Degroof Petercam Asset Management MiFID II Information Brochure

Version 4 – Last update October 2022

1. Introduction

1.1. General information about Degroof Petercam Asset Management

Degroof Petercam Asset Management S.A. (hereinafter "***DPAM***") is a limited liability company and a subsidiary of Bank Degroof Petercam S.A. (hereinafter "***BDPB***"), a Belgian-based independent credit institution. DPAM is an independent asset manager aiming to create long-term partnerships with clients; the head office is located in Brussels, Belgium.

The corporate details are provided below:

Degroof Petercam Asset Management S.A.
Rue Guimard / Guimardstraat 18 – 1040 Brussels
Registration number VAT| BE 0886.223.276
Phone: +32 2 287 91 11
Email: dpam@degroofpetercam.com

DPAM can be contacted in Dutch, French or English.

DPAM is authorized by:

Financial Services and Market Authority (FSMA)
Rue du Congrès /Congresstraat 12-14, 1000 Brussels
Phone: +32 2 220 52 11
Fax: +32 2 220 52 75

The company is the result of the merger in January 2016 of Petercam IAM and Degroof Fund Management Company, respectively wholly-owned subsidiaries of Petercam SA and Banque Degroof SA, which merged in October 2015. It was authorized as management company for undertakings for collective investment on January 24, 2007 and as alternative investment fund manager on October 15, 2014. Meanwhile, its authorization has been extended to enable it to offer investment advisory and portfolio management services on August 27, 2013.

DPAM has two main business lines, namely acting as a management company for investment funds and offering certain investment services to institutional clients.

1.2. Services as a UCI management company

DPAM is authorised as a UCI management company and holds licences for UCITS and AIFs. For both types of funds, DPAM can offer the full range of management company services, namely marketing, administration and management.

In practice, DPAM focuses on management (i.e., the actual investment management; in other words, taking the investment decisions regarding the fund's assets) and marketing (i.e., distributing the funds to the public and installing a network of distributors).

The administration service is not actively offered by DPAM and is instead outsourced to other entities.

1.3. Investment services

Alongside its activity as a management company, DPAM also offers investment services and products to institutional clients, which refers to clients that have a large portfolio (at least 5 million euro assets under management) and wherefore the investments are part of their corporate strategy (other financial institutions, pension funds, insurance undertakings, large companies or non-profit organisations …).

A detailed service offering model for investment services to these institutional clients is set out in Chapter 2 (Investment services offering model).

1.4. Regulatory framework

1.4.1. Management company

As set out above, DPAM is licensed to act as a management company for both undertakings for collective investment and alternative investment funds.

The regulatory framework for management companies is determined at EU level and these are essentially governed by the following legislation:

- The UCITS Directive (Directive 2009/65/EU) transposed into Belgian law by the law of 3 August 2012 and both royal decrees of 12 November 2012 on UCITS and on UCITS- management companies.
- The AIFM directive (Directive 2011/61/EU) transposed into Belgian law by the law of 19 April 2014 and the royal decree of 25 February 2017 (concerning AIF manager and Belgian public and institutional AIFs)

1.4.2. Investment services

These investment services are subject to a set of rules, generally referred to as MiFID (the Markets in Financial Instruments Directive (2004/39/EC), including all related, successive and implementing EU and national laws and regulations).

In 2004 the EU took the initiative of issuing a comprehensive set of rules with the aim of promoting fair, transparent, efficient and integrated financial markets. In force since November 2007, MiFID became the cornerstone of the EU's regulation of investment services in financial instruments and the operation of traditional stock exchanges and alternative trading venues. Furthermore, it helped increase competitiveness by creating a single market. It also ensured a high degree of harmonised protection for investors in financial instruments.

While MiFID created competition between these services and brought investors more choices and lower prices, shortcomings were exposed in the wake of the 2008 financial crisis.

In June 2014 the European Commission adopted new rules revising the MiFID framework. These consist of a directive (MiFID II - 2014/65/EU) and a regulation (MiFIR - Regulation (EU) No

600/2014), hereinafter and together with all related, successive and implementing EU and national laws and regulations referred to as "***MiFID II***".

MiFID II aims to reinforce the current European rules on securities markets by:

- ensuring that organised trading takes place on regulated platforms;
- introducing rules on algorithmic and high frequency trading;
- improving the transparency and oversight of financial markets - including derivatives markets - and addressing some shortcomings in commodity derivatives markets;
- enhancing investor protection and improving conduct of business rules as well as conditions for competition in the trading and clearing of financial instruments;
- building on the rules already in place and strengthening the protection of investors by introducing requirements on the organisation and conduct of actors in these markets.

Furthermore, it requires that players in the financial market:

- disclose data on trading activity to the public;
- disclose transaction data to regulators and supervisors;
- mandatorily trade derivatives on organised venues;
- remove the barriers between trading venues and providers of clearing services to ensure more competition;
- take specific supervisory actions regarding financial instruments and positions in derivatives.

MiFID II entered into force on 3 January 2018.

1.4.3. Sustainable investments

From a regulatory point of view, two texts are of particular interest:

- Regulation 2019/2088, better known as the "**SFDR Regulation**" standing for "Sustainable Finance Disclosure Regulation", which aims at increasing transparency in sustainable finance, and
- Regulation 2020/852, known as the "Taxonomy Regulation", which seeks to develop a classification tool to determine whether an activity can be considered sustainable.

The aim is to move towards a more sustainable society and, as an investor, you can actively participate in this transition.

Following changes to the rules of the European MiFID II Directive, you can now express your views on sustainability within your investments.

Through a new questionnaire, you are invited to express your preferences in terms of sustainable investments by answering a series of questions.

DPAM will take these preferences into account in its portfolio management and advisory services.

Sustainability or ESG (Environment, Social & Governance) stands for "environmental, social & governance" and covers areas such as climate, energy consumption, availability of raw materials, health, safety, human rights, labour rights, good corporate governance, etc.

Sustainability is important to DPAM and we are expanding our range of sustainable investment products. We select for you investments that also consider the potential negative impact of sustainability risks.

DPAM has been developing and offering sustainable and responsible investment strategies since 2001. Every investment decision has an impact and we therefore also have a responsibility as investors to carefully analyse the consequences of our actions.

The integration of sustainability criteria also helps to improve the investment decision-making process.

1.5. Purpose of this brochure

The purpose of this brochure is to provide you with information on the investment services offered by DPAM and the main provisions of MiFID II. Furthermore, this brochure contains mandatory general and pre-contractual information related to these services (including based on the SFDR regulation). We recommend you read the information carefully as it has a significant impact on your relationship with DPAM.

2. Investment services offering model

2.1. Authorised investment services

DPAM is authorised to offer the following investment services:

- **Portfolio management** - managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis, where such portfolios include one or more financial instruments;
- **Investment advice** - providing personal recommendations to a client, either upon the client's request or on the initiative of the investment firm, with respect to one or more transactions relating to financial instruments.

2.2. Portfolio Management

Portfolio management means managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments.

Before starting the portfolio management, DPAM will assess whether this service and the financial instruments used in this respect, are suitable for the client (see for more details point 3.2.3.1. Suitability).

Next to that, DPAM and the client decide together how the client's assets will be managed. Once the investment strategy has been determined (including the risk level, asset range, investment objectives, etc.), DPAM takes over the management. In other words, DPAM follows up on the assets under management and takes the investment decisions necessary to execute the predetermined investment strategy.

If the client proposes certain transactions, DPAM will examine its suitability with the agreed investment strategy. Since this is discretionary portfolio management, DPAM reserves itself the right to refuse to execute transaction proposed by clients as part of the portfolio under management.

A written agreement between the client and DPAM shall set out the essential rights and obligations of the parties and shall include a description of the services included the types of financial instruments that may be purchased and sold and the types of transactions that may be undertaken on behalf of the client, as well as any instruments or transactions prohibited.

2.3. Investment Advice

Investment advice means the provision of personal recommendations to a client, either upon its request or at the initiative of DPAM, in respect of one or more transactions relating to financial instruments. It is up to the client to decide whether or not to follow the advice provided by DPAM. In other words, the final decision lies in the hands of the client. This is also the main difference with portfolio management, where DPAM is responsible for the final investment decision.

Before giving the investment advice, DPAM will assess whether this service and the financial instruments used in this respect, are suitable for the client (see for more details point 3.2.3.1. Suitability).

Next to that, DPAM clearly defines, together with the client, the client's specific needs and investment preferences. DPAM must ensure that the advice it provides is tailored to the client's specific needs.

2.3.1. Types of investment advice

In DPAM's service offering model, investment advice can take the form of *structured* investment advice or *ad hoc* investment advice.

2.3.1.1. Structured investment advice

In the case of structured investment advice, DPAM takes a portfolio approach. This means that DPAM will assess the client's entire portfolio and advise on how to follow a predetermined investment strategy with that portfolio.

Furthermore, DPAM will actively follow up on the portfolio. Hence, DPAM will regularly monitor whether the portfolio is still in line with the predetermined investment strategy. In the event that is no longer the case, DPAM will contact the client and give advice on how to rectify the situation.

The service structured investment advice is very similar to portfolio management, with the difference that in case of structured investment advice the client always has the final investment decision. In other words, the client must give its express consent for every trade and can refuse to execute a proposed transaction.

During the relationship, the client can propose certain transactions or give suggestions. DPAM will advise on whether that suggested transaction is in line with the client's investment strategy.

2.3.1.2. Ad hoc investment advice

Ad hoc investment advice is limited to a single asset transaction. After having defined the client's needs and preferences, DPAM will give personalised advice on that specific transaction. Ad hoc investment advice can be both on the client's or DPAM's request.

The client is free to follow the advice or not. Hence, it is the client that takes the final investment decision.

After having given the investment advice, DPAM will no longer follow up on the investment. It is up to the client to decide whether that investment continues to cover its needs, risk appetite and investment objectives.

2.3.2. Characteristics of the investment advice provided by DPAM

2.3.2.1. Non-independent investment advice

DPAM will provide investment advice on a non-independent basis (unlike on an independent basis). This means that the spectrum of financial instruments that are reviewed and investigated by DPAM to provide the advice, can be limited to (a part of) the investment instruments distributed, managed, offered or issued by entities of or with close links to group Degroof Petercam.

