End (2004) - +/- €22.2 million	Luc Vanbriel
Equity funds	
KBC Eco Fund World (1992) - +/- €45.8 million	Treasa Ni Chonghaile
KBC Eco Fund Water (2000) - +/- €10.9 million	Jens Peers
KBC Eco Fund Alternative Energy (2000) - +/- €16.8 million	Jens Peers
KBC Eco Fund Sustainable Euroland (2001) - +/- €9.8 million	Treasa Ni Chonghaile
KBC Institutional Fund Ethical Euro Equities (2000) - +/- €17.9 million	Ivo Vanpol
IN.Flanders Index Fund - +/- €36.7 million	Dirk Sebrechts
Closed-end funds	
KBC Click Ethiclick 1 (2000) - +/- €12.4 million	not applicable
KBC Click Solidarity 1 Kom op tegen kanker (2001) - +/- €9.5 million	
KBC Click Solidarity 2 Levenslijn Kinderfonds (2002) - +/- €3.2 million	
KBC Click Solidarity 3 Kom op tegen kanker (2003) - +/- €2.7 million	
KBC Equimax CRC Protection Fund 1 (2005) - +/- €7.4 million	

1b Provide contact details for further information regarding the funds.

For more information, please contact:

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E-mail: duurzaam.beleggen@kbc.be

Websites: www.kbcam.be/sustainableinvestment for English speakers or
www.kbc.be/duurzaambeleggen for Dutch speakers.



1d Where can financial performance history data about the fund be found?

All details on the financial performance can be found on our English-language website www.kbcam.be/sustainableinvestment or via www.kbc.be/duurzaambeleggen for Dutch speakers.

1e Provide details of the content, frequency and means of communicating information to investors.

Communication is continuous. Every modification to the [toegelaten duurzaam beleggingsuniversum](#) (sustainable universe) together with the full results of the country and company screenings will be posted immediately on the website. The Sustainable and Socially Responsible Investment department also issues its '*Monitor Duurzaam Beleggen*', a twice-yearly Dutch-language publication on sustainable investment. This can be accessed via www.kbc.be/duurzaambeleggen and click on Publicaties. KBC Asset Management also organizes a special open day for all those who invest in sustainable investment funds.

For investors who wish to have more details of the sustainable investment funds available, go to www.kbcam.be/sustainableinvestment and select sustainable investment funds. Questions on Sustainable and Socially Responsible Investment can be sent, at any time, direct to our mailbox duurzaam.beleggen@kbc.be.

A brief description on the corporate social responsibility policy

A Sustainable and Socially Responsible Business is one which consciously takes account - in both formulating and implementing its policy - of the economic, social, ecological or cultural impact of that policy in the short- as well as the long-term, and engages in dialogue on that policy with the relevant stakeholders in society.

2 SRI Investment criteria

2a How does the fund define SRI?

2b What are the SRI investment criteria of the fund?

All SRI funds comply with the SRI investment criteria as described below.

EURO ZONE COMPANIES: The sustainability analysis carried out by KBC is limited to companies in the euro zone which are included in the MSCI index. The companies that are eligible for research are selected on the basis of available market capitalization in the MSCI-EMU. Within each sector those companies are selected which have achieved up to 90% of the available market capitalization; in addition, 80% of the available market capitalization within each sub-sector must have been achieved, with a minimum of eight companies per sector.

The decision to select only companies with a high market capitalization, and not to exclude any sectors in advance, is based not only on investment-friendly considerations. Companies operating in sectors that have an impact on the environment, but which are making efforts in the area of environmental protection, may be pushed forward in their sector in the hope that other companies will follow their example.

Information for the research is obtained from:

- ❑ the companies themselves: we regard easy availability of information from the company, e.g. via environmental reports, as an important indicator. One disadvantage is that this information is generally given a positive slant;
- ❑ websites containing specific information on the sustainability of companies (e.g. links to environmental reports, lists of companies with ISO accreditation, case studies, pressure groups, etc.)
- ❑ a structured search for sustainability information via Internet search engines using 30 key terms;
- ❑ information from purchased or freely-available databases.

Companies are assigned a score based on 81 indicators divided into five criteria:

- ❑ economic policy and social role: what is the vision and long-term strategy of the company, including the social commitment it displays with regard to suppliers, customers and other stakeholders;
- ❑ business ethics and corporate governance: how are the various aspects of business ethics put into practice in the company; what is the position as regards sound corporate governance;
- ❑ environment: how does the company contribute to creating a more environmentally friendly world;
- ❑ internal social policy: what is the situation as regards the company's terms of employment, social consultation model, training and career enrichment, equal opportunities policy, pay policy;



- ❑ human rights and international relations: what position does the company take in practice with regard to human rights and how does the company see its international responsibilities.

