Engagement Policy

August 2020

www.dpamfunds.com

Introduction

This document is the engagement policy (hereinafter referred to as the "**Engagement Policy**"° of Degroof Petercam Asset Management (hereinafter referred to as "**DPAM**"), a subsidiary of the Degroof Petercam group. It has been validated by the Management Board in August 2020. It amends and restates the first version of the engagement policy which was released in Q1, 2016.

It is applied consistently to all investment funds which are managed by DPAM (by designation or delegation) (the "**DPAM Funds**") and invest in all asset classes independently of the adopted sustainable approaches (ESG integration, best-in-class, sustainability themes, norms-screening, etc.) It also brings added value for discretionary portfolio management mandates DPAM manages on behalf of institutional asset owners/investors. It goes beyond existing investments as it also applies to investment opportunities and collaborative engagement initiatives on various ESG issues that DPAM supports without being necessarily shareholders of the engaged companies. In other words, engagement is used as a due diligence process, fully integrated in DPAM's commitment to Active, Sustainable & Research-driven.
Indeed, as actively sustainable, dialogue with the companies and other stakeholders is at the heart of our fundamental research and investment process.
DPAM is convinced about sustainable and responsible investments and this is deeply ingrained in our corporate DNA since 2002.

Competitive advantage
Sustainability is a prerequisite for the longevity of issuers

Best practices and best efforts
We want to select the companies with optimal behavior but also reward the runner-ups which are making efforts to improve

Long-term value generation
Companies which take into account secular sustainability challenges will be able to thrive financially and create sustainable added value in the long term.

Independent asset manager
Thanks to our independent position, we have been able to develop innovative solutions and have been in the vanguard of country sustainability screening.

Engaging in dialogue with a company, either through proxy voting or direct dialogue, is a means to fine-tune fundamental research-driven investments decisions, to reduce the harmful effects of our impact and to defend our values and convictions to spread best practices and innovative solutions regarding ESG challenges.
This document therefore outlines DPAM's vision of effective and sustainable investment (§1). It aims is to optimize our positive impact for the benefit of the whole society. It engages (a) for a better understanding of the sustainable profile of companies, (b) for reducing the harmful effects of our impact and (c) for defending its values and convictions in terms of environment, social and governance. It highlights DPAM's reasons to

engage and the choices which have been made regarding topics to prioritize. It explains how and when (§2) DPAM engages i.e. the engagement process and what are the expectations in terms of progress from investee companies (§3). This includes also details on means, channels and potential escalation steps. Finally, it states how transparency is in the heart of engagement (§4).

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Responsible investor: DPAM's vision

Being a responsible investor goes beyond offering responsible products; it is a global commitment at company level which needs to be defined in a coherent approach.

Being a responsible investor first and foremost involves raising key questions about the consequences of DPAM's investment activity in a global context, i.e. looking beyond pure financial profit and taking into account all stakeholders whilst considering the consequences of an investment. Raising questions, utilizing experts, sharing information and engaging with a positive yet critical mind-set imbed DPAM professionals with a sense of responsibility and prompts them to act by taking the consequences of their decisions into account as best as possible.

As a shareholder and economic player, DPAM accepts its social responsibility. Holding shares in a company offers the opportunity to express an opinion on the management of that company, and as a responsible investor DPAM must make its voice heard. Adopting a voting policy and participating in general and extraordinary shareholders' meetings are also an integral part of an investor's responsibilities. DPAM can speak up to entice companies in which it invests to be managed according to best practices in terms of corporate responsibility. Engaging in dialogue with the company, either through proxy voting or direct dialogue during meetings with its representative, is a mean to ensure that the rights of shareholder are respected, as well as those of other stakeholders. By focusing on the broader stakeholder rights, DPAM urges companies in which it invests to internalize the negative impacts of their activities and to look for (Sustainable) development opportunities, and by doing so to ready themselves for their future operating environment. Responsibility is therefore a tool that can be used to work towards a more sustainable financing and economic system at global level.

This is all about impact!

Scope of the policy

It is applied consistently to all investment funds which are managed by DPAM (by designation or delegation) (the "**DPAM Funds**") and invest in all asset classes independently of the adopted sustainable approaches (ESG integration, best-in-class, sustainability themes, norms-screening, etc.) It also brings added value for discretionary portfolio management mandates DPAM manages on behalf of institutional asset owners/investors. It goes beyond existing investments as it also applies to investment opportunities and collaborative engagement initiatives on various ESG issues that DPAM supports without being necessarily shareholders of the engaged companies. In other words, engagement is used as a due diligence process, fully integrated in DPAM's commitment to Active, Sustainable & Research-driven.

Objectives of the policy

Engaging in dialogue with a company, either through proxy voting or direct dialogue, is a means to fine-tune fundamental research-driven investments decisions, to reduce the harmful effects of our impact and to defend our values and convictions to spread best practices and innovative solutions regarding ESG challenges.
Each topic of engagement has its main objectives, which are described in each section. A summary table is provided at the end of the document.

Responsibilities

Engaging with the companies is the shared responsibility of the investment professionals at DPAM i.e. portfolio managers, fundamental analysts and responsible investment specialists.
Two governance bodies are involved in the engagement process depending on the topic: the Responsible Investment Steering Group (RISG) and the Voting Advisory Board (VAB). The responsibilities are summarized in the table at the end of the document.

Indeed, the Voting Advisory Board, as in charge of the voting policy at DPAM, is responsible for the engagement related to corporate governance and in the framework of the voting policy.
As a reminder, the Voting Advisory Board consists of seven internal staff members and three independent members and has established the voting policy of DPAM.
The Advisory Board is responsible for the strategic framework of responsible ownership applied to all DPAM Funds and discretionary portfolio management mandates whose clients have expressly delegated the exercise of their voting rights to DPAM. It guards and actively seeks a coherent and credible implementation of the said Voting Policy. Its roles are:

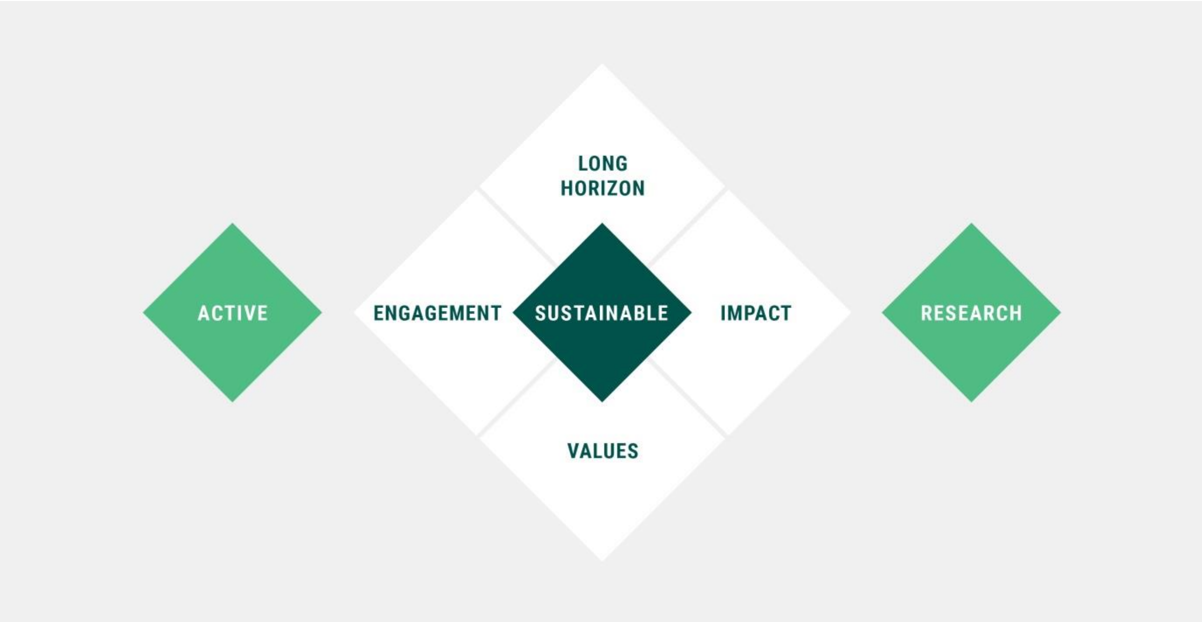
- Review the Voting Policy on a regular basis (at least once a year) and adapt it according to the legal and regulatory requirements and best practices evolutions in terms of corporate governance
- Ensure that the Voting Policy - in particular the adopted guidelines (as outlined below under item "Guidelines for resolutions") - is applied when exercising the voting rights attaching to Shares issued by the Target Companies (as defined below under item "Voting Scope – B. Target Markets – Target Companies") ;
- Discuss practical issues that may have arisen during the ordinary and extraordinary general assemblies' season (hereinafter together, "GM(s)" or "GM Season") and define when required relevant guidelines for future cases;
- Decide on the voting approach to adopt when an event of a conflict of interest raises in a meeting;
- Adopt recommendations and engage dialogue with Target Companies' management to promote the four principles of the Voting Policy and the best practices in terms of corporate governance
- Study ad-hoc cases which could deviate from the Voting Policy and its guidelines and give appropriate voting guidelines
- Validate the yearly activity report of voting process of DPAM and DPAS.