2.3.2.2. Product range considered for investment advice

In principle, the criteria for the assessment of a range of financial instruments whereon the investment advice is based, is the DPAM Funds. These are funds DPAM manages and distributes. This is a wide range of products that, when combined, are sufficient to cover a varied spectrum of investment strategies.

In specific circumstances or upon the client's request, third-party funds or direct investments (shares, bonds, derivatives, etc.) can also be added to the scope of the assessment. Enlarging the scope does not mean that the investment advice should be considered as independent.

The DPAM Funds that are assessed for the investment advice are listed on the following website: https://funds.degroofpetercam.com.

2.3.2.3. Periodic suitability assessment

In the case of structured investment advice, DPAM shall actively monitor whether the advised financial instruments and the presumed investment strategy remain suitable for the client. DPAM will provide a periodic portfolio suitability assessment against the defined strategy. Upon the client's choice, the report can be sent on a monthly or quarterly basis and this via mail or email. In case the portfolio is no longer suitable, DPAM contacts the client to define an investment proposal to align his portfolio and make it suitable again.

In principle, for clients that are offered ad hoc investment advice, DPAM does not monitor whether the advised financial instrument remains suitable once the advice has been provided to the client. In other words, DPAM will only ensure that the transaction is suitable the moment the transaction is recommended but does not monitor the suitability of the portfolio's evolution.

However, if otherwise specified in the agreement, DPAM monitors the suitability of the portfolio's evolution over time and sends periodic reports. The report is sent at least on a yearly basis and upon client's choice via mail or email. In case the client wishes to react upon the report (e.g. selling a financial instrument that is no longer suitable), the client must actively contact DPAM.

2.4. Execution or transmission of client orders

Unless they are related to investment advice or portfolio management, DPAM does not execute orders on behalf of clients, nor does it offer a service of reception and transmission of orders with respect to financial instruments.

2.5. Overview

Offered by DPAM?		Who comes up with the investment idea?	Who is responsible for the follow-up?	Scope of the investment service?	Who takes the final investment decision?
Ad hoc investment advice	**Yes**	DPAM/ Client	Client	Single asset approach	Advice by DPAM but Client decides
Structured investment advice	**Yes**	DPAM/Client	Active follow-up by DPAM	Portfolio approach	Advice by DPAM but Client decides
Portfolio management	**Yes**	DPAM	Active follow-up by DPAM	Portfolio approach	DPAM decides but client can propose non-binding investment ideas
Execution/Transmission of client orders	**No**	Client	Client	N/A	Client

3. Clients

3.1. Client categorisation

Each client will be categorised by DPAM as a professional client or a retail client. Furthermore, certain professional clients can be categorised as eligible counterparties.

DPAM will use information received from clients for categorisation purposes. It will use objective criteria to interpret the client information and inform the client about its category. The importance of the categorisation lies in the fact that the applicable rules and level of protection are different depending on the client category.

It is the client's responsibility to ensure that any and all information that is provided to DPAM is correct and up-to-date. It is also the client's responsibility to immediately inform DPAM when the information provided to DPAM is no longer correct. In other words, DPAM has the right to rely on the information that was provided to it and consider it as up-to-date. Failure on the part of the client to properly notify DPAM of corrections and updates may result in the client receiving an offer, service or financial instrument that is not appropriate or suitable and/or that may produce negative consequences for the client.

3.1.1. Different categories of clients under MiFID II

3.1.1.1. Retail clients

Clients who are not expressly classified as professional clients or eligible counterparties are classified by DPAM as retail clients. This category has the highest level of protection.

3.1.1.2. Professional clients

A professional client is a client who possesses the experience, knowledge and expertise to make its own investment decisions and properly assess the risks that it incurs. The criteria to be considered a professional client are set out in Annex II of Directive 2014/65/EU. The following entities are considered professional clients (for more details and exact criteria check the aforementioned references to the law):

- Entities that are required to be authorised or regulated in order to operate in the financial markets (e.g. credit institutions, investment firms, UCITS, management companies, insurance companies, pension funds).
- Large undertakings that meet two of the following requirements:
  - balance sheet total: EUR 20,000,000;
  - net turnover: EUR 40,000,000;
  - equity capital: EUR 2,000,000;
- National and regional governments and certain public bodies;
- Other institutional investors whose main activity is to invest in financial instruments;
- Entities that used the opting-up regime (see below).

3.1.1.3. Eligible counterparties

In relation to a specific group of professional clients, an entity authorised to offer investment services and execute orders on behalf of clients, deal on own account or receive and transmit orders would be allowed to enter into a transaction under a less strict regime than set out for retail clients or *normal* professional clients.

This specific group of professional clients is referred to as eligible counterparties.

3.1.2. Opt-up

The regulation provides that clients that are categorised as retail clients can request from DPAM, in writing, that they be categorised as professional clients. Upon that request, DPAM will investigate whether the opting-up criteria are met and decide whether the opting-up can take place. Nonetheless, even if the opting-up criteria are met, DPAM may accept or refuse the client's opting-up request at its sole discretion.

Opting-up a professional client to an eligible counterparty is not relevant in the relationship with DPAM since DPAM does not offer investment services that would benefit from a lighter regime.

A client must understand that opting-up leads to lower investor protection in relation to the investment services and financial instruments offered or proposed to the client.

3.1.3. Opt-down

Professional clients can, at any time, request from DPAM that they are treated as retail clients. As a consequence, such clients benefit from the higher level of protection of retail clients. The same goes for an eligible counterparty, which can request that it be treated as professional or retail client. DPAM is not obliged to accept the request for an opt-down, thus any request that is not approved by DPAM has no effect.

3.1.4. Client categorisation under other laws and regulations

3.1.4.1. Eligible investor

The MiFID classification of clients (*retail*, *professional* or *eligible counterparty*), should not be confused with the notion of *eligible investor* under Belgian law.

Only eligible investors are allowed to invest in Belgian institutional alternative investment funds or institutional share classes of open-ended funds.

The following types of investors can be considered eligible investors:

- The per se professional clients (these are all the clients with the MiFID classification 'professional client' excluding the clients that enjoyed the opting-up regime as set out under point 3.1.1.2 in fine)
- Regarding institutional share classes of Belgian institutional alternative investment funds, other investors who are a legal entity and who are included on the register of eligible investors maintained by the FSMA

A per se professional client under MiFID that has opted-down as described in point 3.1.3 is still an eligible investor.

A retail client that has opted-up to a professional investor as described in point 3.1.2 is not an eligible investor, unless that client is a legal entity **and** is included in the register of eligible investors held by the FSMA.

For more information, in French or Dutch, see (this information is not available in English):

- https://www.fsma.be/fr/formulaires-de-demande or Formulaires de demande | FSMA
- https://www.fsma.be/nl/aanvraagformulieren or Aanvraagformulieren | FSMA.

3.2. Client investment profile

3.2.1. Purpose

When providing investment advice or portfolio management, DPAM shall take into consideration the client's financial situation, investment objectives and financial knowledge and experience.

- **Knowledge and experience**

  Information concerning the type of services and transactions in financial instruments with which the person(s) that take(s) the investment decisions is/are familiar, and the type, scope, and frequency of transactions in financial instruments undertaken by the person(s). Information concerning your knowledge about sustainable investment.

- **Investment objectives**

  Information about the intended investment purpose, the investment horizon, risk appetite, risk profile and risk tolerance; information about your interest in taking sustainable finance into account in your investment objectives.

- **Financial situation**

  Information about the source and amount of regular income payments and recurring liabilities, total assets, including liquid assets and real estate, and the ability to bear losses.

To assess the knowledge and experience of a legal entity, DPAM takes into account the knowledge and experience of the natural person(s) appointed by the client at the time of the profiling to make, on its behalf, the investment decisions. If one of these persons changes, the client must inform DPAM and a new test on knowledge and experience must be completed.

To obtain the above information DPAM requests the client, irrespective of whether the client is classified as a retail client or a professional client, to complete the MiFID questionnaire. Based on the answers to this questionnaire, the client's risk profile will be determined. There are five possible profiles ranging from Low (Defensive) to High (Dynamic). This profile represents the maximum average risk level for the client's investments with DPAM.

Where DPAM does not obtain the information required, it shall not recommend investment services or financial instruments to the client or potential client.

If a client has been classified as a professional client, DPAM assumes, when providing investment services, that the client has the necessary knowledge and experience.

Of course, DPAM will collect this information solely for its own use and will treat it in a strictly confidential manner.

In addition to the questionnaire, DPAM will also discuss in detail with the client which investment strategy to adopt. The specific details and limits will be set out in the client agreement.

The sustainability preferences of the client are considered in addition to the above.

We will therefore need to know how you want our portfolio management or investment advisory services to take into account certain sustainability considerations.

Indeed, you will have the opportunity, if you so wish, to express your preferences along lines of:

- Environmentally sustainable investments (= investments aligned with the taxonomy)
- Sustainable investments in the sense of the SFDR regulation
- Investments that consider the most significant negative impacts on sustainability factors. By sustainability factors, we mean environmental, social and employment-related issues, respect for human rights and anti-corruption.

3.2.2. Client information must be accurate and up-to-date

It is the client's responsibility to ensure that any and all information that is provided to DPAM is correct and up-to-date. It is also the client's responsibility to immediately inform DPAM when the information provided to DPAM is no longer correct.

In other words, DPAM has the right to rely on the information that was provided to it and consider it up-to-date. Otherwise, the client risks receiving an offer, service or financial instrument that is not tailored to its needs or situation; this might have serious negative consequences for the client.

3.2.3. Suitability and appropriateness

3.2.3.1. Suitability

General

When providing investment advice or portfolio management, DPAM must assess whether the investment service and the financial instruments used for the service, are suitable for the client. For this assessment, the information obtained via the above-mentioned MiFID questionnaire will be used as criteria.

More specifically, an investment service or product will be deemed suitable if the test indicates that:

- The proposed investment strategy or the recommended transaction is in line with the client's risk profile; including any sustainable preferences
- The client's level of knowledge and experience appears sufficient to understand the risks.

DPAM may not provide investment advice that would not be suitable for the client, nor can , in the context of portfolio management, execute a transaction that would not be suitable. A transaction shall be deemed as not suitable if that transaction is not in accordance with the client's investment objectives, financial situation, risk tolerance and ability to bear losses.

