



BEAMA SRI Methodology

*ICB's die duurzaam en maatschappelijk verantwoord investeren (DMVI)
OPC en investissement sociétalement responsable et durable (ISR)
Sustainable and socially responsible investment UCIs (SRI)*

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1 Introduction

1.1 Framework

- In 2001, BEAMA used an SRI methodology which was duly applied by the sector. This SRI methodology considerably helped to promote sustainable UCIs and to make it possible for Belgium to be among the leading countries in Europe in this field.
→ the BEAMA SRI methodology applies to sustainable UCIs.
- In 2012, Febelfin published its recommendation on sustainable financial products. The BEAMA SRI methodology was taken as a starting point and a consultation was held involving BEAMA and all of the relevant stakeholders, including NGOs, financial institutions, auditors, academics and research centres.
→ The Febelfin recommendation applies to sustainable financial products, more particularly investment products, savings products and credits. Other products may be added to this list in the future.
- As a consequence of the evolving social view on sustainability, new kinds of sustainable financial products and other developments as well, BEAMA will make an update of its SRI methodology in consultation with Febelfin and other stakeholders, if necessary. In the course of 2012, BEAMA adjusted its methodology to the Febelfin recommendation on sustainable financial products.
- The BEAMA SRI methodology deals with UCIs that are marketed as ‘sustainable’, ‘socially responsible’, ‘ethical’, ‘SRI’, ‘ecological’ or with similar labels.
- The only UCIs that may be marketed in Belgium as ‘sustainable’, ‘socially responsible’, ‘ethical’, etc., are those that are compliant with the BEAMA SRI methodology. UCIs that do not comply with the BEAMA SRI methodology, will not be recognised by BEAMA as SRI-type UCIs and consequently, will not be included into the BEAMA SRI statistics nor into the list of SRI-type UCIs on the BEAMA website, and neither into the list of sustainable financial products on the Febelfin website.

2 General provisions

2.1 Principles

- SRI UCIs are products that are evaluated not only according to the traditional financial criteria, but which also structurally and systematically take into account the three basic aspects of sustainability, i.e. ecology, society and governance.
 - These three aspects of sustainability always must be present, even in UCIs focussing on only one of them.
- Financing provided by means of SRI UCIs takes into account the long-term effect as well as the stakeholders' interests and is not exclusively aimed at short-term maximization of returns.
- No SRI UCI can be deemed to be sustainable just because it complies with the legal conditions.

3 Controversial activities

3.1 Policy

- Any institution offering SRI UCIs must have a clear policy on (indirect) financing of controversial activities.
 - ‘Controversial activities’ include among other things, activities in the field of nuclear energy, weapons, tobacco, alcohol, pornography, betting, animal testing, fur, GMOs (genetically modified organisms), polluting material, land grabbing, palm oil, suppressive regimes/countries, etc.
 - This non-exhaustive list may be subject to future change.
- The policy for the financing of controversial activities is disclosed to the public on the website of the provider.
- If SRI UCIs are being used for the financing of some controversial activities, then this will be clearly explained.

3.2 Practical guidelines

- Generally, the income generated by controversial activities is the main indicator for assessing the extent to which a company is involved in this kind of activities. One should try to keep the threshold for accepting or refusing a company as low as possible.
- Try to look beyond the direct involvement to detect as much indirect involvement as possible so as to exclude those companies, if necessary.
 - One should see whether or not there is a clear policy in order to determine the company’s approach towards activities that may be controversial.
- Use the information provided by the company as well as external information (coming from research centres and NGOs among others) to see whether or not the company is involved in controversial activities/active in controversial countries.
- Keep an eye on companies that are likely to be involved in a norms breach, because they are established in a particular country. Try to lay down a dedicated policy on controversial activities for these countries.

4 The components of an SRI UCI

4.1 Minimum criteria

4.1.1 Weapons

- SRI UCIs must not be used for the financing of companies which, either on their own or through entities under their control (= 50%-plus ownership):
 - are involved in the production of anti-personnel mines, cluster submunition and depleted uranium weapons¹ (without a threshold).
 - are directly involved in the production of weapons² or basic components of weapons (more than 5% of their turnover).
 - sell nuclear weapons or basic components of nuclear weapons to countries that did not sign the non-proliferation treaty (without a threshold).