The engagement related to environmental, social and governance topics (excl. in the framework of the voting policy) is under the supervision of the Responsible Investment Steering Group.
As a reminder, the RISG is The Responsible Investment Steering Group (RISG), which is the initiator and guardian of DPAM's identity to be Active, Sustainable & Research and its mission to be a leading responsible investor. The RISG oversees the implementation of DPAM's mission statement with regard to Responsible Investment. The RISG is both the pioneer and the guardian of the coherence, consistency and credibility of DPAM's investment process in the light of our strategic commitment toward Responsible Investing. Its role is (1) to promote responsible investing and to spread ESG knowledge within the group and beyond and (2) to enhance RI & ESG expertise internally and externally. Among other tasks, the RISG ensures the integration of ESG issues into investment analysis and decision-making processes by developing ESG-related tools, metrics and analyses. It ensures the transparency and consistency among the approaches, methodologies, products, solutions and services offered by DPAM. The RISG validates initiatives related to sustainable & responsible investment. As a guardian of the Principles for Responsible Investment promoted by the United Nations, the RISG informs and educates all in-house stakeholders, and raises awareness of ESG issues among the research, portfolio/fund management, risk and compliance entities.

The RISG meets every month. All decisions are taken by consensus. When a consensus cannot be reached, members are required to vote and the decision is taken by simple majority, provided that 50% of the members are present. Only the members of the RISG have voting rights.

1. DPAM's aim: engaging to make an impact

DPAM, through its investments and its operations, its choices and strategies, creates an impact. Our aim is to make this impact as positive as possible, in the context of our activities.



Through its own regulation, DPAM aims to increase its net positive impact as much as possible.
Indeed, the **Sustainable & Responsible Investments Policy** describes DPAM's approach regarding sustainable and responsible investments and its commitment when investing in a sustainable and responsible way. As an actively sustainable asset manager, DPAM is aware of the multiple challenges faced by the planet, such as climate change, resources scarcity, social inequalities, modern slavery to name but a few. DPAM is convinced that it can have a positive contribution to the society as a whole when investing in companies and states that take such ESG challenges into account. It is DPAM's vision that each investment decision has an impact and that each ESG effort contributes to a superior well-being on the long-run for the society as a whole.

Furthermore, through its **Policy on Controversial Activities**, DPAM states its commitment regarding controversial activities and companies' behavior not to be accomplice of such activities. Indeed, DPAM has committed not to finance controversial activities such as tobacco or nuclear weapons. Next to exclusions, its controversial activities policy also discusses DPAM's stance on other activities, such as thermal coal extraction, unconventional oil and gas, GMo's, etc. Please refer to the policy publicly available for all details.
Finally, DPAM has been engaging with several companies within the framework of its positioning (Active, Sustainable, Research), through collaborative and individual engagements, by launching new dedicated thematic strategies, by disseminating information and sharing expertise and knowledge, etc. These initiatives aim at increasing the net positive impact our company wants to have achieve.

There are mainly three objectives pursued by DPAM when engaging with companies, rating agencies and other stakeholders:

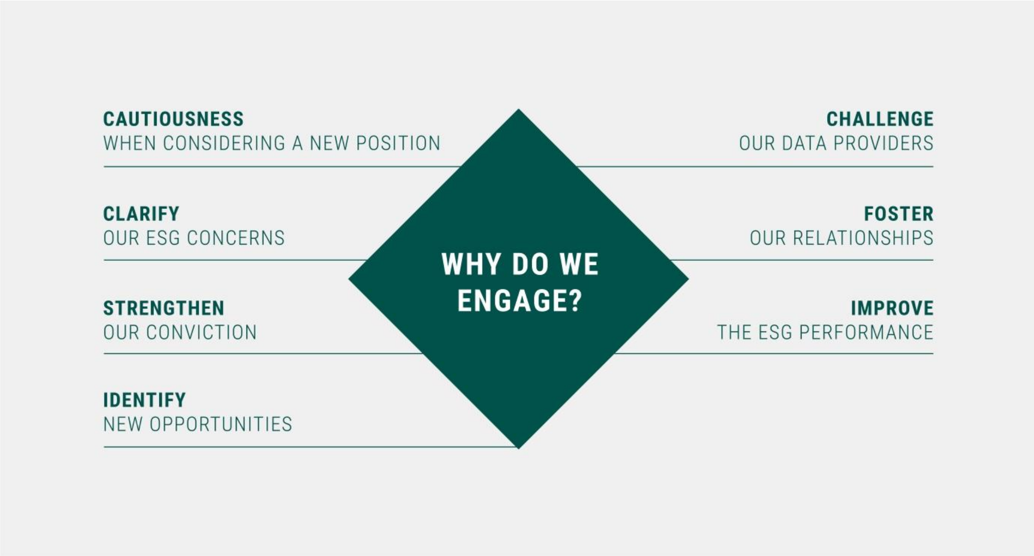
i. Improve the quality of the fundamental research for better-informed investment decisions and sustainable long-term performances
ii. Reduce its negative impact. As all investments have an impact, which may be positive or negative. It is also important to raise the relevant questions about the potential harmfulness of the investments and to engage with investees
iii. Defend values and convictions which are key for the company, in all the areas concerned.

Engagement for a better understanding of the sustainable profile of companies

As an asset manager, the priority of our engagement is making better investment decisions by clarifying ESG concerns, strengthening convictions, identifying new opportunities, etc. The engaged dialogue on specific ESG questions helps to make better informed investment decisions, based on better understanding of the global sustainable picture. The aim is investing for sustainable performances, as DPAM is a long-term investor. It is therefore better to get the highest level of information on a company to identify opportunities and avoid bad surprises which would force DPAM to sell. Furthermore, it could be more efficient and effective to firstly discuss concerns and expectations with investees (for mutual learning) than directly divesting.

Objectives/Expectations

- ✓ To add real value to the investment process as companies with strong ESG performance tend to outperform their peers. Therefore, it is important that material ESG issues are discussed with companies and their management teams
- ✓ To identify and mitigate risks with corporate management and therefore to optimize the risk/return profile of our portfolios; good corporate governance and social responsibility enhance the long-term risk return profiles of the investee
- ✓ To assess business and investment opportunities as answers to ESG challenges
- ✓ To better understand the companies to make long-term investment decisions
- ✓ To demonstrate the long-term commitment as opposed to the trend of short-termism within the markets
- ✓ To constructively recommend corrective measures and best practices.



More than 20 buy-side equity and credit analysts are continuing their efforts to apply environmental, social and governance factors upstream in the investment process, supported by the Responsible Investment specialists. Throughout their numerous meetings with companies' management teams, they encourage them to report on their efforts to incorporate the ESG challenges into their strategies and to adopt the best practices within their industry. Following DPAM's sustainable and responsible philosophy we do not only invest in the best ESG profiles. On the contrary, DPAM encourages and promotes best practices among issuers with more moderate ESG scores but which demonstrate a genuine willingness to improve. The aim is always to encourage efforts in the ESG area.

The engagement can be through specific engaged dialogues based on materiality issues as identified in our proprietary assessments (e.g. scorecards, controversy assessments, etc.).

Means

In order to better understand ESG-related risk factors as well as opportunities and to complete fundamental research, DPAM will engage in contact with companies and ESG research providers and/or brokers in the following cases: better understanding of ESG risk factors and opportunities (1), supporting disclosure and material and relevant ESG information (2) and advocacy reasons (3).
The engagement themes and engaged issuers are selected taking into account their degree of financial materiality in close discussion with analysts, responsible investments specialists and portfolio managers. The means at disposal of the portfolio managers and the buy-side research are various. It could be under the form of specific scorecards developed internally as a result of the in-depth fundamental research from portfolio managers, buy-side analysts and responsible investment specialists. These will be in the heart of the engagement process i.e. engagement will be driven by the identified key performance indicators, which have been poorly disclosed. The sector exposures and the strategies' holdings may impact the selection of themes and issuers as well. Other means can be specific research templates and tools developed on specific ESG challenge as for example the TCFD recommendations and the systematic integration of climate risks in analysis. This analysis framework is also developed in close co-operation between the different teams and serves as basis for discussion with the companies regarding their transition towards lower carbon economy.

1. <u>Better understanding of certain risk factors and opportunities</u>

If a company is part of a business segment for which DPAM has defined important KPIs or if DPAM is aware of specific company level or sector issues that require follow-up to qualify the company, DPAM will organize a call / meeting with the company or will put these topics on the agenda of any planned meetings or conferences. With this in mind, DPAM encourages its analysts and portfolio managers to integrate ESG issues and megatrends into their regular interviews with corporate management. The credit and equity analysts engage a lot with the management through their meetings, notably to gather more ESG information and to increase companies' awareness regarding the importance of ESG disclosure. Meeting notes are systematically shared across the teams.