If a client has been classified as a professional client, DPAM assumes, when providing investment advice, that the client has the necessary knowledge and experience and is fully capable of appraising all possible related risks and financial impacts.

In the case of professional clients *per se* (i.e. professional clients that did not become professional clients through the opting up to professional client status), it is assumed, in addition, that they are able to bear the financial risks involved in the intended securities transaction.

Investment Advice

When providing investment advice to a retail client, DPAM will, before the transaction is executed, provide the client with a statement on suitability (the "***Suitability Statement***"). This statement is provided in a durable medium specifying the advice given and how that advice meets the preferences, objectives and other characteristics of the client.

As stated above, DPAM may only advise transactions that are suitable for the client. If a client insists to proceed with a transaction that is not suitable, the client has the possibility to execute the transaction at its own initiative and outside the scope of the service investment advice.

In case of a retail client, guidance about whether the level of knowledge and experience is sufficient to execute a transaction can be found on the Suitability Statement which indicated that the transaction was not suitable.

Where the client uses a means of telecommunication (telephone, fax, etc.) to issue a purchase or sale order for a financial instrument, DPAM may also provide the Suitability Statement immediately after the issue of the order if:

- the client has consented to receiving the Suitability Statement without undue delay after the execution of the order; and
- the client was given the option of delaying the transaction in order to receive the Suitability Statement in advance.

3.2.3.2. Appropriateness

For investment services other than investment advice and portfolio management, only their appropriateness for the client or the potential client must be tested. More specifically, it is required that the client's knowledge and experience in the investment field relevant to the specific type of service or product be examined.

In case a retail client insists on executing an order at its own initiative because it is not suitable, that retail client must be informed about whether its knowledge and experience is sufficient to execute the order. The retail client can find this information on the Suitability statement which indicated that the transaction was not suitable.

4. Important notices to the client

4.1. Order execution

The purpose of this section is to set out, in accordance with the Directive, the best execution and order handling policy that DPAM has implemented to execute orders related to the investment services provided to clients.

The execution policy for orders with respect to financial instruments (the "Execution Policy") described in this document supplements the General Terms and Conditions of Business governing relations between DPAM and its clients.

Since DPAM has delegated the order execution to the buy-side dealing desk ("***Dealing Desk***") of BDPB, this policy is based on the 'Policy for the execution of orders in financial instruments' of BDPB (the "***Execution Policy***"). The Execution Policy shall apply to the transactions in financial instruments that are executed in relation to the services offered by DPAM to its clients. It is established in accordance with the European Directive 2014/65/EU (MiFID II) and particularly article 27.

4.1.1. Prior consent by clients

With respect to financial instruments admitted to trading on a regulated market, the client gives its explicit consent:

- With the general provisions of the Execution Policy;
- A possible execution of orders related to the service provided by DPAM to its clients, outside a trading venue (see for more details below);
- A possible delay in communicating a limit order to the market (see for more details below).

DPAM believes that these two authorisations work to the benefit of its clients for achieving the best possible result in the execution of their orders.

In principle, this consent is given by signing the client contract. Should a client not agree to give prior express consent for one or both of these two specific areas, DPAM will have to process such orders in a less integrated way and this may have a detrimental effect on the quality of the execution of those orders.

4.1.2. Choice of the Dealing Desk

Based on the assessment of the services provided by the Dealing Desk of BDPB and on the review of its Execution Policy, DPAM has decided to use the Dealing Desk of BDPB for the transfer and execution of the orders generated within the framework of is activities.

On a yearly basis, DPAM will assess the quality of services provided by BDPB and review this choice should it believe it could obtain better service from another provider.

To ensure that the client is correctly informed about the execution of the relevant orders, a summary of the best execution policy of BDPB is set out below. The latest version can be found on the website of BDPB (Investor Protection | Bank Degroof Petercam).

4.2. Telephone recording

Clients and potential clients are informed that telephone conversations with portfolio managers and relationship managers for MiFID services will be recorded. This is done to improve the service and to comply with regulatory requirements, more specifically in the case of execution and transmission of orders and investment advice.

4.3. Reporting to clients

DPAM shall provide the client with relevant reports about the investment services provided. More specifically, DPAM shall give an overview of the results and the performance of the portfolio and the assets that are the subject of these investment services. The type of reporting depends on the investment service the client receives:

- Portfolio management:

Monthly portfolio overview;

Monthly management report;

- Investment advice (both ad hoc and structured)

Monthly portfolio overview

4.3.1. Portfolio overview

This report is issued once per month and gives a general overview of the portfolio, including a breakdown per type of asset class. Furthermore, this report lists the exact positions of the portfolio and the transaction details of executed trades during the reporting period and an overview of costs and charges.

4.3.2. Management report

The management report is also produced on a monthly basis. It is more extensive and mainly focuses on the management of the portfolio. In addition to providing a general overview of the assets under management, the investment objectives and guidelines and the key data of the mandate, this report also analyses the portfolio in detail.

More specifically, the report shows a comprehensive analysis for equities (currency, region, sector, etc.) and bonds (type of issuer, credit ratings, maturity, region, currency, etc.).

Furthermore, it provides a thorough insight into the performance and the contribution of certain assets to such performance.

Once per quarter, an overview of the financial markets, the investment strategy of the portfolio manager and some macroeconomic insights are added to the report.

4.3.3. SFDR report

Once a year, and in accordance with the templates provided for in the relevant regulations, DPAM will include in the management report information on how sustainability is addressed in the financial products.

This report will provide detailed information on the portfolio's exposure and overall sustainability impact based on relevant sustainability indicators.

Depending on the classification of the mandate (Article 6, 8, 8+ or 9), the information will differ (see Section 5.2.2)

These reports will be in line with the templates prescribed by the legislation (see Annexes 4 and 5 of the Regulatory Technical Standards with regards to the content and presentation of information to be provided).

4.4. Costs and charges

4.4.1. General

When providing investment services, DPAM shall inform its clients on the costs and charges related to these services, both ex-ante (i.e. before the investment service is provided) and ex-post (i.e. after the investment service has been provided). More specifically, DPAM will provide the following information at both points in time:

General				**Itemised breakdown**		
TOTAL COSTS AND CHARGES + **Illustration to show cumulative effect on the return**	Costs and charges related to the **investment service** and/or ancillary services	%	€	One-off charges	%	€
				Ongoing charges	%	€
				All costs related to transactions	%	€
				Charges related to ancillary services	%	€
				Incidental costs	%	€
	Costs and charges related to the **financial instruments** that are the subject of the investment service and/or ancillary services	%	€	One-off charges	%	€
				Ongoing charges	%	€
				All costs related to transactions	%	€
				Incidental costs	%	€
	Third-party payments received by the investment firm	**%**	€	n/a	%	€

In accordance with the MiFID II directive regarding **'Costs and Charges'** the distinction is made between the **direct** costs (related to the 'Investment Services') on the one hand and the **indirect** costs (related to the 'Financial Instruments') on the other hand.

The information relating to the **investment service** refers to all costs and associated charges that are charged by DPAM to execute these investment services. The information relating to the **financial instruments** that are the subject of the investment service must also be provided. This includes, among others, the costs to create, distribute and manage the financial instruments. For certain financial instruments these costs are relatively significant (e.g. an investment fund), while for other instruments (e.g. a plain-vanilla share) they are non-existent or very limited.

Third-party payments are payments that are received by DPAM in relation to the investment services provided to clients, and these must be itemised separately (see also point 4.8 *Inducements*).

The information provided on costs must be totalled and expressed as a cash amount (EUR) and as a percentage. In case the cost occurs in a currency other than EUR, DPAM shall convert these costs in line with standard exchange rates.

The client can request an itemised breakdown of the relevant cost items. DPAM has decided to always provide this information, regardless of whether the client specifically asks for it or not.

4.4.2. Ex-ante

DPAM shall provide the information in good time before the investment service is provided. Indeed, DPAM must provide transparency on the costs and charges of the investment service such that the client has a good understanding of the costs of the service and can make a well-informed decision.

The ex-ante information on costs and charges for portfolio management and structured investment advice will be provided before DPAM starts to offer this service to the client.

The presentation of the expected costs a charges is summed up in a MiFID II Costs & Charges '**Ex Ante'** report whereby the following sections are discussed in accordance with MiFID II directive regarding 'Costs & Charges':

- **'Definitions':** the section lists the definitions of all cost components listed in this report, with the distinction between:
    - de costs linked to the financial instruments (**'indirect costs'**): see description here after
    - de costs linked to the investment service provided (**'direct costs'**): see description here after
- **'Overview':** the section gives an overview of:
    - the main characteristics of the client (name, AuM, MiFID status, MiFID profile, investment horizon, contractually agreed cost structure)
    - a summary of the costs (direct costs, indirect costs, total costs) in Euro and in %:
- **'Details':** the third section gives the details of all costs as shown under section 2, with a focus on the proposed composition of the portfolio. A summary table of the Alignment Fee, if applicable, is also shown below.
- **'OGC Details':** the section gives, for all proposed DPAM funds, the breakdown of the OGC cost between the following cost components:
    - Standard management fee
    - Administrative agent
    - Custody fee
    - Registration tax
    - Other costs (revisor, audit, publications, …)
- **'Impact on Return':** the section gives an indication of the impact of the costs on the expected return of the portfolio. The following input data are used for this purpose:

- Expected return of the portfolio, calculated based on:
    - the expected returns per asset class by DPAM
    - the strategic asset allocation of the client
- Investment horizon of the portfolio
- Value of the portfolio at inception

These figures ('gross' and 'net') are shown in a table and in a graph.

4.4.3. Ex-post

In principle, DPAM, for the investment services it provides (i.e. portfolio management and ad hoc and structured investment advice), always recommends and/or markets financial instruments to the client. For that reason, DPAM is obliged to produce at least annually full and personalised ex-post reporting on the costs and charges related to investment services offered to the client.

After inception of the portfolio, an annual MiFID Cost & Charges '**Ex Post'** report is produced (in the course of the first quarter of the subsequent year) with an overview of all costs that have actually been charged during the past year.