In addition, an extensive discussion was held on the subject of socially controversial practices and technologies (gene technology, arms manufacture and trade, animal testing, nuclear energy, alcohol, tobacco and gambling). This resulted in a list of negative scores, depending on:

- ❑ the weight given to the seriousness of the practice or technology;
- ❑ and the degree of involvement of the company in the practice or technology concerned.

It was decided to completely exclude companies which are involved in the production of controversial arms systems from all KBC investment funds, not just from the sustainable funds (products include anti-personnel mines, cluster bombs and ammunition and weapons incorporating depleted uranium) .

The final result is determined on the basis of the scores on the five criteria, each of which carries an equal weighting, less the score on the socially controversial practices and technologies.

Using a 'best-in-class' assessment, a decision is then taken on which companies will be eligible for inclusion in the sustainable investment funds. This means that in each sector and each sub-sector, the 50% of companies with the best scores may be included in the sustainable funds.

The further investment process is parallel to that of traditional investment funds, with the sole restriction being that a fund manager may only invest in companies in the sustainable universe.

NON-EURO-ZONE COMPANIES: Companies with their headquarters outside the euro zone are only eligible for inclusion in the sustainable investment funds if they are included in the [FTSE-4-good indexes](#).

GOVERNMENT BONDS: As well as companies, we expect governments to assign an important place in their actions to sustainability and socially responsible policy.

Our country ranking is based entirely on statistics published by internationally renowned institutions such as the UN, the OECD, the World Economic Forum, the World Health Organization, and so on. KBC again uses a model-based approach with a range of indicators to make its assessment on the eligibility of countries:

- ❑ economic performance, structure and policy of the government, technological development, efficiency of the government apparatus and business community, etc.;
- ❑ the welfare and safety of the population: health care, life expectancy, crime levels and education level of the population;
- ❑ environmental sustainability;
- ❑ equality and freedom of the population: income inequality and gender inequality, inter-generational solidarity, political rights and civil liberties;
- ❑ International relations: development aid, spending for military purposes versus education and healthcare, ratification of international treaties on human rights and labour relations.

A total of 25 indicators are used for the country screening. As with the company screening, the best-in-class method is applied. Bonds issued by the 50% of countries with the highest scores are eligible for inclusion in sustainable investment funds.

**EXCEPTIONS:**

- ❑ For KBC ECO fund, euro-zone companies must not only qualify as best-in-class in the sector for the general score, but also as best-in-class in the sector for the environmental criteria. Non-euro-zone companies are selected by the independent sub-committee of external Environmental Experts. This sub-committee is made up of four academics, one research director and one consultant.
- ❑ KBC Eco Fund Alternative Energy invests in companies highly active in the sector of alternative energy. The composition of the fund is determined by the same external sub-committee.
- ❑ KBC Eco Fund Water consists of utilities active in water distribution and water treatment. The composition of the fund is determined by the same external sub-committee.
- ❑ KBC Click Ethiclick 1 is composed of companies, which have the Ethibel label. (see also www.ethibel.be)

2c How are the SRI criteria defined, how frequently and by whom are the criteria reviewed?

The sustainability criteria were determined by the External Advisory Board for Sustainability Analysis (see 3c). The External Advisory Board holds at least three, and at most five meetings a year, during which the existing scoring model is assessed and CSR trends discussed.

2d How are criteria changes communicated to investors?

Changes in research methodology are posted immediately on the website, and are published in the six-monthly Dutch-language *'Monitor Duurzaam Beleggen'*, which is available on the website and can be sent to clients via e-mail.

3 Research Process

3a Describe your SRI research methodology and process.

See 2b

3b Does the fund manager use an in-house research team and/or an external research team.

The Sustainable and Socially Responsible Investment Department of KBC Asset Management carries out the research into euro-zone companies and countries. Our sustainability analysts utilize information provided by EIRIS (Ethical Investment Research Service) for their company screening. The results of the investigation are summarized in the allowed sustainable investment universe, which, together with the financial analysis, forms the basis for the investment decisions made by the fund managers.

3c Is there an external control or external verification process in place for the research process?

Where an Advisory Committee is used, please state its responsibilities?