2. <u>Supporting disclosure and material and relevant ESG information</u>

Smaller companies (typically small and mid-caps) tend to be less well covered by ESG ratings providers and do not publish as much ESG information as larger groups, which could result in low score by ESG rating agencies, and therefore potential exclusion. Furthermore, ESG rating agencies sometimes improperly assign a company to a peer group, which is used for comparing companies ESG polices and achievements. This may notably happen concerning specific companies specialized in particular economic activities, or companies which are highly diversified. In such cases, the criteria used to assess companies ESG policies and performance may be irrelevant, and the companies may be incorrectly penalized with a low ESG score. Through targeted engagement, DPAM can correct these biases, and ensure a fair and adequate ESG scoring of companies.
Moreover, DPAM's investment professionals often have well established direct contacts with company management. They can also partner with DPAM ESG specialists and initiate a dialogue with the company to determine whether it can respond positively to the questions raised, or to discuss the key ESG criteria the company is expected to disclose.

The issue of lack of coverage or relevant ESG information is typical to the thematic strategies like NEWGEMS or Food Trends. In this case, DPAM has adopted a formal commitment procedure to ensure that the appropriate ESG information is analyzed and provided, which could require specific engagements as well.

For non-covered issuers or issuers with a weak ESG profile that results from a lack of disclosure of information and publications, DPAM systematically initiate a dialogue with them.

The research team or the portfolio managers contact the company to request information on the KPIs that have been identified for the subtheme or peer-group of companies in which the company is classified.

3. A reply is expected from the company within 30 days.

   - If there comes no reaction within one month, DPAM will contact the company again with the mention that it will be obliged to disinvest if no reply is received within the following 30 days.
   - If the issuer reacts before the deadline:
   (a) the commitment will continue provided that the indicated time period to provide the final answers doesn't exceed two months
   (b) the commitment is paused until a further analysis shows a need for continuation

   3. The responses are analyzed against DPAM's key questions and indicators and the issuer's scorecard is established accordingly.

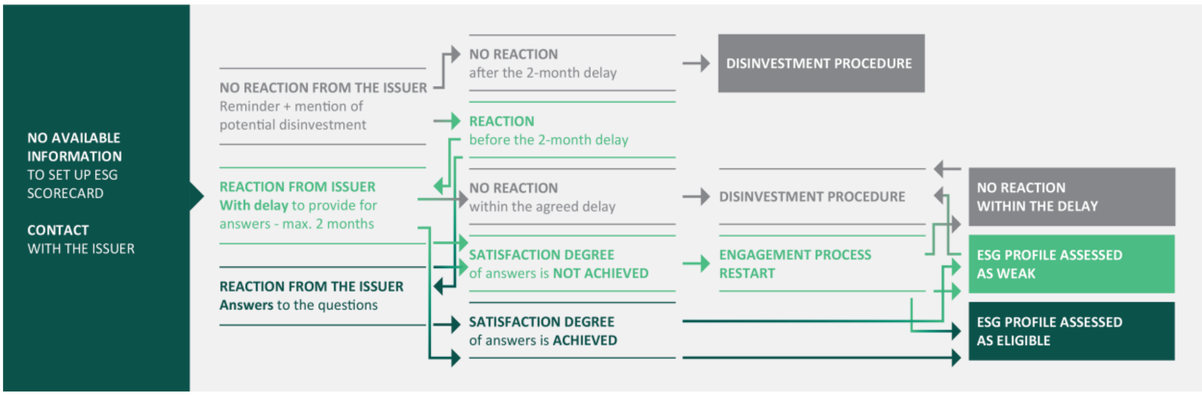
   <u>Non-covered companies by external ESG rating agencies</u>
   a) The answers provided are insufficient to fill in the scorecard (at least 60% of the KPIs should be covered). In this case, the dialogue will be continued until a satisfactory level (at least 60%) of answers is reached within a reasonable time (maximum 2 months).

   b) The answers provided are sufficient to fill in the scorecard and the issuer is assessed with respect to its peers on the key issues of its subtheme.

   <u>Companies with a low ESG profile</u>
   a) The degree of information is sufficient to confirm the weak commitment of the issuer on the key issues identified for the investment theme. In this case, the issuer is not eligible for the investment up to the upward revision of its ESG profile. The Responsible Investment Competence Center judges the sufficient level of information available from the issuer.
   b) The degree of information is considered insufficient to confirm the weak commitment of the issuer on the key issues identified for the investment theme. The commitment procedure as described above is put in place.
   c) The degree of information is judged by the team of the Responsible Investment Competence Center.

   ESG profiles that are still deemed too low after the full commitment process must be divested by the management team according to the divestment rule below. In other words, for issuers for which the available information was not sufficient and for which the commitment procedure concludes that the final ESG profile is weak, there is no second round of engagement process, and they are considered ineligible for investment.
   The issuers with low profiles and the initiated dialogue are reviewed on an annual basis.

Engagement process for better ESG information



4. Engaging with ESG ratings agencies

Over the years, the ESG rating agencies have gained importance and influence on the financial markets and on the worldwide companies. Indeed, aligned with the trend to indexing investments, more and more indexes are created adopting ESG integration and factors in their construction methodology. These factors come directly from the ESG ratings agencies and are therefore key for companies to be included in such indexes and to benefit from massive financing flows from passive and indexed investors. It is also the role of active, sustainable and research-driven actor like DPAM to ensure that these ratings and ESG information are complete, correct, adequate and relevant. This is why DPAM is challenging constantly the research provided by the different ESG providers and other sources of information.

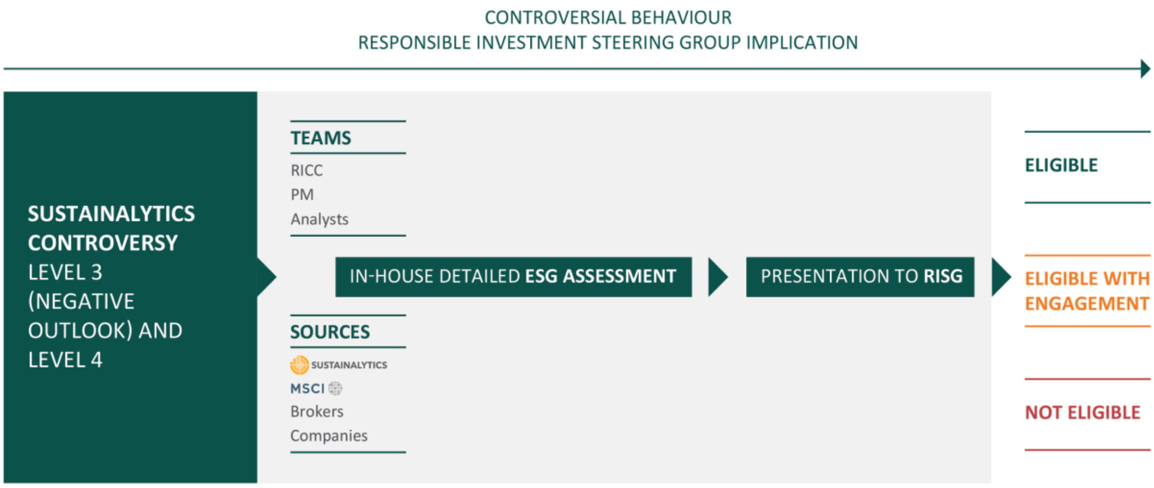
Engagement for reducing the harmful effects of our impact

The “do not harm” principle has emerged from several regulatory frameworks in terms of sustainable investments in Europe (for example, the Article 173 of the French law on a low carbon transition). It will become a mandatory reporting requirement from March 2021.

Aligned with this principle, DPAM is committed to identify any controversy an invested issuer could face and to engage with the issuer to improve the situation.

The Responsible Investment Steering Group (RISG) is the “guardian” of DPAM’s mission to invest responsibly and align its investments with its commitments. Through regular review of the cases of companies involved in severe controversies DPAM can take the decision to engage and/or divest, and by doing so to reduce its total negative impact. The RISG systematically reviews companies exposed to severe controversies, sector by sector, with a view to proactively defend sustainable and responsible investments.

Process of severe controversies review – sector approach



Means

Companies can face controversy or scandal which could present a financial and reputational risk. A reactive engagement could therefore be required to understand the taking and ending of the situation.

DPAM firstly relies on the classification system of the ESG research provider Sustainalytics, which classifies companies into 5 severity categories according to the impact and the level of recurrence of events, as well as the reaction and the responsibility of the company. Categories range from 0 (no controversy) to 5 (severe controversy).