4.4.4. Direct costs (related to the 'Investment Services')

"**Direct**" costs or costs linked to the "**investment service**" are the costs charged in return for the investment services (e.g. portfolio management, investment advice, execution of orders) provided by DPAM and/or for the ancillary services (e.g. custody) provided by Bank Degroof Petercam (hereafter BDP) in case BDP has been appointed by the client as custodian.

There are five subcategories of direct costs:

- **One-Off charges**: these charges, if any, are paid at the beginning and/or at the end of the investment service provided. This can be an account opening/termination fee, a transfer fee ... In principle, DPAM does not charge this type of costs.
- **Ongoing charges**: these charges, if any, are directly paid to DPAM for the investment service provided. Depending on the services provided, the type of assets in the portfolio and the applied fee structure, this can be a management fee, an advisory fee, an alignment fee, another fee or a combination of the aforementioned fees. These fees have in principle an ongoing nature, which means that they are charged periodically for as long as the services are provided
- **Transaction costs**: these costs, if any, are related to the transactions performed in the portfolio. These costs include the broker commissions, and any other costs related to buying and/or selling the financial instruments in the portfolio. Please note that the costs related to the subscription and/or redemption of an investment fund, if any, are also reported under this subcategory. The latter can be the fee to remunerate the distributor of the fund directly (e.g. entry/exit fee) or an additional charge paid to the benefit of the fund in order to avoid depreciation for the existing investors of the fund (e.g. the 'load/exit' fee in case of an index fund).

- **Ancillary fees**: these costs, if any, are related to ancillary services and are not yet included in the costs mentioned above. In principle, DPAM does not offer ancillary services. In case the assets of the portfolio are in custody with BDP, the costs related to that service will be mentioned in this subcategory. In case the assets are in custody with a third-party custodian, these costs will not be reported in this document.
- **Incidental costs**: these costs, if any, apply when a certain event, such as a performance fee, occurs at the level of the portfolio.

All costs mentioned here above at the level of the portfolio of the client are effective outgoing cost flows (i.e. they are mentioned on statements, invoices, bills, …) and are therefore effectively 'visible' for the client.

4.4.5. Indirect costs (related to the 'Financial Instruments')

"**Indirect costs**" or costs related to the "**financial instruments**" are the costs linked to the financial instrument itself. For straightforward products such as a share or a bond, these costs are often non-existing. For financial instruments that are more structured, e.g. the units of an investment fund, the costs related to that structure are reported as indirect costs.

There are four subcategories of indirect costs:

- **One-Off charges**: these charges, if any, are paid to the product supplier at the beginning and/or at the end of the investment in the financial instrument. These can be included in the price of the financial instrument or charged separately. For investments in DPAM funds, in principle no one-off costs are charged. For third party funds, one-off charges, if applicable shall be reported under the subcategory 'Costs related to transactions' of the direct costs.
- **Ongoing charges**: these charges, if any, are related to the management (in the broad sense of the word) of the financial instrument and are deducted from the value of the financial instrument during the investment in the financial instrument. For investments in DPAM funds, these charges include the management fee, the administration fee, the custody fee, the taxes as well as all other recurrent fees charged within a DPAM fund. These charges have in principle a recurrent character, which means that they are charged periodically for as long as the DPAM fund is managed. These recurrent charges are usually summarized as being the OGC figure of the DPAM fund (OGC standing for 'Ongoing Charges'). The OGC's of the DPAM funds are also mentioned on the KIID's (KIID standing for 'Key Information Investor Document') of the proposed DPAM funds.
- **Transaction costs**: these costs, if any, are borne by the financial instrument as a result of the acquisition and/or disposal of underlying investments. For investments in DPAM funds, these costs are the broker commissions and other transaction-related costs to buy and/or sell the underlying investments.
- **Incidental costs**: these costs, if any, apply when a certain event, such as a performance fee, occurs at the level of a DPAM fund.

All costs mentioned here above are borne within the financial instruments in order to calculate the Net Asset Value (NAV) of the respective financial instruments. In other words, these costs are not effective outgoing cost flows at the level of the portfolio of the client (the client does not receive an invoice/bill in order to pay the costs within the financial instruments, this is directly done within the financial instruments via the calculation of the NAV) and are therefore not 'visible' for the client.

4.4.6. Overview table

		Portfolio Management	Structured Investment Advice	Ad hoc Investment Advice
#1	**Full ex-ante** *Start of relationship*	Yes	Yes	Yes
#2	**Ex-Ante** *Before transaction*	No	Yes, on advised instrument	Yes, on advised instrument
#3	**Ex-Post** *After transaction*	No	No	No
#4	**Full Ex-Post** *At least annually*	Yes	Yes	Yes

4.5. Product governance

DPAM has implemented effecient organisational and administrative arrangements to ensure that the services and investment products offered to the client meet their needs and objectives and in particular with a view to taking all reasonable steps designed to prevent conflicts of interest and for the approval of each financial instrument before it is marketed or distributed to clients and the specifying an identified target market of end clients.

DPAM shall also regularly review financial instruments it offers or markets, taking into account any event that could materially affect the potential risk to the identified target market, to assess at least whether the financial instrument remains consistent with the needs of the identified target market and whether the intended distribution strategy remains appropriate.

4.6. Conflicts of interest

DPAM's policy on managing conflicts of interests is set out below. Additional information can be obtained from DPAM upon request.

4.6.1. Conflicts of interest

As set out above, DPAM offers its clients a full and integrated range of services, such as services provided to investment funds (collective asset management and distribution) and investment services (portfolio management and investment advice) provided to clients with an institutional background.

Furthermore, DPAM, like other subsidiaries of BDPB, is a part of group Degroof Petercam (hereinafter "**Degroof Petercam**").

The possibility of conflicts of interest is inherent in the fact that the different entities within Degroof Petercam develop, in parallel, concurrent services directed towards a variety of clients having at times diverging interests.

Therefore, potential conflicts of interest may arise, such as:

- Between the different clients of DPAM or between a client of DPAM and a client of another entity of Degroof Petercam;
- Between DPAM (its representatives, managers or other group companies) and its clients;
- Between DPAM and other entities of Degroof Petercam.

4.6.2. Examples of potential conflicts of interest

For example, Degroof Petercam may find itself in the situation of granting loans to or advising companies while at the same time investing, for the account of its private asset management clients, in financial instruments (shares, bonds, etc.) issued by the same companies.

In certain cases, DPAM could also advise its clients to invest in financial instruments issued by companies in which BDPB has an interest, inter alia because these companies are clients of BDPB or, in the case of collective investment of funds, because the assets of the latter are managed by DPAM or by other companies in the Group.

BDPB’s sell side equity research department could also, in certain cases and where certain conditions are met, publish recommendations concerning companies that are being advised by another company that is part of Degroof Petercam, for example by DPAM in the context of investment services.

The development in parallel of such activities in favour of clients having at times diverging interests requires specific measures to be taken to prevent and, where applicable, manage potential conflicts of interest in a manner that respects the interests of the parties in question equitably.

4.6.3. Principal measures for preventing and, where applicable, managing conflicts of interest

Both Degroof Petercam’s group policy on conflicts of interest and DPAM‘s conflict of interest management policy are based, in general, on a separation of any activities that could potentially generate mutual conflicts of interest. To this end the activities of Degroof Petercam are carried out in different departments and/or in legally distinct entities.

This departmentalisation, or use of separate subsidiaries, can be expressed in particular by the physical separation (different premises) of the persons exercising the activities in question, as well as strict rules governing the confidentiality, transmission and use of information between and within departments or group entities.

The management of each department (or distinct subsidiary) lies with a member of the management team or, in certain cases, with a separate decision-making committee, allowing for autonomous decision-making.

Where activities undertaken within a particular department can potentially generate mutual conflicts of interest, specific measures can also be introduced within the department in order to fence off specific activities or transactions.

Specific measures are also taken to ensure that DPAM's representatives (managers, employees, delegated agents) exercise their activities in the interest of clients. These representatives receive regular and specific training in business ethics, in particular upon entering DPAM. Specific limits are imposed on transactions in financial instruments for the account of representatives of DPAM and their immediate families. Also, certain operations that can potentially jeopardise the independence of the DPAM's representatives in exercising their function are forbidden (for example, receiving benefits from third parties).

4.7. Asset protection

Clients of DPAM that receive investment services, have a choice when it comes to the safekeeping of their financial instruments object to such services. They can decide to deposit their assets with BDPB, or they can appoint an external custodian.

In both cases, this custodian (whether external or not) is responsible for the deposit and safekeeping of the financial instruments.

When the client designates an external custodian, neither DPAM, nor any other entity of Degroof Petercam shall take responsibility for the deposits or for the protection of the client's assets.

In case BDPB acts as custodian, BDPB's policies and procedures will apply. For these custody services, the client and BDPB will conclude a separate agreement whereto DPAM is not a party. Even if DPAM proposed the custody services by BDPB to the client and/or if it routes or replies to questions related to the custody services offered by BDPB, DPAM is not a contract party to such a custody agreement and has no rights or obligations under it.

4.7.1. Principles

Any deposit held with a credit institution in a Member State of the European Economic Area is protected up to an amount of €100,000 per person and per institution.

Any deposit of funds held with a Belgian investment firm is protected up to an amount of €100,000 per person and per institution.

Any financial instrument held with a credit institution or investment firm in a Member State of the European Economic Area is protected up to an amount of €20,000 per person and per institution.

In accordance with the legal requirements for a management company wishing to provide investment services, DPAM is affiliated to the Fund for the Protection of Deposits and Financial Instruments and has paid the calls for contributions it has received.

4.7.2. Deposit guarantee: which assets are protected?

- All deposits placed in one of the following accounts, regardless of currency:

Current accounts,

Savings accounts,

Term accounts ;

- Registered or dematerialised savings bonds registered in registered accounts ;
- Bonds or other bank debt securities issued or constituted before 2 July 2014
- Deposits of funds with investment firms intended for or resulting from investment transactions in financial instruments

4.7.3. Financial instruments guarantee

The protection applies to financial instruments that a client has placed on deposit with his institution.

The institutions that belong to the protection system are:

Credit institutions

Brokerage firms

Asset management and investment advisory companies

Management companies of collective investment institutions, which are also authorized to carry out individual portfolio management

If this client is no longer able to recover his securities due to the default of the custodian, he can call on the protection system for the loss he has suffered; the maximum amount of the additional cover offered by the protection system is set at € 20,000 per person and per institution.