4.1.2 UN Global Compact

- The companies and countries which benefit from financing, must have been screened on the extent to which they comply with the principles stated in the [UN Global Compact](#).

In addition, sustainability must also rely on at least one of the sustainability strategies mentioned below.

4.2 Sustainability strategies

The sustainable character of SRI UCIs can be embedded by means of several strategies (or a combination of strategies).

4.2.1 Norms-based screening

Definition: Selecting companies and countries by checking if they comply with international standards (e.g. Geneva Convention, EMAS certificates, ISO certificates, ...) or conventions, other than the UN Global Compact, from the point of view of ecology, social responsibility and governance.

4.2.1.1 Implementation:

- Use can be made of several standards for normative screening: international treaties, codes of conduct (at sector level), regulation, directives, etc. What is important, is that one should make sure that the various aspects of sustainability (ecology, social responsibility, governance, ethics) are being dealt with by converting them into

¹ Anyhow, the Belgian Arms Law 8/6/2006 (Art. 8) applies to all kinds of financing (also by means of non-sustainable products).

² Weapons are defined as products or basic components of products that have been “designed to injure/kill” and are used exclusively for military purposes. Basic components are components that are developed mainly in order to be integrated into a weapon system and are directly connected with the deadliness of that particular weapon system.

universally applicable CSR principles. Try to adapt the standards that are being used, to the markets chosen for investment.

- Below is a list of elements to be taken into account when determining whether or not a company must be excluded, because it does not comply with a standard:
 - The proof of non-compliance must be convincing (contents and concrete consequences) as well as credible (information gained from several reliable sources).
 - Repeated trespassing.
 - The reaction of the company to the accusation.
 - Existing structures, policy measures and programmes.
- Normative screening must be applied not only to companies, but also to countries (public issuers of bonds) by means of checking the signature of and compliance with international treaties, the use of indicators such as the civil rights indicator and the physical integrity indicator.
- If there are doubts about a particular company/country (little or no proof of violations, non-repetitive, etc.), the company/country in question must be put on a watch list and closely monitored.
- Make use of an alert system: if a warning light goes on, one must see how the breach is evolving and the rating must be adapted, if necessary.

4.2.2 Best-in-class method

Definition: Selecting the best performing companies/countries in a given sector, from the point of view of ecology, social responsibility and governance.

4.2.2.1 Implementation:

- Apply the strictest criterion for selecting the companies on top of the list. The threshold must be clearly mentioned in the product description.
- ESG criteria must be applied for each sector/region/size and be commented upon, because each sector faces its own challenges. Ecology for example is more important for extraction companies than for banks.
- The aim of the 'best-in-class' approach is to assess the capacity of the company to tackle long-term sustainability challenges that are typical for the sector, and so it is useful to make an analysis of the extent to which the company has to cope with sustainability challenges at macro level (e.g. the climate change) as well as with material risks and opportunities inherent in the exchanges with stakeholders concerning specific topics in the field of sustainability at micro level (e.g. executives' remunerations).
- The company strategy and its results in dealing with matters of sustainability should be taken into account.
- The 'best-in-class' method also can be used for assessing countries. The aim is to draw a list of countries that will go through a process of sustainable development resulting in a stronger and better balanced long-term economic growth. Here again,

criteria should be applied and attention must be paid to the economic, ecological and social dimensions.

4.2.3 Thematic approach

Definition: Selecting the best performing companies/countries as for a specific aspect of sustainability (e.g. renewable energy, labour conditions, ...) as well as from the point of view of ecology, social responsibility and governance.

4.2.3.1 Implementation:

- Selecting the theme and pointing out the link with sustainability, preferably with the help of experts.
- Companies that benefit from financing, must draw at least 20% of their income from sustainable products and services.

4.2.4 Engagement on behalf of the shareholder

Definition: Shareholders' activities aimed at influencing the attitude of a company or country in the (middle) long term towards ecology, social responsibility and governance (e.g. starting up a dialogue, exercising voting rights, submitting resolutions to the General Assembly).