While companies in category 5 are automatically excluded from the investable sustainable universes for all actively-managed sustainable strategies, DPAM will conduct detailed internal research on those in category 4 and 3 with negative outlook. For this research, the portfolio manager or the relevant sector analyst will work together with the RI Specialist to review the issues in detail and to discuss them with external experts.

Any in-depth analysis of important controversies requires engaged dialogue with companies’ management teams, for mutual learning and information sharing. Furthermore, this analysis is relevant for any investment decision, both for traditional as well as sustainable portfolios.

When an in-depth analysis of ESG controversies is completed, a final report is presented to the Responsible Investment Steering Group, which is the formal governance body in charge of the coherence, consistency and credibility of DPAM's investment process in the light of its strategic commitment toward Responsible Investing. Its members decide by qualified majority whether a company is eligible, eligible with engagement or ineligible for investment.

The above mentioned process describes the assessment of controversial behavior to define eligibility for sustainable portfolio.

Besides the analysis of ESG controversies, it is important to mention that DPAM has adopted a formal controversial activity policy, to lay out its vision and positioning as regards controversial activities such as armament, nuclear energy, thermal coal, etc. Please refer to the Controversial Activity Policy **here** for more information.

Escalation process

The RISG members, by qualified majority, will assess whether the issuer is eligible for the sustainable strategies universes, eligible with engagement or ineligible.

In case of ineligibility, all investment professionals at DPAM are informed on the issuer and details of the ineligible status for sustainability universes. The company is also informed and received the arguments and analysis to justify its ineligibility. It can share its feedback within the month to ensure that DPAM's decision is based on valid and correct information.

In case of eligibility with engagement, engagement letters are written down in collaboration with the portfolio managers, buy-side analysts and RI specialists to get better understanding of the sustainable profile of companies. These engagement letters follow the same process of engagement as described in the previous section. .

Engagement to defend our values and convictions

DPAM values in terms of corporate governance

Being a responsible investor is a genuine management tool allowing DPAM to assess the quality of mainly the 'G' in its integrated ESG approach.
Committed to transparency and promotion of best practices, DPAM wants to ensure its voting intentions are clearly understood.

First of all, our voting policy, which is available on our website, provides a detailed overview of the guidelines applied to the bulk of the cases. The annual voting activity report, which is also available on our website (here), provides an overview of the major voting tendencies. These documents are available to any company in which DPAM holds shares and which would like to know the outcome of its voting instructions.

Subsequently, the Voting Advisory Board, the official committee responsible for the strategic framework of responsible ownership of DPAM, has adopted an engagement process with the companies in order to inform them about the voting instructions. The engagement aims to inform and influence companies by raising awareness about the four principles governing DPAM's voting policy, namely:

1. The **protection of shareholders** with the aim of creating long-term value and the equal treatment of shareholders on the basis of the principle "one share, one vote, one dividend" and the protection of minority shareholders;
2. **Sound corporate governance**, which is related to efficient and independent management and monitoring systems;
3. The **transparency and integrity of information**, which should be reliable, clear, comprehensive and communicated in a timely manner;
4. The **social and environmental responsibility** of a sustainable company, ensuring that its human capital is put at the core of its interests and that the global environment in which it operates is respected.

Priorities

Since 2014, DPAM, through the Voting Advisory Board, has conducted engagement autonomously regarding corporate governance.

Against that backdrop, the Voting Advisory Board has identified five key topics on which DPAM is committed to inform systematically and beforehand of the shareholders general meeting :

1. The **election or re-election** of a board member is not valid for technical reasons. In that case, DPAM casts a positive vote, but encourages the company to provide more detailed and transparent information, which is consistent with its principles of integrity and transparent information;
2. The **independence of the board** of directors is not guaranteed because its composition lacks balance. DPAM may abstain from casting a positive vote and encourage companies to increase the level of independency of its committees and board of directors. DPAM will systematically vote against combination of the roles of CEO and Chairman of the Board;
3. Anti-takeover **defenses** (poison pills). DPAM rejects any initiative that may harm the rights of minority shareholders;
4. **Multiple voting rights**: DPAM is staunch advocates of the principle "one share, one vote, one dividend", and therefore is opposed to any initiative curtailing this principle;
5. **Remuneration – Say on Pay and transparency of the executive pay report**: in line with best practices which require among others, clear figure in order to determine performance indicators (performance objectives, qualitative criteria, etc.) in the medium term, clawbacks/malus on bonuses granted and specific payment conditions for the board, DPAM may decide to abstain from voting favorably on any initiative which may violate the interests of shareholders, such as the repricing of options in case of a management shift, which may discourage potential buyers from bidding on the company.

Means

DPAM essentially conducts its engagement autonomously by means of a letter to company executives and Investor Relations managers for the purpose of increasing its impact on investees' corporate governance, beyond proxy voting instructions.

Objectives/Expectations

The objectives of the engagement have also been clearly defined i.e. these letters have three major objectives. Firstly, they aim to inform companies about DPAM's approach and raise awareness on the principles that it defends. Secondly, they aim to show that applying sound governance practices can reduce the risk of a company becoming dysfunctional and may improve its performance. Finally, it is also an occasion to highlight social, environmental and governance challenges as well as the added value of sustainable development.

The expectations are clearly notified in the letter DPAM is addressing to the company.

Indeed, regarding board independency, DPAM formulates the following non-exhaustive recommendations:

- The functions of Chairman and CEO are clearly distinguished;
- The appointment (or renewal) maintains a balance between executive and non-executive/independent directors on the Board of Directors;
- The candidate is presented by an independent appointment committee;
- Sufficiently detailed information is available on the candidate's profile to assess the independency of the candidate;
- The length of the mandate ideally does not exceed six years;

- The candidate does not hold in total more than five director mandates in listed companies (or three in case of executive mandate)

Regarding commitment to greater transparency and integrity of information, the nomination of a director is to be considered contentious if there is insufficient disclosure regarding the nominee. In case the company does not disclose enough information about the proposed board members in advance of the shareholder's meeting, DPAM is unable to evaluate the overall structure of the board of directors. Due to the lack of disclosure, the appointment of the nominee could be seen in a critical fashion. In that case, DPAM has adopted to vote in favour of the nominee but will be particularly attentive to the transparency and integrity of the disclosed information in the future. Overall, as a long-term-oriented shareholder, DPAM encourages companies to improve disclosure, in particular with regards to the nomination process for company directors and members of the Board of Directors. Transparency regarding the composition of the Board of Directors also enables DPAM to assess to what extent the balance of powers in exercising authority is respected. It is responsibility of the company to provide information in due time before the General Meetings and to ensure that this information is reliable, clear and complete.

DPAM considers that that multiple voting share classes are not in the best interest of shareholders. Consequently, it believes that it is not appropriate to approve the establishment and/or implementation of such measures. It encourages companies to protect shareholders i.e. aiming at long-term interest and value creation, ensuring equal treatment between all shareholders and protecting rights and protection of minority shareholders. Among recommendations regarding protection of minority shareholders and therefore the principle of "one share, one vote, one dividend" and against any attempt to limit shareholders' rights, there are:

- Any capital increase is proposed in compliance with the principle of "one share – one vote – one dividend";
- In case of a capital increase with preferential subscription rights, the amount of the intended increase should not exceed 50% of the existing capital unless valid justification;
- In case of a capital increase with the scrapping of preferential subscription rights, the amount of the intended increase should not exceed 10% of the existing capital;
- In case of authorised share capital, the conditions respect the principle of "one share – one vote – one dividend" and the authorisation is for a period of maximum five years.
- Furthermore, the maximum possible amount of the increase must be defined and should not exceed 50% of the existing share capital;
- Clear justification and circumstances of use of permission must be provided by the Board of Directors;
- In any case, a capital increase cannot be used by the Board of Directors for anti-takeover purposes;
- In case of share buy backs, the authorisation must be limited in time (maximum five years) and not allow a buy back exceeding 20% of the company's own shares. The conditions of the buy-back programme should not allow the company to buy back its own share for anti-takeover purposes.

Finally, the remuneration of company key executives and board members is an essential constituent of sound corporate governance and must be aligned with the long-term objectives of the company and with shareholders' interests. By sound and aligned remuneration, DPAM refers to the link between remuneration and long-term company performance, with adequate disclosure of information on the remuneration of key executives and board members. Adequate information should ensure that shareholders are able to assess the costs and benefits of remuneration plans and the contribution of incentive schemes - such as stock option schemes - to company performance. Good practice encourages companies to provide full transparency over the relationship between remuneration and the long term performance of the company. Quantitative information over the performance targets to be met by executive and board members should be provided. The remuneration should be defined by an independent Remuneration and Compensation Committee or equivalent. DPAM encourages therefore that sufficient disclosure on executive remuneration policy, and its degree of alignment with the objective of long-term value creation for the company, is provided. The remuneration policy should include:

- Clear specific performance targets and metrics and pay-out structures, including at least two performance metrics to provide a complete picture of the company's performance;
- the conditions for payments to board members for extra-board activities;
- the terms to be observed about holding and trading the stock of the company and the procedures to be followed in granting and re-pricing of options;
- recovery provision such as malus and claw-back provisions and the right to withhold and recover compensation from executives in case of managerial fraud;
- disclosed executive share ownership guidelines, within a set time frame.