However, attention should be drawn to the important legal protection that a client enjoys for the securities he has entrusted to his financial institution. Indeed, the customer always remains the legitimate owner of his securities and has a direct right to reclaim them. This means that the securities must be returned to him by the trustee and can therefore never be included in the assets of a potential bankruptcy.

4.8. Inducements

4.8.1. General

Inducements are fees, commissions or any non-monetary benefit (e.g. investment research, information terminals) paid or received by DPAM in relation to its activities of portfolio management and investment advice.

DPAM decided to, in relation to both portfolio management and investment advice, not to accept or retain fees, commissions or any monetary or non-monetary benefits paid or provided by any third party or a person acting on behalf of such a third party.

DPAM has taken the necessary measures to avoid receiving inducements or to transfer them to its clients.

4.8.2. Minor non-monetary benefits

DPAM is likely to receive minor non-monetary benefits, such as:

- information or documentation relating to a financial instrument or an investment service, is generic in nature or personalised to reflect the circumstances of an individual client;
- written material from a third party that is commissioned and paid for by an corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any firm wishing to receive it or to the general public;
- participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service;
- hospitality of a reasonable *de minimis* value, such as food and drink during a business meeting or a conference, seminar or other training events mentioned under point; and
- any other minor non-monetary benefit that could be regarded as usual business manners in the financial sector between financial institution that work together or offer services to each other.

DPAM has taken measures to ensure that these minor no-monetary benefits:

- are capable of enhancing the quality of the service provided to the client;
- are of such a nature that they could not be judged to impair compliance with the DPAM’s duty to act in the best interest of the client;
- are reasonable and proportionate; and
- are of such a scale that they are unlikely to influence DPAM’s behaviour in any way that is detrimental to the interests of the relevant client.

4.8.3. Investment research received

To develop its activities and offer its services, DPAM relies amongst others on investment research it receives from other financial institutions. DPAM directly pays for this research from its own resources and the costs for this investment research are thus not allocated to its clients.

Consequently, this investment research should not be regarded as an inducement.

4.9. Packaged products and services

When DPAM offers investment service of investment advice or portfolio management together with another service or product, even when offered by another entity of Degroof Petercam, for example custody or brokerage, as part of a package or as a condition for the same agreement or package, DPAM shall inform the client whether it is possible to buy the different components separately and shall provide separate evidence of the costs and charges of each component.

Where the risks resulting from such an agreement or package offered to a retail client are likely to be different from the risks associated with the components taken separately, DPAM shall provide an adequate description of the different components of the agreement or package and the way in which its interaction modifies the risks.

4.10. Valorisation of the client portfolio

4.10.1. General

The value of the client portfolio must be determined, amongst others, to:

- follow-up on the performance and for other client reporting purposes; and
- calculate the fees in return for the services offered by DPAM.

The valorisation of the client portfolio mainly depends on how the individual assets, out of which the portfolio is composed, are valorised. In other words, the value of the portfolio is calculated by summing-up, for each different ISIN Code in the portfolio, the price of a single unit of an asset multiplied by the number of units in the portfolio.

There are several methods to do determine the daily price of the units in which the portfolio is invested. DPAM uses the asset management platform ‘G2’, a platform maintained by Lombard Odier. This platform also valorises the client’s portfolio’s. The valorisation methods used by G2 are set out below.

4.10.2. Valorisation methodology

The value of a single unit is determined each business day. For this single unit price, G2 relies on different data providers, such as SIX Telekurs, Bloomberg, Thomson, Reuters and Interactive Data.

The choice for one or another data provider depends upon three criteria:

- The reliability of the price;
- The frequency of the price;
- To what extent information can be obtained in an automated way.

For special types of instruments, G2 uses data providers with a particular competence in valorising these assets (e.g. Citco for hedgefunds).

For an individual instrument different prices might be available:

- Regular quote: the last price paid for the instrument.
- Bid price: the highest priced buy order that is available in the market, in other words the highest price at which a trader is willing to buy at that moment.
- Ask price: the lowest priced sell order that is available in the market, in other words the lowest price at which a trader is willing to sell at that moment.
- Close price: the average price on the five most liquid markets in the financial instrument at which the last trade of the trading day in that instrument were settled.
- Average: the mid-price of the bid-ask spread, in other words the price calculated by taking the average of the current quoted bid and ask prices.
- NAV: the net asset value is the last available final audited value per unit/share of an investment fund; this value is based on the total value of the securities in the portfolio of the fund, the liabilities of the fund has and the number units/shares issued by the fund. For most investment funds, this NAV is calculated on a daily basis and at share class level. In principle, the NAV is calculated by the appointed management company or the fund administration company to which the management company has delegated the fund administration tasks.
- Calculated price: the price will be determined in line with a specific calculation method. This will be used in case the market data is not available for an instrument or when the market data does not correctly represents the value of the instrument. Specific details on these calculation methods can be requested to DPAM.
- Settlement price: this is the last available settlement price for futures or options dealt on a derivatives exchange. Each exchange has a set of procedures used to calculate such a settlement price.

Type of instrument	Data provider	Type of price (‘>’ = ‘*if not available*’)
Shares	SIX Telekurs	Regular Quote > Average > Bid price
Bonds (non-Swiss)	Bloomberg	Close price > Bid price
Bonds (Swiss)	SBI	Bid price
Listed derivatives	Interactive Data	Settlement price > Bid price
OTC derivatives	Bloomberg	Calculated price
Structured products	SIX Telekurs	Close price > Average > Bid price
Swaps	Bloomberg	Calculated price

UCITS	SIX Telekurs	NAV
Listed funds	SIX Telekurs	Close price > Average > Bid price
Hedge funds	Citco-administrateur	NAV
Precious metals (no coins)	SIX Telekurs	Close price
Interest rates	Bloomberg	Close price
Forex	Reuters	Average
Currency Options	Reuters	Calculated price

In case the instrument is admitted for trading on different markets, trading facilities or exchanges, it is possible that only the prices of the main market are used and that, when this market is closed on the moment the price is determined, the price is not updated with prices of the secondary markets.

If the price of an instrument is not supplied by the data providers specified above, the below sources are used:

Trading price;

Custodian;

The fund admin of the investment fund;

The issuer of the instrument;

The fiscal administration; and

The client.

Note that the above explanation describes the general principles but that exceptions might apply.

4.10.3. Valorisation used for reporting

For reporting purposes, the valorisation in line with the principles as set out above is used (see 4.10.2).

4.10.4. Valorisation used for fee calculation

The fees due for the services provided by DPAM are in principle based on the average value of (a part) of the portfolio over the quarter for which they are due ("***Quarter Average Value***").

Depending on the type of remuneration, the Quarter Average Value is calculated differently.

- Portfolio Management Fee (see contract for exact definition and more details) The Quarter Average Value serving as basis for the Portfolio Management Fee is calculated by taking the average of the portfolio value at the end of the three months preceding the last month of the quarter. In practice this means that for the second quarter of the year (starting at

1 April and ending 30 June), the average is taken of the portfolio value at the last business day of March, April and May.

- For the Alignment Fee (see contract for exact definition and more details), which is only applied to DPAM Funds, the Quarter Average Value of the portfolio is determined by summing-up the outcome of the below formula for each position of the portfolio in a DPAM Fund:

Average Value of position in a single share class over a Quarter

$$= \frac{1}{n} \sum_{d=1}^{d=n} N_d \text{ x } NAV_d \text{ x } \left[d - (d-1) \right]$$

"**Nd**" means the number of units of the fund in the Portfolio on date "d".
"**NAVd**" means the net asset value of the fund on date "d".
"**d**" means the days on which the net asset value of the fund is calculated.
"**n**" means the total number of calendar days during the relevant calculation period (i.e. a quarter, respectively ending on the last day of March, June, September and December).

5. Sustainable and Responsible Investment

5.1. Concepts

Sustainable and responsible investment is a key principle in our decision-making process. We are now convinced that sustainable and responsible investments are structurally sustainable. This conviction drives us to continuously invest in our resources and research.

The regulatory framework for the financial sector in the European Union aims to harmonise the key points of the transition to a more sustainable and low-carbon economy.

“Financial products" within the meaning of this regulatory framework (SFDR) include managed portfolios, funds (alternative investment funds and UCITS), insurance-based investment products, pension products, pension schemes and pan-European individual retirement savings products.

The aim is, inter alia, to provide greater transparency to investors regarding the integration of sustainability risks, the consideration of negative sustainability impacts, the promotion of environmental or social characteristics and sustainable investments (promotion of environmental and/or social objectives). Transparency is achieved by requiring those market actors who make financial products available to end investors to publish pre-contractual information and to provide ongoing information.

5.2. Transparency obligations

DPAM is thus subject to the transparency requirements imposed by the regulatory framework when offering portfolio management services and when providing investment advice services, whether on ad hoc basis or in the frame of a structured investment advice.

The scope of the transparency obligations to which DPAM is subject may vary depending on the capacity in which DPAM acts. This section describes these obligations and the means used by DPAM to provide its clients with the required information insofar as these are not already included in this brochure.

5.2.1. Transparency on the sustainability risks

Article 6 of the SFDR Regulation requires DPAM to inform clients pre-contractually about

a) how sustainability risks are incorporated into its investment decisions/investment advice;

b) the results of the assessment of the potential impact of sustainability risks on the returns of the financial products it makes available / recommends to its clients.

For point (a), DPAM integrates sustainability risks as follows:

DPAM integrates sustainability risks into its investment decisions by following binding investment guidelines on environmental, social and/or governance ("ESG") issues. Therefore, DPAM links the level of sustainability risk to the extent to which the ESG investment guidelines apply to a financial product. This means that, if there are no binding ESG investment guidelines applicable to the portfolio managed under the relevant portfolio management agreement, the sustainability risk will be higher. If, on the contrary, the portfolio management agreement includes detailed and binding ESG investment guidelines, the sustainability risk will be considered lower. Therefore, the likely impact of sustainability risks is assessed by DPAM as follows:

- Article 9 and 8+ products: low
- Article 8 products: medium
- Other products: high.

For point (b), DPAM will inform the client individually in a durable medium of the likely impact of sustainability risks on the returns of its managed portfolio or of the financial product recommended by DPAM to the client, prior to the provision of services.