4.2.4.1 Implementation:

- Laying down objectives at the moment when the draft project engagement is made and keeping an eye on the results of the engagement. This should have a decisive influence on the decision about continuing the financing of the company.
- Whenever possible and pertinent (possibility of influencing and size of the investment in the company), a steady relationship should be built up with companies and stakeholders by means of dialogue, telephone conversations, correspondence, meetings or a constructive contribution as for ESG matters. Try to look beyond matters that pertain only to governance; a lack of transparency for instance is another important reason for engaging with a company.
- Try to be as clear as possible about the scope of the engagement (e.g. annual report), even if it is about confidential information. As for voting, one should take care of providing an annual or quarterly report of the voting which contains at least information about the general trends, the number of votes at the meeting, the results of the voting and the explanation that goes with it as well as the geographical spreading of the votes.
- Intervene in specific collective initiatives in the field of sustainable development, if necessary.
- Include ESG matters into the voting policy.
- Inform the companies of the conclusions of the assessment (survey of the strong/weak points and tell them if they are eligible for investment).

4.3 Selection of the assets for an SRI UCI

An SRI UCI³ investment portfolio consists of the following:

- at least 90% of screened investment instruments (see 4.4 below),
- may include a maximum of 10%⁴ of the following instruments:
 - instruments for which a sustainability screening is impossible (e.g. real estate, commodities);
 - instruments for which no sustainable alternative is available on the market and which the manager would like to include into the portfolio for a short time, within the framework of efficient management;
 - instruments in the portfolio of a UCI with a 'buy-and-hold' strategy, which at the moment of buying, were assessed as 'sustainable', but which can no longer be considered as such now, because of special circumstances.

4.4 Screening: checking the sustainable character of the (underlying) assets

Screening means: checking the extent to which the assets are compatible with and allowed on the basis of the strategies set out within the framework of the provider's sustainability policy.

List of assets the sustainable character of which can be screened:

- Shares of screened companies
- Corporate bonds issued by screened companies as well as credits granted to those companies
- Term accounts and liquid funds held with screened financial institutions
- Government bonds issued by screened public authorities (supranational institutions, countries, federal entities and other local authorities and public companies, provided more than 50% of these are held by selected public authorities)
- Shares of SRI UCIs that comply with the provisions in this methodology
- Derivatives of securities, securities baskets, Stock Exchange indexes, provided the underlying securities have been screened
- Shares of UCIs, money market products, asset-backed Securities, notes, provided the underlying securities have been checked

³ Structured products, of which the subscription period has expired and of which the underlying basket has been changed as compared to the moment of their launch, due to circumstances beyond the will of the manager (e.g. corporate action), can keep their sustainable character. If, however, this change is a consequence of the manager's decision (e.g. a periodical, dynamic change in the shares basket), the sustainable character should be reassessed.

⁴ In case of derivatives, the underlying notional value should be taken into account as for the 10%, instead of the premium that has been paid/received.

- Loans for sustainable investments such as low-energy houses, loans for alternative energy sources, micro credits, social credits, green project funding, green technology leasing, green car loans, ...

5 Accountability

- The prospectus or the 'official' product description clearly and explicitly reflects the sustainable character of the SRI UCI.
- The provider takes on the responsibility for the sustainability of a particular UCI, in accordance with this methodology.
- Professionals can defend themselves against accusations of malpractice of any kind when they can show that they have behaved in an ethical fashion consistent with professional standards. Transparent documentation helps in defending one's actions and makes a person's professional actions "transparent" or easily assessed.
- If there are any questions or remarks about the sustainability policy of an SRI UCI, one should get in touch with the provider of that particular UCI.
- All publications on SRI UCIs (transparency and reporting, see 5.1) should be available on the provider's website, preferably under a specific heading.

5.1 Transparency and Disclosure

- The following publications must be available on the provider's website, preferably under a specific heading:
 - Policy, strategy and concrete implementation of sustainability in general and for each kind of product (e.g. one-pager) in a way that is easy to understand for the customer. (see 4)
 - Policy on controversial activities. (see 3)
 - Detailed listing of the sustainable assets used as covering assets for each product (absolute figures).
 - Transparency document in accordance with the Eurosif European SRI Transparency Code: <http://www.eurosif.org/sri-resources/sri-transparency-code>
 - Description of the quality management system and the results of the periodical audit. (see 5.2)
 - The usual periodical reporting, including the elements that are pertinent for sustainability. (see 5.3)
 - Indication of the place where customers can ask their questions, among other things about whether or not some assets are included into SRI UCIs. It is recommendable to publish the answers to frequently asked questions.