Option re-pricing is not considered a best practice as it is not aligned with shareholders' interests. Any proposal of re-pricing is analysed meticulously. Furthermore, remuneration report including change of control provisions is also considered with scepticism because this kind of provisions may discourage potential buyers from bidding on the Company.

Escalation process

The escalation process is clearly stated in the engagement letter.
In cases of board independency and transparency of information, DPAM reserves the right to support the AGM proposal but to vote abstain or against the next year if no progress has been registered in the meantime.
Regarding shareholders' minority rights protection, DPAM will systematically vote against any proposal implementing defence/anti-takeover mechanisms generally considered as going against the interest of shareholders and against the principle "one share one vote one dividend.
Regarding executive remuneration policy, this will be case-by-case. DPAM could vote favorably the first year and to engage with the company with the aim at seeing noticeable improvement in the next year. Consequently, DPAM reserves the right to vote "abstain" or "against", any proposal generally considered as going against the interest of shareholders.

In case of repeated engagement letters without any noticeable progress, DPAM reserves the right to address the letter to the Chairman of the Board of Directors.

DPAM values in terms of environment and climate change

Climate change is at the heart of the debates, commitments and regulatory actions. As such, DPAM is bound to consider this as a key topic for engagement. Supporter of the TCFD recommendations since November 2018, DPAM issued its first inaugural Climate Report in February 2020 (available here).

Priorities

DPAM, with the support of all its investment professionals, has defined "Climate transition in the supply chain" as the key priority topic to defend its environmental convictions.

The years 2019 and 2020 have seen a **sharp increase in legislative measures** to accelerate the transition to a low carbon economy. The European Green Deal is a prime example of this legislative effort. Through this green policy, Mrs von der Leyen's Commission's stance on sustainable finances and climate commitment will be as – if not more – ambitious than her predecessor's. For now, the new initiatives remain fairly broad and require some fine-tuning. Still, we can already clearly discern the major outlines of this policy, which seeks to **achieve EU carbon neutrality by 2050**

How far have companies anticipated the impact of such regulation?

The Covid-19 crisis might have delayed main regulations regarding environment and climate but has not lowered the ambitions. The COP 26 to be taken place in Glasgow in a future not yet determined date marks the 5 years post Paris agreement and countries have committed to update their national defined contributions. Furthermore, January 2021 will be the phase IV of the European Trading Schemes (ETS) which will accelerate the removal of free allowances granted to some activities (see below).

The green deal aims at setting up an effective carbon-pricing and a carbon-border adjustment mechanism in 2021. In the past, EU regulators have strongly prioritised the reduction of carbon emissions in power generation, transport and industry. However, they largely ignored the emissions associated with the manufacturing and transport of products from abroad. Still, the continued increase of carbon emissions clearly reflects the need for an effective carbon pricing scheme. The carbon-pricing scheme would enforce payment to **compensate for both domestic emissions as well as pollution caused by imported products**.

The Commission is also envisaging an option **to extend the current ETS to new sectors**. The road and maritime transport sectors, as well as the building sector and the agricultural sector are being considered for inclusion. The current sectors covered by the ETS are power and heat generation, oil refineries, steel works as well as the production of iron, aluminium, metals, cement, lime, glass, ceramics, pulp, paper, cardboard, acids, bulk organic chemicals and commercial aviation.

The Green Deal has also brought back two key, interconnected concepts which will become increasingly relevant in the near future: carbon leakage and carbon border adjustment.

Carbon leakage is the risk that businesses move their production abroad to avoid the relative cost of carbon pricing schemes. The European Commission has tried to reduce this risk for high-emitting sectors which are globally mobile by granting them a higher share of free allowances. As a result, this has led to a reduction in incentives to invest in low-carbon technologies. Therefore, through the next phase of the EU ETS from 2021 to 2030, the EC will be trying to achieve higher climate ambitions by reducing the global allowances on the one hand, while extending these allowances on the other hand for the sectors most at risk of leakages.

As the global carbon footprint will become increasingly important, the picture must be the closest as possible to the reality. Scope 3 emissions (indirect emissions) and imported emissions are therefore key when speaking about climate risks in the supply chain. DPAM decided to focus on the entire value chain, meaning upstream supply chain emissions (e.g. production, consumption) as well as downstream emissions (e.g. product consumption emissions). With regard to the food industry, deforestation in the agricultural supply chain will receive particular attention.

But also physical climate risks can severely disrupt the supply chain. So both transition, as well as physical risks in the supply chain will be focus points during this engagement.

Objectives/Expectations

The objectives of the engagement are mainly:

- to have a constructive dialogue with investees regarding the impact of the new regulatory requirements and their strategy to anticipate the changes.
- to increase awareness and formulate expectations regarding the importance of scope 3 disclosure, monitoring and reduction actions (in support of and in addition to our engagement actions via Climate Action 100+ and CDP's Non-Disclosure Campaign). This includes, but it not limited to:
    - Monitoring and measurement of supply chain emissions;
    - Disclosure of scope 3 emissions;
    - (science-based) Target setting for scope 3 emissions;
    - Inclusion of environmental (emissions) criteria in supplier selection;
    - Substitution and/or reduction of carbon-intensive supplies and replacement with other, low-carbon solutions; public commitments to tackle deforestation;

Means

The engagement actions on climate-related supply chain risks will be guided by the RICC, in close collaboration with the relevant portfolio managers and/or buy-side sector analysts. To facilitate the process and define appropriate engagement expectations, DPAM relies on a variety of internal and external sources, including but not limited to:

- Internal DPAM TCFD assessments;
- CDP questionnaires (climate, water, forests);
- CA100+ supporting material and engagement actions;
- Thematic research providers (e.g. FAIRR, Transition Pathway Initiative, etc.)
- Extra-financial data providers (Trucost, Sustainalytics, MSCI)
- Broker research.

The engagement will take place under the form of written correspondence as well as conference calls/in person meetings and follows the process as described in the section 'Engagement for a better understanding of the sustainable profile of companies'.

DPAM values in terms of social and human rights

Firstly through its first commitment toward sustainable and responsible investments namely defending the fundamental rights and in particular human and labour rights, DPAM sets the tone regarding social and human values.

For DPAM's sustainable credit and equity strategies, this is assessed via compliance with UN Global Compact principles and hence non-compliant companies are excluded from the investment universe.

For DPAM's sustainable sovereign bonds investments, non-democratic countries are ineligible for investment. Transparency and democratic values are in the heart of the proprietary model assessing country sustainability.

The controversial activities policy, which states the choices DPAM arbitrates as responsible actor, also clearly includes social and human rights (eg. unconventional armament, nuclear weapons, tobacco, alcohol, agricultural commodities).

Secondly, when analyzing the impact of its investments and helping to reduce the negative effects – notably through ESG in-depth analysis – social issues are regularly in the heart of the discussions and debates. This is organized through collaborative and individual engagements, commitments and/or investments restrictions.

Priorities

Social factors and human rights are broad topics and cover various activities and ways to operate.
DPAM, with the support of all its investment professionals, has defined data privacy as well as the social risks in supply chain as the key priority topic to defend its human convictions.

Regarding **data privacy**, DPAM is convinced that data is an economic driver and resource for innovation. Indeed, data is becoming more and more valuable for companies as it allows companies to get more feedback and scope to improve its products and services. It is a key element of the 4th industrial revolution and requires full integration in companies' strategy. To ensure a responsible use of data, regulation is increasing over the world, notably with the GDPR Directive. But businesses must also take this concern seriously for different reasons. Firstly, digital trust deficit could erode reputation and brand. Secondly, data protection breaches and misuses could lead to high fines and penalties, which are material for the business bottom line of the company. Thirdly, data can also represent an opportunity. It could be a driver for innovation and can also be used for positive social impact.
Furthermore, the COVID-19 has led to intense remotely working to ensure business continuity. Businesses are therefore dealing with new and unprecedented operation and legal challenges in the heart of which are key data protection considerations.

Regarding **supply chain**, the COVID-19 crisis has revealed the importance of resiliency and sustainability. Indeed, resiliency of the supply chain will focus on the ability to face external shocks, while sustainability will analyze the social impact on products and services' lifecycle and how to align this impact with global sustainability challenges.. Supply chain sustainability management tends – erroneously – to be seen as costs and risks driven to assess the company's license to operate. Nevertheless, choice made in upstream i.e at the level of the supply chain, could have an impact on the risks but also on the opportunities of a company and unlock opportunities for innovation and for greater labour productivity and efficiency. The regulation regarding responsibility towards its supply chain has increased over the last decade – the French Corporate Duty of Vigilance Law (2017), the UK Modern Slavery Act (2015) or the California Transparency in Supply Chain Act (2010) to name some of the main ones. Nevertheless, the successive subcontracting approach by several companies have made supply chains complex and diluted the ESG risks. Yet this is not an excuse for inaction and that's why DPAM wants to make this topic a priority in terms of engagement.