The client shall be informed accordingly whether the likely impact is low, medium or high.

5.2.2. Classification of financial products ans sustainbility related information

The approach described above is applied by DPAM in the discretionary portfolio management mandates.

This results in the following assessment:

1) financial products that promote, among other characteristics, environmental or social characteristics in accordance with Article 8 of the SFDR Regulation ("**Article 8 products**");
2) financial products that promote, among other characteristics, environmental and/or social characteristics and invest partly in sustainable investments (so-called **Article 8+ Products**)
3) financial products that have environmental and/or social objectives and thus have the sustainable objective of having a genuinely positive impact on the environment and society; in accordance with Article 9 of the SFDR Regulation ("**Article 9 Products**");
4) other financial products that do not meet any of the above definitions of financial products ("**Other Products**").

In accordance with MIFID, clients with a discretionary management mandate can express sustainability preferences.

- If they have no sustainability preferences, they are "sustainability neutral".
- If they have an interest in sustainability issues, they can choose one or more of the following preferences

  o Minimum proportion of investments aligned with the taxonomy

  o Minimum proportion of sustainable investments

  o Consideration of the most significant negative impacts on the sustainability factors (‘PASI’)

The sustainability preferences will be reflected as investment guidelines in the investment management agreement with the client, in the SFDR pre-contractual information filled in accordance with the templates provided by the SFDR regulation and in the regular reporting where applicable (see below).

The expression of the sustainability preferences will become contractually binding.

Concretely:

1. The client has not expressed any sustainable preferences when establishing his investor profile. In other words, the client answers NO to the related questions in the MiFID questionnaire : The mandate will be classified as "**other product**" and :

a) There will therefore be no investment guidelines in terms of sustainability
b) The client will not receive the pre-contractual information according to the model foreseen in the SFDR regulation, as it is only available for articles 8, 8+ and 9 products, but only the limited information required by article 6 SFDR on the level of sustainability risks.
c) The client will not receive an SFDR report under the templates provided for in the regulation, it will only be informed that its investments do not take into account the taxonomy, as required by Article 7 of the Taxonomy Regulation.
d) In terms of portfolio content, DPAM may include any type of instrument.

2. The client wishes to have a minimum proportion of investments aligned with the taxonomy and specifies one of the percentages proposed in the MiFID questionnaire: The mandate will be classified as **so-called Article 8+ products** regardless of the percentage chosen by the client and:

a) The discretionary management agreement will have to reflect this minimum proportion of investments aligned with the taxonomy chosen by the client.
b) The client will receive the pre-contractual information according to the model provided for by the regulation and in which the sections related to the taxonomy must also be completed due to the client's choice (i.e. the information corresponding to an 8+ product).
c) The client will receive the SFDR report under the template provided for by the regulation (in which the sections related to taxonomy must also be completed in light of the client's choice).

3. The client wants a minimum proportion of sustainable investments and specifies one of the percentages proposed in the MiFID questionnaire: The mandate will be classified as **Article 8+ or Article 9** and:

a) If the client wants a mandate classified as "Article 9", the minimum threshold of sustainable investments to be formalised in the management agreement will be 70%.
b) The discretionary management agreement shall reflect this minimum proportion of sustainable investments chosen by the client.
c) The client will receive the pre-contractual SFDR information in the form provided for by the regulation, in which the sections relating to the commitment to sustainable investments must be completed (i.e. the information corresponding to article 8+, or 9 in light of the client’s choice).

d) The client will receive the SFDR report under the template provided for by the regulation, in which the sections relating to the commitment to sustainable investments must be completed in light of the client's choice.

4. The client chooses a minimum proportion of sustainable investments AND a minimum proportion of taxonomy-aligned investments. In this case, the client chooses two percentage ranges provided in the MiFID questionnaire (Taxonomy and SFDR Alignment).

The mandate will be classified as either an Article 8+ product or an Article 9 product because there is a commitment to make taxonomy-aligned and sustainable investments. As indicated in paragraph 3 above, the mandate will be considered as Article 9 if it includes at least 70% sustainable investments. Please see the consequences in paragraph (3) above.

5. The client wishes their investment to consider the most significant negative impacts on the sustainability factors (PASI)

a) Either the client wants the PASI and a minimum proportion of investments aligned with the taxonomy and/or a minimum proportion of sustainable investments: The mandate will be classified as "**Article 8+ products"** or "**Article 9 products**" (depending on the percentage of sustainable investments).
Please see the consequences in paragraphs 2, 3 and 4
b) Or the client only wants PASI:
    1. If the client wishes to retain a mandate classified as "other product" but asks us to consider PASIs, the classification of the mandate will be in accordance with point 1.
    2. The mandate may be classified as "**Article 8 products**" if the client takes no other option than PASIs. And in this case :
        1. PASIs will be reflected as investment guidelines in the contract.
        2. The client will receive the SFDR pre-contractual information according to the template provided by the regulation for Article 8 (the sections on taxonomy / sustainable investments will not be filled in).
        3. The client will receive the SFDR report under the template provided by the regulation for Article 8 (the sections on taxonomy / sustainable investments will not be filled in).

DPAM will inform the client individually on a durable medium of the classification of its managed portfolio and will at the same time provide both the pre-contractual information and the ex-post reporting (cf. section on SFDR for so-called Article 8 Products and so-called Article 9 Products), as required.

It should be noted that the client may itself be subject to the regulatory requirements of the SFDR Regulation, e.g. an insurance company that distributes an insurance-based investment product (IBIP) or an institution for occupational retirement provision (IORP). Such a client is also required, independently of DPAM, to classify the financial product it makes available to its clients. A communication from DPAM about the classification of the managed portfolio does not release the client from its own obligations under the SFDR.

For the avoidance of doubt, financial advisers are not subject to the classification obligation. Therefore, DPAM is not obliged to provide clients with the information detailed in this section when providing investment advisory services.

5.2.3. Additional information on sustainable investments

For more information on sustainable investments and the policies applied by DPAM, please visit https://www.dpamfunds.com/responsible-investment.html

6. Nature and specific risks of the main financial instruments

6.1. Fixed income investments

6.1.1. Deposits and cash certificates

6.1.1.1. Definition

The term deposits refers to funds deposited with financial institutions, interest bearing or not, in return for which the financial institution in question is entitled to use these funds for the purpose of its activity, but with the requirement to return them to the depositor and to provide the latter with cash facilities.

We distinguish here between current deposits, term deposits, and term deposits, in euro and foreign currencies.

Cash certificates (bons de caisse/kasbons) are securities representing a claim on a credit institution, issued by such institutions "on tap", in most cases in minimum denominations of EUR 200, and for a period of 1 to 5 years, but occasionally also for 10 years and more.

In particular we distinguish (the list below is not exhaustive):

- ordinary cash certificates, where the interest rate is fixed permanently at the time of issue;
- floating rate cash certificates. Where the subscriber is entitled to claim reimbursement of the certificate at regular prescribed intervals, it being understood that the longer he holds the bond, the higher the interest will be;
- growth bonds, which offer the choice, at each due date, between capitalization and the accrual of interest;
- capitalization certificates, where the interest is automatically capitalized.

6.1.1.2. Risks:

- Foreign exchange risk for investments denominated in foreign currencies (evolution of the exchange rate compared to the reference currency), which will influence the return on investment;
- Risk of bankruptcy of the financial institution with which the assets are deposited or which issues the cash certificate.

6.1.2. Money market securities

6.1.2.1. Definition

Belgian treasury certificates are book-entry securities representing a debenture certificate with a term of 3, 6 or 12 months, issued by auction by the Belgian Finance Ministry.

These are adapted to the needs of professional investors. Private investors (retail clients) may also buy them on the secondary market.

Belgian government bonds are securities representing a debenture certificate, with a term between 3 and 10 years, issued by the Belgian Finance Ministry. The interest rate is fixed or open to revision, but in the latter case generally with a guaranteed minimum.

Only private individuals can subscribe. The minimum subscription amount is EUR 200.

Thanks to the X/N compensation system of the National Bank of Belgium, any private person or legal entity may hold them. This compensation system allows to distinguish between holders subject to withholding tax and holders who are exempted of withholding tax.

Treasury bills are securities representing a debenture certificate issued by commercial companies, as well as by certain public authorities (State, Communities, Regions, provinces, etc.) both Belgian and foreign. Their minimum amount may not be lower than EUR 1.000 or the foreign currency equivalent.

Certificates of deposit are securities representing a debenture certificate issued by Belgian or foreign credit institutions operating in Belgium. Their minimum amount is the same as for treasury bills.

6.1.2.2. Risks

- Foreign exchange risk for treasury bonds, treasury bills and certificates of deposit denominated in foreign currencies (evolution of the exchange rate compared to the reference currency), which will influence the return on investment;
- Risk of capital loss where the security is sold on the secondary market prior to maturity;
- Risk of bankruptcy of the issuer in the case of treasury bills and certificates of deposit (non-payment of interest and non-reimbursement of the invested capital);
- Liquidity risk, especially for treasury bills and certificates of deposit, if the secondary market for the securities involved is narrow;

6.1.3. Bonds

6.1.3.1. Definition

A bond is a security representing a claim on a corporate entity (state, commercial company, etc.) relating to a borrowing of a predetermined term (generally over one year) and amount.

The price (issue, trading or redemption price) of a bond may be equal to or higher or lower than its face value, depending on whether the bond is issued at, above or below par. Certain bond loans may be prepaid, generally at the issuer's initiative.