5.2 Audit and Supervision

- Providers of SRI UCIs must have a quality management system that is both clear and elaborate, for the supply chain as a whole.
 - Independent and specialised screening.
 - Strong recommendation to appoint an independent, external and specialised consultative body, which must give its advice about the methods that are used and keep an eye on the policy in the field of controversial activities. This body must have the ability to intervene and to supervise the implementation

of the ESG factors. It is also recommendable to ask the opinion of experts on ESG matters.

- The recognition of the independent third party lies with BEAMA (except in the case of an auditor). Some of the aspects that will be taken into account when deciding about this recognition, are independence, diversification and competence in the field of SRI.
- Strong recommendation for a periodical audit, by an auditor, of the SRI UCIs policy as a whole. Preference should be given to an auditor who is specialized in the field of SRI.
- Recommendation for calling upon research institutions that comply with CSRR-QS (Corporate Sustainability and Responsibility Research – Quality Standard)
- Recommendation for a periodical audit of the internal procedures and the assessment rules.
- The description of the quality management system and the results of the periodical audit are published on the provider's website.

5.3 Reporting and certification

- In the periodical reporting for these SRI UCIs, sufficient attention should go to the concrete implementation of sustainability. This should make it possible for the customer to get an idea of what has happened in the field of sustainability during the reporting period, e.g. the changes that may have been made as for the sustainable assets used as collateral.
- This reporting is published on the provider's website.
- It is recommendable to refer also to the sustainability aspect and its evolution in the regular reporting for the current customers.
- Each year, the UCI will provide BEAMA with a certificate signed by an independent third party, for each compartment it would like to see being included by BEAMA into the list of SRI-type UCIs. This certification will be renewed by the management company very three months.
- The requirements as to the form and contents of the certificate are laid down by BEAMA. Each UCI will mention which of the strategies and processes mentioned above are being applied for the portfolio management.
- Only the UCI has the authorisation to give BEAMA confirmation of a particular UCI/compartment's complying with the provisions and its ability to be given an SRI label by BEAMA. The responsibility for this decision lies with the UCI only.

6 List of sustainable products

- Twice a year, the manager or provider⁵ will report to BEAMA, about his offer of SRI UCIs that are compliant with the provisions in this methodology. BEAMA will subsequently provide Febelfin with a list of SRI-type UCIs, so as to enable the latter to make an update of its list of sustainable financial products. So, there is no longer a need for the management company or provider to take the initiative for providing Febelfin with a list of SRI-type UCIs.
- BEAMA has the right to check if this methodology is duly taken into account. SRI UCIs which do no longer meet the provisions of this methodology will be removed from the list of SRI UCI's and will no longer be included into the statistics.
- BEAMA will publish a list of SRI UCIs on its website. Febelfin will publish a list of sustainable financial products on its website (and relies for the list of SRI UCIs on the authorized BEAMA list of SRI UCIs).

This list will mention among other things:

- the product name
 - the product type (investment, savings, credit)
 - the name of the provider
 - a link towards a web page where one can find information on the product.
- BEAMA will also publish on its website:
 - quarterly and annually statistics on SRI-type UCIs
 - detailed information concerning each SRI-type UCI (e.g. prospectus, SRI-certificate, transparency document, link to the promotor's website)

⁵ As a matter of principle, one expects the management company, which is active on the Belgian UCI market and which is a member of Febelfin-BEAMA, to report to BEAMA. If this is not the case, reporting will be done by the provider who is a member of Febelfin.

7 Terminology

- Provider:** The institution which opts for commercialising a particular product as a 'sustainable' product. Usually, this will be the product dealer.
- Financing:** Generic term covering among other things:
- savings held with a credit institution
 - investment in securities issued by companies and countries
 - lending to private persons, companies and public authorities
- SRI:** Socially Responsible Investing
- CSR:** Corporate Social Responsibility
- ESG:** The three pillars of sustainability
- Environment
 - Society
 - Corporate Governance
- Weapons:** Products or basic components of products "designed to injure/kill" and used exclusively for military purposes.
- Basic components of weapons:**
Components developed mainly in order to be integrated into a weapon system and are directly connected with the deadliness of that particular weapon system.