Means

The engagement actions on social-related supply chain risks and data privacy will be guided by the RICC, in close collaboration with the relevant portfolio managers and/or buy-side sector analysts. To facilitate the process and define appropriate engagement expectations, DPAM relies on a variety of internal and external sources, including but not limited to:

- Internal DPAM assessments;
- GRI standards on responsible procurement
- CDP supply chain survey
- ICCR,
- Inventor's statement on Corporate Accountability for digital rights

The engagement will take place under the form of written correspondence as well as conference calls/in person meetings and follows the process as described in the section 'Engagement for a better understanding of the sustainable profile of companies'.

Objectives/Expectations

Data privacy

- To raise awareness regarding company's accountability in data privacy i.e. to set up a process to effectively check compliance and ensure protection for individuals with relevant policies and procedures, clear risk assessment, monitoring and verification mechanisms, etc.
- To address increased expectations of individuals for transparency, control and value exchange
- To get a clear view on data privacy experts in the organisation and their positioning within this latter
- To be able to assess security processes and tools robustness
- To increase the culture of data privacy and cyber security in general among the enterprise, notably to get a view on training and practices as well as details on the implementation of the dedicated programs.

Supply chain

- To promote long-term and qualitative relationships with its suppliers
- To help to understand the ESG impact on lifecycle of the product to increase awareness regarding integration of lifecycle in the investee companies' responsible supply chain management. How are eco-design strategies, complete lifecycle concept or cradle-to-cradle approach1 embedded in the company's decision making?
- To increase prevention mechanisms against modern slavery
- To encourage adoption of optimal systems to control sustainability commitment of its suppliers
- To encourage companies to conduct on-going impact assessments to identify human rights risks in their operations and supply chains and to address how findings are incorporated into programs and remediation plans
- To encourage companies to disclose regular reporting on adequate management of these risks including short and long-term anti-trafficking goals, timeframes for their implementation performance against these goals, the audit process and results, accountability measures and percent of high risk factories and/or countries of operation within their supply chains (source ICCR)

DPAM has a long tradition to rely on independent experts on ESG issues. Regarding supply chain, it has aligned its recommendations with those of the Investor Alliance for Human Rights, a collective action platform for responsible investment that is grounded in respect for people's fundamental rights, and are often interlinked with one another, and has identified five main issues on which to engage.

Security and Conflict: UN Guiding Principle 7 recognizes that business activities in conflict-affected and high-risk areas increases the risks of companies fueling conflict and negatively impacting human rights. Therefore engagement should encourage companies operating in conflict-affected areas to adopt human rights-based policies and processes, such as evaluating potential areas of operational risks; provide human rights training for security staff; and leveraging existing business relationships and investments to (re)negotiate contracts in line with human rights standards.

Forced Labour: companies are encouraged to conduct human rights risk assessments and reporting throughout their supply chain; provide enterprise-level training for managers, supervisors and workers on forced labour; and ensure that it (or its recruitment agencies) does not withhold wages or bonuses and that it pays them in a timely and regular manner. In addition, investors should recommend that companies participate in sector and/or multi-sector collective action initiatives to change the recruitment system from 'worker pays' to 'employer pays', eliminating a key mechanism for debt bondage.

Working Conditions: investors should urge companies to apply working hours limited to 48 per week by both company policy and practice, or fewer if provided by national law, collective agreement, or industry standards. Moreover, workers should be provided with a living wage sufficient to meet basic

[1] is a biomimetic approach to the design of products and systems that models human industry on nature's processes, where materials are viewed as nutrients circulating in healthy, safe metabolisms.

food, clothing, and housing needs and provide some discretionary income for themselves and their dependents. Finally all workers should get, free of charge or deposits, the protective equipment necessary to safely perform their job functions.

Human right defenders: Companies should have human rights policies that recognize the important role of human right defenders and take steps to respect, consult, support, protect or even advocate for defenders.

Indigenous people: Where and when indigenous peoples may be impacted, companies should adopt policies and practices to ensure that all aspects of their operations are respectful of the rights of indigenous peoples, in accordance with international standards and not just domestic law, including with regard to requirements of consultation and consent. Companies should conduct due diligence to ensure that their actions will not violate or be complicit in violating indigenous peoples' rights, identifying and assessing any actual or potential adverse human rights impacts of a resource extraction project.

DPAM values in terms of governance

Governance covers a broad range of corporate activities including board and management structures as well as a company's policies, standards, information disclosure, auditing and compliance.

DPAM is convinced that ESG factors present significant opportunities as well as associated risks. Companies that excel in identifying and incorporating these issues into their strategy have a competitive edge which enables them to create sustainable value on the long term.

Priorities

It is therefore essential that ESG is in the heart of the boardroom's discussion and debate.
Aligned with TCFD recommendations but broader than strictly environmental risk, companies should be encouraged to adopt a strong governance framework to assess and respond to the potential risks and opportunities posed by ESG challenges. How ESG risks are embedded in the enterprise's risk management, process and how these risks are discussed at the main Board? How does the board of directors anticipate ESG risks: skills assessment, trainings, specific responsibility for ESG challenges, etc.

This requires firstly an agreement on definition of the ESG factors which shape the total impact of the company's strategy. Through this exercise, the board will be able to assess the ESG risks and opportunities which are of strategic impact on the company and how these should be integrated in the business strategy. The purpose of the company, beyond its profitability, should be clearly identified and in particular its role towards the society. This should come from the board since one of its responsibilities is also to represent the intergenerational duty of the company.
By board oversight, DPAM means to ensure that the board is adequately composed and structured to oversee and monitor the ESG aspects in the context of strategy and long-term value creation.

Means

The engagement actions on governance will be guided by the RICC, in close collaboration with the relevant portfolio managers and/or buy-side sector analysts. To facilitate the process and define appropriate engagement expectations, DPAM relies on a variety of internal and external sources, including but not limited to:

- Internal DPAM assessments;
- OECD guidelines
- ICGN, ECGN
- Extra-financial data providers (Trucost, Sustainalytics, MSCI)
- Broker research.

The engagement will take place under the form of written correspondence as well as conference calls/in person meetings and follows the process as described in the section 'Engagement for a better understanding of the sustainable profile of companies'.

Objectives/Expectations[2]

- To ensure that the board has identified, among the material ESG issues that affect the business activity, those which are strategically significant i.e. key for the long-term and sustainable viability and profitability of the company. This should also include the alignment and buy-in across the enterprise through the right culture and incentives.
- To ensure that management of the ESG risks and opportunities are embedded in business processes, including that impact of mega trends and challenges like technological disruption, radical change in consumers' behavior, resources scarcity, etc. has been analyzed on long-term value creation.
- To expect that the issuer understand how climate change and the energy transition can influence its activities and how it can act on this. To encourage the issuer, if possible and relevant, to contribute positively to the energy transition to achieve the goals of Paris Agreement.
- Board oversight regarding ESG factors is not restricted to assessing ESG risks. It is also important that the board is challenging the management on the opportunities offered by ESG challenges such as energy efficient solutions, life-cycle process and circular economy, etc.
- To increase awareness and formulate expectations regarding management and board level oversight of ESG issues based on sector best-in-class examples, regulatory evolutions (in particular the EU Green Deal), collaborative engagement resources, etc. This includes, but it not limited to:
    - Acknowledgment of management and board level oversight of ESG matters (in own reporting and via support/membership of relevant organizations);
    - Integration of ESG matters in overall business strategy;
    - Remuneration linked to ESG targets (including disclosure and quantification)
    - Disclosure on stakeholder engagement activities (i.e. lobbying);
- To ensure that appropriate communication on ESG is provided to all stakeholders. There is high demand for ESG data; the board should encourage the management to inform appropriately the stakeholders regarding ESG embedded in the strategy. An integrated reporting and use of existing standards regarding ESG reporting is encouraged. It could also be best practice to encourage longer-term view communication with shareholders and to use for example the earnings guidance communication to explain progress on ESG targets and how these targets are contributing to the global sustainable performance of the company.
- To encourage board to have appropriately composed to understand ESG risks and opportunities and to oversee management's handling of these issues. This should include the allocation of the oversight responsibilities; the information flow to be provided to the board.
- To make the board responsible for getting involved the middle management of the company in the ESG priorities. The middle management, in charge of the products and services developed by the company, should be involved in the definition of the ESG risks and opportunities which impact the business. To ensure their buy-in their performance should be evaluated and rewarded taking into account both financial and ESG performance.

[2] Aligned with the recommendations from KPMG, "ESG, strategy and the long term view, a framework for board oversight", 2017.