We distinguish in particular between (the list below is not exhaustive):

- fixed rate bonds: bonds whose interest rate is fixed and defined with respect to the face value of the bond;
- revisable rate bonds: bonds where the interest rate is not set once and for all, but can be revised (almost all of these bonds carry a minimum interest rate);
- floating rate bonds: bonds where the interest rate varies at certain regular dates according to the parameters defined at the time the bond was issued (a minimum rate is often guaranteed);
- bonds carrying warrants entitling their holders to subscribe to or acquire one or more shares or bonds: bonds carrying a right (warrant) entitling their holder to acquire or subscribe, during a specified period, a share or bond of the issuer of the warrant or of another company, at a price generally set in advance. The price of the bond and the attached warrant are frequently listed separately;
- convertible bonds and "reverse convertible": bonds which may, at the holder's request, be converted into new shares of the company, at the end of a certain period or at a specified date. The conversion of the bond into a share may require, in certain cases, the payment of a balancing amount to the issuing company. In the case of a reverse convertible, the conversion is at the initiative of the issuer;
- zero coupon bonds: bonds for which no regular interest payments are made, but for which the redemption price is higher than the issue price;
- subordinated bonds: bonds in respect of which the holder accepts, in case of bankruptcy, liquidation or any other situation involving the cessation of payment in respect of the issuer's assets, to be repaid (and/or be paid interest) after the creditor's unsubordinated debtors;
- linear bonds (OLO's): fixed-income, book-entry securities issued by the Belgian government by auction, in minimum denominations of EUR 1.000, and with terms varying between 3 and 12 years. Subscription is limited to certain categories of persons, primarily financial sector professionals. After subscription, these persons are required to promote and distribute the linear bonds among the general public (physical persons, companies, etc.).
- eurobonds: bonds issued by public authorities or private companies, outside their domestic markets, in currencies other than that of the borrower. These bonds are generally placed among the investing public by an international syndicate of financial organisations. As with other

bonds, there exist different types of eurobonds (convertible eurobonds, eurobonds with warrants, with foreign exchange options, floating rate, zero coupon, etc.).

6.1.3.2. Risks

- Risk of non-payment of interest and/or non-reimbursement of the invested capital as a function of the debtor's solvency. This risk is higher when the bond is subordinated;
- Risk of capital loss where the bond is sold on the secondary market prior to maturity;
- Foreign exchange risk for eurobonds and bonds denominated in foreign currencies;
- Liquidity risk where the secondary market for the bonds in question is narrow.

6.1.3.3. Rating of the issuer

Most issuers of bonds are attributed a rating which is a standard rating attributed by independent rating agencies (Moody's, Standard & Poors, Fitch…). This rating is an indication of the credit profile of the issuer. As the rating increases (for instance, AAA), the default risk of the issuer falls. During the life cycle of a bond, the rating may be reviewed by the rating agencies, taking into account the economic and financial circumstances impacting the solvency of an issuer.

Ratings below à Baa3 or BBB- are considered to be speculative and may go to Ca or C (issuer in a state of default with little hope of recovery)

6.2. Equity investments

6.2.1. Shares

6.2.1.1. Definition

A share (or equity) is a co-ownership security issued by a Belgian or foreign company, which represents a part of the capital and entitles its holder, pro rata to his participation, to receive a dividend distributed by the company and, except where otherwise stipulated in the articles of association, to vote at the general meetings, often proportionally to the amount of capital held in the company.

6.2.1.2. Risks

- Risk of absence of income, given that dividends represent variable income, which depends on the profitability of the company and its dividend policy;
- Risk of volatility of stock market prices due to both the management of the company and the macroeconomic, microeconomic and financial climate;
- Risk of bankruptcy of the company issuing the shares;
- Foreign exchange risk for foreign shares;
- Liquidity risk where the secondary market for the shares in question is narrow.

6.2.2. Collective Investment Fund

6.2.2.1. Definition

Collective Investment Funds can take the form of: either investment funds (with assets held jointly by all fund holders), or investment companies (constituted as corporate entities), and are composed of: either a variable number of shares, in which case the issuing body is required to accept on a regular basis applications for the issue or repurchase of shares at the request of participants, based on the net asset value of these shares (open-ended investment funds or SICAVs), or a fixed number of shares, in which case participants wishing to dispose of their shares are required to find a buyer (closed-end investment funds). Collective investment funds are managed by specialists, and invest mainly, depending on the provisions of their issue prospectuses, in shares, bonds, other financial instruments (in particular in the shares of other collective investment funds), claims or real estate (Sicafi).

Depending on how the income is to be distributed, the shares in collective investment fund take the form either of distribution shares (dividends are distributed to shareholders) or capitalization shares (dividends are capitalized).

6.2.2.2. Risks

- In principle, the risks are identical to those of the shares, bonds and other categories of investments in which the collective investment funds invests, but the diversification of the collective investment funds investments basically mitigates the risks incurred;
- Liquidity risk in the case of collective investment funds with a fixed number of shares, if the secondary market for the shares of the particular collective investment fund is narrow.

6.3. Other securities

6.3.1. Structured products

6.3.1.1. Definition

"Structured product" is the term for a financial instrument which corresponds in most cases to a combination of several other financial instruments, very often options, the yield on which (received in the form of capital gain and/or interest) depends on the development of, as the case may be, indices, financial instruments, currencies, commodities or other underlying values.

6.3.1.2. Risks

- Risks (capital loss, volatility, foreign exchange, etc.) attached to the type of underlying asset;
- Risk of bankruptcy of the issuer of the structured product. In certain cases, where financial instruments are used in building a product, the risk of loss and/or profit can be modelled upwards or downwards in relation to a direct investment in the underlying security;
- Liquidity risk where the secondary market for the particular product is narrow.

6.3.2. Warrant

6.3.2.1. Definition

The warrant is a security giving the holder the right to purchase or subscribe to a specified number of shares or bonds of a specified company, at a date and price generally set in advance. The characteristics of the warrant are very similar to those of an option (see below).

6.3.2.2. Risks

- Risk of price volatility during the life of the warrant, which is a speculative investment instrument;
- Risk of loss, identical to that of an option, other than that, in the case of a warrant, the risk of loss is always limited to the amount of capital invested;
- Risk of bankruptcy of the issuer of the warrant;
- Liquidity risk where the market for the warrant in question is narrow.

6.3.3. Forward foreign exchange contract

6.3.3.1. Definition

A forward foreign exchange contract is a contract to buy or sell foreign currency at a date and price set at the time of concluding the contract. Payment is made only on delivery of the currency. There is no organised market for forward foreign exchange contracts. This means that these operations are governed only by individual agreements between the parties.

The characteristics of a forward foreign exchange contract are similar to those of a future (see below "Futures"). In a context of non-speculative management, these contracts enable an investor to cover his portfolio against possible foreign exchange risks, in return for taking a limited risk. Forward foreign exchange contracts can also be concluded for more speculative purposes, in order to take advantage of exchange rate fluctuations. In this case the risks involved can be greater.

6.3.3.2. Risks

- Risk of loss linked to how and for what purpose the forward foreign exchange contract is used (see above);
- Risk of bankruptcy of the counterparty;
- Liquidity risk in the sense that, in the absence of an organised market, the investor is unable to sell on his forward foreign exchange contract or to liquidate his position in advance, other than by agreement with his counterparty, unlike Futures (see below).

6.3.4. Swap

6.3.4.1. Definition

A distinction is generally made between currency (foreign exchange) swaps and interest rate swaps. A currency swap is a contract by which two parties agree to exchange, at dates determined at the time of concluding the contract, capital amounts denominated in different currencies. An interest rate swap is a contract by which two parties agree to pay each other, at dates determined at the time of concluding the contract, interest calculated in different ways on the same amount, known as the "notional amount". In general the swap involves interest amounts based on a fixed rate and on a floating rate. Different variants are possible, for example parties can agree to swap at the same time capital amounts denominated in different currencies and interest calculated in different ways on these capital amounts ("Interest Rate Currency Swaps").There is no organised market for swap contracts. This means that these operations are governed only by individual agreements between the parties.

Swap contracts have various uses.

In a context of non-speculative management, they enable an investor to cover his portfolio against any foreign exchange risks, in return for taking a limited risk. They can also be concluded for more speculative purposes, in order to take advantage of interest rate fluctuations. In this case, the risks involved can be greater.

6.3.4.2. Risks

- Risk of loss linked to how and for what purpose the swap is used (see above);
- Risk of default of the counterparty;
- Liquidity risk in the sense that, in the absence of an organised market, the investor is unable to sell on his interest rate swap contract or to liquidate his position in advance, other than by agreement with his counterparty.

6.3.5. Private Equity and Funds of Private Equity

6.3.5.1. Definition

The concept 'private equity' encompasses a variety of investment types, which have in common that they are private investments, in other words, not listed on any regulated market, and not very liquid. Hence, it is difficult to sell them before the maturity. Indeed, they require a long-term view (7 to 10 years or more). The objective of this type of investments is generally to generate high returns, but it also exhibits high risks of capital loss, which may amount to 100% of the principal invested.

- Private equity funds

  Typically, a private investment fund invests in a series of non-listed companies, pursuing an investment strategy that has been defined beforehand, in accordance with a series of predefined criteria. Investors in such a fund commit to putting in a certain amount of capital and they are supposed to provide investments upon request of the manager. Payments to investors are also spread in time, according to the sales realized by the fund. A private equity fund generally benefits from a certain level of diversification in the light of a particular strategy. Indeed, the manager deploys the capital in a portfolio consisting of several investments.

  The strategies which are mostly used encompass the buy-out, the venture capital, capital development, secondary funds, co-investment funds, etc. There are also private equity funds which specialize in private debt, investing in infrastructure, real estate, etc. Such strategies distinguish themselves in function of their cash flow and risk profile.

- Buy-out strategy

  This strategy, applied to a fund, consists of taking a controlling stake in the capital of a company, or at least a sizeable stake in the capital, comprising certain rights and an influence on the management of this company. By taking up the role of an active professional investor, the fund's objective will be to pursue or accelerate the development of the target company, and to sell it again with a profit. Value creation comes from revenue and cash flow growth of the target company, but also, and often, of the redemption capacity of the initial acquisition debt (hence, we speak of 'leveraged buy-out').

- Co-investment strategy

  This strategy consists of co-investing alongside private equity funds (most often buy-out funds) as a minority partner in one or several of their investments. Some private equity managers have developed funds deploying the capital of their investors exclusively in that way, by multiplying, in one and the same portfolio, partnerships with a series of distinctive fund managers.

- Secondary private equity strategy

  This strategy consists of acquiring, at particular private equity investors, their positions in existing private equity funds, mostly a couple of years after the launch of this funds, while this fund has already constituted its investment portfolio.