The External Advisory Board for Sustainability Analysis (EAB) is an independent body of nine experts, all drawn from Belgian and Dutch universities, and all specialists in their particular discipline. The independent functioning of the Advisory Board is intended to guarantee an objective assessment of the company and country profiles and therefore the credibility of our sustainability screening process. The Advisory Board safeguards the quality of the methodology and research carried out by the KBC research team and carries out a periodic assessment of the completeness, thoroughness and correctness of the screening, as evident from the presentation of the screened companies and countries by the analysts. The results of all screened sectors are submitted to the Advisory Board for discussion. In addition to the broader External Advisory Board for Sustainability Analysis which was founded in 2002, KBC Asset Management has also an external independent sub-committee of environmental experts in place since the early 1990s. This Committee carries out the screening of companies outside the euro zone for the KBC Eco Fund World, and all companies for the KBC Eco Fund Water and Alternative Energy. The Committee also has a second task, to determine the environmental indicators to be applied for the environmental criterion.

In addition, Deloitte & Touche, the external auditor, monitors annually whether investments in the sustainable investment funds are set up in line with the methodology and the investment universe of KBC Asset Management's Sustainable and Socially Responsible Investment Department.

3d Does the research process include stakeholder consultation?

If yes, please provide details.

During the research, information is gathered from the websites of NGOs and trade unions. They constitute a permanent source of information. KBC Asset Management drew up a list of more than 50 international websites to be consulted (see website).



Further, in order to create fact sheets on socially questionable practices and technologies, the co-operation is sought from NGOs specialized in the relevant domain (see website, only available in Dutch).

3e Do companies have the opportunity to see their profile or analysis?

If yes, how often?

A report on each analysis is sent to the company, and the company is invited to respond. The analysis covers the company's strengths and weaknesses, as well as the detailed scores on each of the twenty topics and five criteria.

In addition, the full results of the investigation are put up on the website. They are therefore available at any time, and allow access to a comparative report on the sector in which the company is active.

3f How frequently is the research process reviewed?

KBC Asset Management believes that companies' performance in the area of sustainable and socially responsible business is evolving constantly, which is why the analysts follow up the different news stories every day. And if a company is shown to have committed a gross violation against one of the 81 sub-indicators, the analysts can immediately amend the company's score, which then triggers the 'gone-too-far' procedure. This procedure means immediate involvement of the External Advisory Board for Sustainability Analysis who will provide extra advice on whether the company should be excluded from the allowed sustainable investment universe. The decision will be communicated to the fund managers and published on the website within three weeks following the discovery of the irregularities.

Every sector is subjected to an annual in-depth analysis, which monitors each company's research process from start to finish. The country sustainability league table is similarly updated every year.

3g What research findings are disclosed to the public? How?

The full results of the company screening are published on the website. Each report covers both the strengths and weaknesses of a company's performance as a sustainable and socially responsible business. Also, the scores awarded on each topic are published separately by company. Together, these form the company report. In addition, a sector report is published which considers the sector's primary social and ecological impact. A summary of the analyses is then made and published in the half-yearly '*Monitor Duurzaam Beleggen*', which is available on the website and can be sent to clients via e-mail.

4 Evaluation and Implementation

4a How are the results of research integrated into the investment process, including selection and approval of companies for investment?

The allowed sustainable investment universe is communicated to the fund managers after each sectoral update. Otherwise, the investment process goes on simultaneously with that of KBC Asset Management's classic investment funds. (see 2b for the selection of sustainable shares)

4b What internal or external measures are in place to ensure portfolio holdings comply with SRI investment criteria?

KBC's internal audit department (VRE Funds control) is primarily responsible for monitoring all tasks where KBC Bank acts as Custodian. It has to ensure that, as the Depository Bank of KBC AM, KBC Bank complies with all legal requirements of its custodial task (Royal Decree of 4 March 1991). It checks whether the sustainable funds meet the investment restrictions as specified in the law, the implementing decrees, the management regulations, the articles of association or the prospectus. It checks every six months whether the composition of the securities portfolio of sustainable funds corresponds to the companies in the allowed sustainable investment universe.

4c What is the policy and procedure for divestments on SRI grounds?

Within ten business days of the announcement of the newly allowed sustainable investment universe, the fund managers must have withdrawn the implicated shares or corporate bonds from the funds. The same procedure applies if a company is excluded from the allowed sustainable investment universe as a consequence of a 'gone-too-far' procedure.

4d Are investors informed about divestments on SRI grounds?

If yes, how frequently and by what means?

All changes in the allowed sustainable investment universe are published on the website and in the *half-yearly 'Monitor Duurzaam Beleggen'*, sent to clients. Changes are published whenever an entire sector is analyzed, normally around ten times a year.

4e Does the fund manager inform companies of portfolio exclusions or divestments due to non-compliance with its SRI policy?

Yes, by sending the analyses to the company after every change of actualisation.