2. How and when to engage - engagement process

Engagement can often be a long process where outcomes are not always visible until years after the initial engagement. As a result, priorities in engagement topics and themes must be done to optimize impact and efficiency. Secondly, in such cases, DPAM takes a pragmatic approach and recognizes that 'overnight' changes will not occur. Accordingly, companies will be closely monitored and regular interactions will take place to understand the responsiveness of the company. In cases where engagement has limited impact, the investment case for the underlying security will be reviewed.

DPAM sees engagement in the broad meaning of the term i.e. it could take the form of formal engagement process with clear targets and escalation program, voting at shareholder meetings and inform beforehand the company about specific voting instructions or entering into an engaged dialogue with the company during meetings to get more clarity on ESG practices and vision. Independently of the used channel to engage with the company, the aims are (1) to improve the investment decision making process and (2) to increase DPAM's net positive impact. Engagement is seen as a management tool that investors should fully embrace in order to better assess global risks, to uphold certain values and best practices, to assess opportunities and in doing so, to encourage companies to become more sustainable. It is therefore a long-term process which, due to the snowball effect and provided it is well-structured, creates added value for companies and enhances their performance as well as the long-term viability of investments.

DPAM adopts a proportionate approach when applying this Engagement Policy. Engagement will therefore depend on DPAM's investment exposure as well as the materiality of the issue. As a management tool, it is valuable information for any investment decisions DPAM professionals could take either for investment funds managed by DPAM (by designation or delegation) or for discretionary portfolio management mandates DPAM manages on behalf of institutional asset owners/investors.
Next to the engagement topics and priorities defined above, DPAM can also take part of engagement on a case-to-case basis according to the principles stated in:

1. DPAM Proxy Voting Policy (available here): the voting policy adopted by DPAM aims to defend the values and principles with regard to corporate governance that DPAM wishes to see advocated and applied by the companies in which DPAM funds invest. For sake of transparency and promotion of best practices, the Voting Advisory Board has defined five key topics on which DPAM systematically informs the companies on its voting instructions and expectations in terms of best practices and progress.
2. DPAM Controversial Activities Policy (available here): any doubt about a company's involvement – be it invested or candidate for portfolio's – in the controversial activities as listed in our policy will have an engaged dialogue as a result with the company's management. It could be questions regarding potential interaction with defense and armament sector for IT and technology companies developing security software for example.
3. DPAM Sustainable & Responsible Investment Policy : this refers to DPAM's vision of integrating ESG in investment making decision process and the philosophy, commitment and approach of sustainable strategies. Key questions regarding ESG challenges can raise at any moment in the process and could require entering in dialogue with the different stakeholders for a better understand. Indeed, DPAM's approach regarding sustainable and responsible investments is the path of pragmatism and dialogue.

Given the multiple challenges and interactions companies are exposed to, a cautious and open-minded attitude is required, which is why DPAM has adopted an approach based on dialogue and collaboration.
The engagement can therefore take the form of informal discussion within a collaborative process at DPAM, a or a formal individual or collaborative engagement.

Informal discussion

This collaborative process takes place both within the firm and externally:

a) First of all, ESG considerations are discussed internally in close cooperation with investment professionals so as to challenge financial and extra-financial findings and recommendations. This open discussion increases the awareness of investment professionals as regards ESG risks and opportunities and enables a better understanding of sectorial challenges from both approaches, i.e. the financial and extra financial ones. It also makes it possible to challenge, where applicable, the external information and assessment of ESG ratings for companies as received from specialized agencies.

b) Secondly, external initiatives stimulate debate on complex ESG issues in a positive yet critical manner then paving the way for the implementation of new ESG approaches, while enriching DPAM's in-house ESG expertise. It is critical to the long-term success of its investment strategies that this approach remains permanent, dynamic and pro-active, thus allowing DPAM to improve both our ESG knowledge and the financial research process and methodology through discussion, debates and interconnectivity with external experts. By organising events with external specialists on specific sustainability topics, DPAM aims to raise awareness among all its investment professionals regarding ESG issues. Finally, DPAM aims to promote best practices in all sectors, including those considered "unsustainable", by privileging the promotion of corporate best practices within each sector and identifying ESG-leaders and ESG-laggards. Company meetings are an opportunity to foster communication and are an efficient way to assess the ESG involvement of companies in which DPAM is investing or may invest. During meetings with senior company management, DPAM's investment professionals raise questions related to ESG issues and are able to engage with the company to promote ESG best practices

Formal individual and collaborative engagements

DPAM participates in individual and collaborative engagement initiatives.

Its participation in specific collaborative engagements is defined by the scope of its engagement priorities, the impact of the engagement initiative and the concerned issuers with whom the initiative plans to engage.

The individual engagements are triggered by DPAM's investment convictions and its willingness to optimize its net positive impact. These will then be determined by the controversial activities review (please refer to the do not harm principle) and by the willingness to defend specific convictions, values and priorities.

Collaborative engagements

DPAM has been participating in several collaborative engagement initiatives through the platform PRI Clearing House, through its commitment to Climate Action 100+ and CDP Disclosure and linked to its convictions and values.

DPAM, through its Responsible Investment Steering Group (the RISG), selects and decides to join certain collaborative initiatives based on two approaches. First it identifies the major ESG topics from activities and industry it is investing in. For specifically these topics, DPAM maps the global collaborative initiatives that were put in place around these topics based on a variety of criteria, including thematic and geographical scope, suitability, acknowledgment/credibility, support, etc. Second, DPAM finds a suitable balance between collaborative initiatives that cover companies which are of interest to DPAM, and the added value it can bring

to the collaborative engagement by introducing new investee companies that would fit in the engagement. With this method it ensures to focus on the collaborative engagement that is relevant for its investments and where it is able to create synergies between the collaborative initiatives and DPAM's investment activities.
Each year DPAM, through its relevant governance body the RISG, reviews the list of collaborative initiatives it has engaged in, to assess whether this engagement was able to reach its goal in either:

- Effectively engaging with relevant companies;
- Make significant improvement to advocate for system change across a certain industry or specific activity.

In case a collaborative initiative does not meet either of these goals, and this failure is not attributed to DPAM's involvement, it might decide to stop the collaborative engagement in case possible.

Advocacy actions

As part of its commitment to continuously advocate for best practices and evolutions, DPAM is part of several professional organizations, working groups and national sustainable investment forums that aim to foster the development of sustainable investment solutions. DPAM is always open to share its knowledge or to engage in dialogue with any organizations eager to make sustainable finances progressing.
To further expand its knowledge of specific ESG areas, DPAM further collaborate with a large set of external experts who advise on its integration practices either through being engaged in its investment committees or through educating colleagues on topical ESG issues.

3. What to expect from investee companies – monitoring process

For each priority, DPAM has identified its expectations, which it formulates in its engagement with the companies, whatever the used channels. These objectives are developed by the responsible investment specialists in close collaboration with the research and investment teams to ensure they are robust and send consistent messages to companies. These are defined in full alignment with the convictions and values of DPAM.

To defend best practices in terms of corporate governance and ESG challenges, DPAM refers to various reputed sources such as the International Corporate Governance Network (ICGN), the 10 Principles of the UN Global Compact, the OECD guidelines for multinational enterprises, the Sustainable Development Goals set up by the United Nations, the OECD Due Diligence Guidance for Responsible Business Conduct, the Principles of Responsible Finance, the recommendations of the Task Force Climate-related Financial Disclosure (TCFD), etc.

Measuring the effectiveness of engagement

The success of engagement is broadly assessed on 5 key points:
1. Willingness of the company to engage in a dialogue
2. Acknowledgment of the significance of the ESG issue raised
3. Willingness to improve ESG performance
4. Active implementation of a policy or a target
5. Evidence of tangible improvements

Escalation process

Based on these five points, DPAM will assess the success of its engagement and the escalation process to be adopted. The escalation process refers to DPAM strategy in case of not successful engagement i.e. the issuer is not open to dialogue or the dialogue has not been constructive.

The escalation process will differ if the used channel to engage is individual or collaborative in this latter case, it will be defined in agreement with all the engaged investees.

Divestment remains the last resort action. DPAM aims at constructive dialogue when engaging with companies and will therefore use firstly all possible means to improve a non-constructive dialogue, notably: sending reminders with an increasingly assertive tone, raising the issue to board representatives and/or Chairman, using proxy voting if relevant, submitting or supporting shareholder resolution, sharing results and engagement with peers. etc.

In case divestment remains the ultimate option, the divestment rule (as described in the prospectus) is adopted: maximum three months and in the best interest of the holders of the SICAV.

4. Engagement transparency – reporting and consistency

This Engagement Policy is publicly available on DPAM website.

All documentation and progress of engagement conducted by the research and investment teams and the responsible investment specialists are tracked in databases available to all investment professionals.