- Investments in direct private equity

  Acquiring a stake in the capital of a non-listed company is also part of the private equity concept in the broad sense of the word. Hence, we speak of direct 'private equity'. It may also be related to a co-investment, when an investor participates to such an operation alongside one of several partners. The risk profile of these investments depends on the type of intervention and on the development level of the target company (taking over the control of a company, often in collaboration with its management, capital injection in a start-up, management of the succession of a family company, etc.). Due to its very nature, private equity is targeted towards qualified investors, who have sizeable net worth, enabling them to engage in such investments with limited liquidity in the long term, and to take losses.

6.3.5.2. Risks

- Risk of capital loss linked to the evolution of the investments (please see above);
- Default risk of the companies being the subject of the investments;
- Illiquidity risk, as an investor, due to the fact there is no regulated market, may not sell his stake, unless an agreement is found with a buyer and the manager of the fund.

6.3.6. Real estate certificate

6.3.6.1. Definition

A real estate certificate is a transferable security giving its holder a claim on the income generated by a real estate investment (income from the letting of the building and any capital gain on its sale). Without being strictu sensu a legal co-owner of the building, the certificate holder is effectively an economic co-owner.

Risks:

- Unpredictable capital gain or repayment risk due to the lack of a guarantee on the maturity date and the net proceeds of sale of the underlying real estate right,
- Risk of absence of income in the event that the property represented by the real estate certificate is not leased out or in the event of an increase in the (real estate or financial) costs borne by the company issuing the certificate,
- Liquidity risk where there is no secondary market or the secondary market for the real estate certificate is narrow,
- Interest rate risk, if the rates are higher than the current yield (coupon) on the certificate.

6.3.7. Gold

6.3.7.1. Definition

The precious metal most used for investment purposes, generally acquired in the form of bars, coins or ounces of gold.

6.3.7.2. Risks

- Risk of price volatility, as a function of macroeconomic, financial and geopolitical developments;
- Foreign exchange risk, given that the price of gold is generally set in US dollars on world markets;
- Income risk: total absence of income/return.

6.3.8. Hedge Funds and Funds of Hedge Funds

6.3.8.1. Definition

The term “Hedge Fund” covers a variety of investment vehicles having in common the fact of undertaking non-traditional investment strategies, aimed at achieving an absolute performance, i.e. independent of the general economic climate or the development of the underlying sector. Depending on its management strategy (see below), the Hedge Fund can invest in equities, bonds, commodities, liquid assets, as well as leverage instruments (futures options, uncovered sales of assets).

For a long time Hedge Funds were reserved for institutional investors. So-called alternative management has, however, gradually become accessible to private investors through funds of funds, managed by professionals. The degree of risk attached to an investment in a Hedge Fund is linked to its management strategy. This risk level is generally – but not always – higher than that attached to an investment in collective investment funds (see above). In addition, hedge funds have a much smaller liquidity.

Among the many strategies available, there are three , each generating distinct risks in terms of performance and volatility:

- “Relative value” strategy

  This strategy seeks to benefit from a “malfunctioning” in the pricing of a particular financial instrument (equity, convertible bond, option, etc.). Quantitative or qualitative analyses serve in an attempt to identify financial instruments whose price deviates from the fair value or historic norm.

  Relative value strategies generally exhibit low levels of volatility and are therefore less risky.

- “Event-driven” strategy

  This strategy seeks to take advantage of special situations affecting certain companies, which offer short-term opportunities for gain. Such special situation can be, for example, public takeover bids for cash or shares, management buy-ins/buy-outs, or other similar events that temporarily affect the price of a company’s shares.

- “Opportunistic” strategy

  This strategy, generally aggressive in nature, aims to achieve gains by investing in assets of every kind on every kind of market, with uncovered purchases and sales and often using the leverage effect. Opportunistic strategies are among the most volatile and therefore the most risky.

  Funds of hedge funds for non-professional clients generally follow a low volatility management objective and seek a relatively stable return over time. This objective is achieved by diversification in terms of asset category, strategy and fund managers included in the Fund of Hedge Funds. The implementation of very specific investment strategies through hedge funds often generates relatively high fees (including performance fees).

6.3.8.2. Risks

- Risk of price volatility linked to the underlying assets and the management techniques used (uncovered sales, leverage effect, etc.);
- Risk of loss related to the way the hedge fund is managed. In the case of funds of hedge funds, the diversification of the investments attenuates in principal the risks incurred in terms of both volatility and potential loss;
- Liquidity risk: generally these funds can be redeemed only at fixed intervals (minimum one month) with sometimes fixed notice, or gates (exit barriers if too many assets are requested at the same time);
- Foreign exchange risk: hedge funds in currencies can be very volatile as a result of leverage.

6.4. Transactions involving derivatives

6.4.1. Options

6.4.1.1. Definition

An option is a right, but not an obligation, to buy (a buy or "call" option) or sell (a sell or "put" option) at a given price (the "exercise price" or "strike price") a specified number of underlying assets (shares, foreign currency, commodities, indexes, etc.) during a specified period (American-type option) or at a specified date (European-type option). The buyer of the option pays a premium to the seller. This premium depends in particular on the maturity and strike price of the option, as well as on the price and volatility of the underlying asset.

There may be two types of option exercise, the physical delivery of the underlying asset or the cash delivery corresponding to the payment of the (positive) difference between the value of the index on the strike date and the exercise price.

Options allow an investor to take large positions in return for a small investment. This leverage effect explains why a relatively small market movement will have a proportionally larger impact on the investor's portfolio. This leverage effect can multiply the investor's gains, but it can also multiply his losses, when the market fluctuates in the direction opposite to his expectations.

The writer (seller) is required to provide for cover, in particular on the BXS Derivatives market. In any writing (sale) of options, the investor is required to put up initial cover, in cash or securities, representing a certain percentage of the contract written. The option is revalued at the end of each trading day and, depending on the development of the market, the writer (seller) of the option may be required to provide additional cover. If the investor fails to pay the additional cover which he is required to put up, the broker is entitled to close his position.

At Degroof Petercam, coverage in cash or securities is requested of any client entering into an OTC contract, in order to cover the risk of this position. The amount of this coverage is calculated by risk management at issuance of the option.

Options have various uses. In a context of non-speculative management, they allow an investor to cover a portfolio against possible fluctuations, and to limit the risk of loss strictly to the price paid for the option.

Options can also be used for more speculative purposes, in order to benefit, in return for a limited investment, from fluctuations in the value of the underlying asset. In this case, because of the leverage effect (see above), options can give rise to larger risks than when holding shares or bonds directly. The risks attached to uncovered, or "naked" option trading (operations in which the investor does not hold the underlying asset) are in theory unlimited.

6.4.1.2. Risks

- Risk of price volatility, given that an option is a speculative investment instrument;
- Risk of loss linked to how and for what purpose the option is used (see above). The leverage effect can multiply the risks when the price of the underlying asset fluctuates in the direction opposite to the investor's expectations;

- Option buyer's risk, limited to the premium paid for this option;
- Option seller's risk: theoretically unlimited;
- Liquidity risk if the secondary market for the option in question is narrow.

6.4.2. Futures contracts

6.4.2.1. Definition

A futures contract is a contract to buy or sell an underlying asset (shares, bonds, foreign currencies, commodities, indexes, etc.) at a date and price specified when concluding the contract. The underlying assets are paid for only upon delivery.

Futures contracts enable an investor to take large positions in return for a small investment. This leverage effect explains why a relatively small market movement will have a proportionally larger impact on the investor's portfolio. This leverage effect can multiply the investor's gains, but it can also multiply his losses, when the market fluctuates in the direction opposite to his expectations.

A margin system is imposed on buyers and sellers of futures on most organised markets. For all transactions (purchase or sale), an initial margin deposit must be put up, in cash or securities, representing a percentage of the value of the contracts purchased or sold. At the end of every day's trading, contracts are revalued, giving rise to additional margin calls or margin credits, depending on the price of the future in question. If the investor fails to pay the additional margin which he is required to put up, the broker is entitled to close his position.

Futures have various uses. In a context of non-speculative management, they permit an investor to cover his portfolio against any fluctuations, in return for taking a limited risk. They can also be used for more speculative purposes, in order to benefit, in return for a limited investment, from fluctuations in the value of the underlying asset. In this case, because of the leverage effect (see above), options can give rise to larger risks than when holding shares or bonds directly. The risks attached to uncovered futures operations are theoretically unlimited.

6.4.2.2. Risks

- Risk of price volatility, given that a future is a speculative investment instrument;
- Risk of loss linked to how and for what purpose the future contract is used (see above);
- Liquidity risk where the market for the future in question is narrow.

6.5. Exchange traded products (ETP)

ETC/ETF instruments are used in our portfolios in order to capture exposure in an indexed way to some specific investment segments .

6.5.1. Exchange Traded Funds

ETF (Exchange Traded Funds), (also called "trackers") comply with European directives UCITS.

They are index funds that seek to replicate as closely as possible the performance of a stock market index, the "underlying", in a passive manner.

With these funds, it is possible to track almost all the indices of the world's main financial centres. Among the most popular indices are equity and sector ETFs (technology, sustainable development, etc.).

ETFs aim to replicate changes in their underlying index as closely as possible. Changes in performance between the ETF and its index are translated into a "tracking-error". The smaller the tracking error, the more the ETF fulfils its management objective: to replicate the variations of a market, but not to outperform it.

To match indices, managers can use a physical replication or synthetic replication method.

- Physical replication: the manager manages the ETF like a traditional index fund and holds " directly " the securities making up an index, whether equities or bonds.
- Synthetic replication: with this method, the securities are not held directly. The "synthetic" portfolio is constructed on the basis of derivatives (swaps, futures, etc.). They are responsible for duplicating the performance of the underlying.

6.5.2. Exchange Traded Commodities

ETC (Exchange Traded Commodities) offer the possibility to invest in single commodities and precious metals with ease. There are ETCs for precious metals, industrial metals, oil, natural gas, soft commodities and livestock.

The performance of an ETC is based either on the spot price (price for the immediate supply) or the future price (price for the supply in the future) of a single commodity or a basket of commodities.

ETCs are traded on the stock exchange just like ETFs and offer the same advantages. But there is an important difference: the capital invested in an ETC is not a fund asset that is protected in case of insolvency of the issuer. ETC concerns a debenture of the ETC provider. The investor has an issuer risk in case of an ETC as compared to an ETF. Issuers rely on different methods of collaterisation for minimization of this risk.

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