Committed to transparency, DPAM also publishes an annual engagement report on its website (report on the number of engaged companies, number of issues raised and objectives and progress made in achieving milestones defined for each engagement topics). As engagement is sometimes more effective if it is kept confidential, the report is as detailed and exhaustive as possible for the sake of efficiency of the dialogue.

Linked with transparency, it is also important for DPAM to be consistent throughout all its activities with its convictions and values.

This is the reason why it aims at conveying its values and convictions through all its communication with its partners and stakeholders, being through seminars, conferences, articles, etc. DPAM is convinced that sharing is caring and education is among the most efficient ways to promote best practices and mutual learning.

5. Internal process – Summary table

Topic	Objectives	Means	Responsibilities	Control
ESG better information	• To add real value to the investment process as companies with strong ESG performance tend to outperform their peers. Therefore, it is important that material ESG issues are discussed with companies and their management teams • To identify and mitigate risks with corporate management and therefore to optimize the risk/return profile of our portfolios; good corporate governance and social responsibility enhance the long-term risk return profiles of the investee • To assess business and investment opportunities as answers to ESG challenges • To better understand the companies to make long-term investment decisions	Various: • Scorecards • KPI's • TCFD templates • Engaged dialogues • Collaborative engagements • Individual engagements •	• Portfolio managers • Fundamental buy-side analysts • Responsible Investment Competence Center (RICC)	• Portfolio managers • Fundamental buy-side analysts • Responsible Investment Competence Center (RICC) **Measuring the effectiveness of engagement** The success of engagement is broadly assessed on 5 key points: 1. Willingness of the company to engage in a dialogue 2. Acknowledgment of the significance of the ESG issue raised 3. Willingness to improve ESG performance 4. Active implementation of a policy or a target 5. Evidence of tangible improvements **Escalation process**

	• To demonstrate the long-term commitment as opposed to the trend of short-termism within the markets • To constructively recommend corrective measures and best practices.			
Harmful effects of impact	• DNSH principle disclosure • Reducing the harmful effects of investments	• Systematic analysis of level 3 negative outlook and level 4 controversies • Individual engagement with companies	• Portfolio managers • Fundamental buy-side analysts • Responsible Investment Competence Center (RICC)	• Responsible Investment Steering Group **Measuring the effectiveness of engagement** **Escalation process**
Promotion of values & convictions Corporate Governance	• To clarify to companies DPAM voting instructions • To promote best practices regarding specific corporate governance topics i.e. board independency, minority shareholders protection, executive remuneration transparency and "one share, one vote, one dividend" principle.	• Letters to companies' executives and IR managers	• Responsible Investment Competence Center (RICC)	• Voting Advisory Board **Escalation process**
Governance	• To ensure that the board has identified, among the material ESG issues that affect the business activity,	• Systematic analysis of level 3 negative outlook and level 4 controversies • Individual engagement with	• Portfolio managers • Fundamental buy-side analysts • Responsible Investment	• Portfolio managers • Fundamental buy-side analysts • Responsible Investment

	those which are strategically significant i.e. key for the long-term and sustainable viability and profitability of the company. This should also include the alignment and buy-in across the enterprise through the right culture and incentives. • To ensure that management of the ESG risks and opportunities are embedded in business processes, including that impact of mega trends and challenges like technological disruption, radical change in consumers' behavior, resources scarcity, etc. has been analyzed on long-term value creation. • To expect that the issuer understand how climate change and the energy transition can influence its activities and how it can act on this. To encourage the issuer, if possible and relevant, to contribute positively to the energy transition to achieve the goals of Paris Agreement. • Board oversight regarding	companies	Competence Center (RICC)	Competence Center (RICC) **Measuring the effectiveness of engagement** The success of engagement is broadly assessed on 5 key points: 1. Willingness of the company to engage in a dialogue 2. Acknowledgment of the significance of the ESG issue raised 3. Willingness to improve ESG performance 4. Active implementation of a policy or a target 5. Evidence of tangible improvements **Escalation process**

	ESG factors is not restricted to assessing ESG risks. It is also important that the board is challenging the management on the opportunities offered by ESG challenges such as energy efficient solutions, life-cycle process and circular economy, etc. • To increase awareness and formulate expectations regarding management and board level oversight of ESG issues based on sector best-in-class examples, regulatory evolutions (in particular the EU Green Deal), collaborative engagement resources, etc. This includes, but it not limited to: ○ Acknowledgment of management and board level oversight of ESG matters (in own reporting and via support/membership of relevant			

	organizations); ○ Integration of ESG matters in overall business strategy; ○ Remuneration linked to ESG targets (including disclosure and quantification) ○ Disclosure on stakeholder engagement activities (i.e. lobbying); • To ensure that appropriate communication on ESG is provided to all stakeholders. There is high demand for ESG data; the board should encourage the management to inform appropriately the stakeholders regarding ESG embedded in the strategy. An integrated reporting and use of existing standards regarding ESG reporting is encouraged. It could also be best practice to encourage longer-term view communication with			

	shareholders and to use for example the earnings guidance communication to explain progress on ESG targets and how these targets are contributing to the global sustainable performance of the company. • To encourage board to have appropriately composed to understand ESG risks and opportunities and to oversee management's handling of these issues. This should include the allocation of the oversight responsibilities; the information flow to be provided to the board. • To make the board responsible for getting involved the middle management of the company in the ESG priorities. The middle management, in charge of the products and services developed by the company, should be involved in the definition of the ESG risks and opportunities which impact the business. To			

	ensure their buy-in their performance should be evaluated and rewarded taking into account both financial and ESG performance.			
Climate Change	The objectives of the engagement are mainly: • to have a constructive dialogue with investees regarding the impact of the new regulatory requirements and their strategy to anticipate the changes. • to increase awareness and formulate expectations regarding the importance of scope 3 disclosure, monitoring and reduction actions (in support of and in addition to our engagement actions via Climate Action 100+ and CDP's Non-Disclosure Campaign). This includes, but it not limited to: ○ Monitoring and measurement of supply chain	• Engaged dialogues • Collaborative engagements • Individual engagements	• Portfolio managers • Fundamental buy-side analysts • Responsible Investment Competence Center (RICC)	• Portfolio managers • Fundamental buy-side analysts • Responsible Investment Competence Center (RICC) **Measuring the effectiveness of engagement** The success of engagement is broadly assessed on 5 key points: 1. Willingness of the company to engage in a dialogue 2. Acknowledgment of the significance of the ESG issue raised 3. Willingness to improve ESG performance 4. Active implementation of a policy or a target 5. Evidence of tangible improvements

	emissions; ◦ Disclosure of scope 3 emissions; ◦ (science-based) Target setting for scope 3 emissions; ◦ Inclusion of environmental (emissions) criteria in supplier selection; ◦ Substitution and/or reduction of carbon-intensive supplies and replacement with other, low-carbon solutions; public commitments to tackle deforestation;			**Escalation process**

Social &	**Data privacy** • To raise awareness	• Engaged dialogues • Collaborative engagements	• Portfolio managers • Fundamental buy-side	• Portfolio managers • Fundamental buy-side

Human rights Data privacy Supply chain	regarding company’s accountability in data privacy i.e. to set up a process to effectively check compliance and ensure protection for individuals with relevant policies and procedures, clear risk assessment, monitoring and verification mechanisms, etc. • To address increased expectations of individuals for transparency, control and value exchange • To get a clear view on data privacy experts in the organisation and their positioning within this latter • To be able to assess security processes and tools robustness • To increase the culture of data privacy and cyber security in general among the enterprise, notably to get a view on training and practices as well as details on the implementation of the dedicated programs. **Supply chain**	• Individual engagements	analysts • Responsible Investment Competence Center (RICC)	analysts • Responsible Investment Competence Center (RICC) **Measuring the effectiveness of engagement** The success of engagement is broadly assessed on 5 key points: 1. Willingness of the company to engage in a dialogue 2. Acknowledgment of the significance of the ESG issue raised 3. Willingness to improve ESG performance 4. Active implementation of a policy or a target 5. Evidence of tangible improvements **Escalation process**

	• To promote long-term and qualitative relationships with its suppliers • To help to understand the ESG impact on lifecycle of the product to increase awareness regarding integration of lifecycle in the investee companies' responsible supply chain management. How are eco-design strategies, complete lifecycle concept or cradle-to-cradle approach3 embedded in the company's decision making? • To increase prevention mechanisms against modern slavery • To encourage adoption of optimal systems to control sustainability commitment of its suppliers • To encourage companies to conduct on-going impact assessments to identify human rights risks in their operations and supply chains and to address how findings are incorporated into			

[3] is a biomimetic approach to the design of products and systems that models human industry on nature's processes, where materials are viewed as nutrients circulating in healthy, safe metabolisms.

	programs and remediation plans • To encourage companies to disclose regular reporting on adequate management of these risks including short and long-term anti-trafficking goals, timeframes for their implementation performance against these goals, the audit process and results, accountability measures and percent of high risk factories and/or countries of operation within their supply chains (source ICCR)			

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