DEGROOF PETERCAM ASSET MANAGEMENT

MARCH 2023

ENGAGEMENT POLICY

CONTENTS

I. 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 March 2023. 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, i.e. 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 to the discretionary portfolio management mandates that are managed by DPAM 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 necessarily being shareholders of the engaged companies. In other words, engagement is used as a due diligence process, fully integrated in DPAM's Active, Sustainable & Research-driven commitment.

Indeed, actively sustainable dialogue with companies and other stakeholders is at the heart of our fundamental research and investment process.

DPAM believes in the value of sustainable and responsible investments and this has been deeply ingrained in our corporate DNA since 2002.

Engaging in dialogue with an issuer – be it a company or a country's representative -, either through proxy voting or direct dialogue, helps to reduce the harmful effects of our impact, defend our values and convictions, and spread best practices and innovative solutions regarding ESG challenges.

This document outlines DPAM's vision of effective and sustainable investing (§1). It aims to optimise our positive impact for the benefit of the society as a whole. It engages (a) to reduce the harmful effects of our impact and (b) to defend our values and convictions regarding environment, social and governance. It highlights why we engage and our choices on which topics to prioritise. It explains the engagement process and its expectations in terms of progress from investee companies (§3). This also includes details on means, channels and potential escalation. Finally, it states how transparency is at the heart of our engagements (§4).

II. DPAM: ENGAGING AS **A SUSTAINABLE INVESTOR**

DPAM's Mission

At DPAM, we aim to continuously improve our excellent track record of outstanding financial results through our in-house expertise, active investment approach, and systematic ESG integration.

However, our investments and activities also go beyond financial performance. Our principles push us to combine financial objectives with our role as a **pioneering sustainable actor**. They help us to provide an optimal service to our clients and **create a long-lasting, meaningful societal impact**.

Through our people, our ambition, our culture and our investment principles, we will continue to champion our commitment to **active management, sustainable values and in-depth research**.

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

First and foremost, being a sustainable and responsible investor involves raising key questions about the consequences of DPAM's investment activity in a global context. This means looking beyond pure financial profit and taking into account all stakeholders, while considering the consequences of each investments. Raising questions, relying on experts, sharing information, and engaging with a positively critical mindset have imbued DPAM professionals with a sense of responsibility and has pushed them to consider the consequences of their decisions to the best of their abilities.

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, urging investee companies to be managed in line with 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, ensures that the rights of shareholders are respected, as well as those of other stakeholders. But engaging goes beyond shareholder responsibility and dialoguing with companies.

Engagement with sovereigns is often perceived as political interference defined as lobbying and advocacy. However, an active engagement policy towards government institutions in general and debt management offices in particular can encourage governments to support the greening of finance.

By focusing on broader stakeholder rights, DPAM urges companies and countries in which it invests to internalise the negative impacts of their activities and to look for sustainable development opportunities. This prepares countries for their future operating environment. Sustainability is therefore a tool that can be used to work towards a more sustainable financing and economic system at a global level.

This is all about impact!

1. SCOPE OF THE POLICY

Our policy is consistently applied across all investment funds which are managed by DPAM (by designation or delegation, i.e. 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.).

The indexing strategies fall under the scope of the engagement policy and its defined escalation process. As far as indexing strategies are concerned, the divestment decision should be applied provided it doesn't actively breach the fund's investment policy and objective or goes against any tracking constraints and replication methodologies as stipulated in the regulatory documents/prospectus.

It also brings added value to discretionary portfolio management mandates which 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 necessarily being a shareholder of the engaged companies or countries.

2. OBJECTIVES OF THE POLICY

Engagement aims to contribute to a better society, be it through proxy voting or direct dialogue in individual or collaborative initiative. By reducing the harmful effects of our impact, defending our values and convictions, and spreading best practices and innovative solutions regarding ESG challenges, we aim to combine financial and sustainable performances with a positive contribution to sustainable and inclusive growth.

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.

3. RESPONSIBILITIES

Engaging with companies and countries is the shared responsibility of the investment professionals at DPAM i.e. portfolio managers, fundamental analysts and responsible investment specialists.

Three governance bodies are involved in monitoring ongoing engagements and determining suitable strategies and topics: the Responsible Investment Steering Group, the Voting Advisory Board and the TCFD steering group. The responsibilities are summarised in the table at the end of the document. Please refer to this table for the bodies' responsibilities. As a sustainable and responsible investor that embeds sustainability across its different activities, the practical implementation of the engagement process includes different departments, ranging from the research teams to the Portfolio Managers and the Responsible Investments specialists.

Indeed, the **Voting Advisory Board**, in charge of the voting policy at DPAM, is also responsible for the engagement related to corporate governance in the framework of the voting policy.

Our Voting Advisory Board consists of seven internal staff members and three independent members and has established the voting policy of DPAM.

Our 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 (RISG).

The RISG is the initiator and guardian of DPAM's identity. Our focus on Active, Sustainable & Research and our mission to be a leading responsible investor are championed by this steering group. The RISG oversees the implementation of DPAM's mission statement regarding sustainable and responsible investments. In addition, it is also the pioneer and the guardian of DPAM's strategic commitment toward Responsible Investing in its investment process.

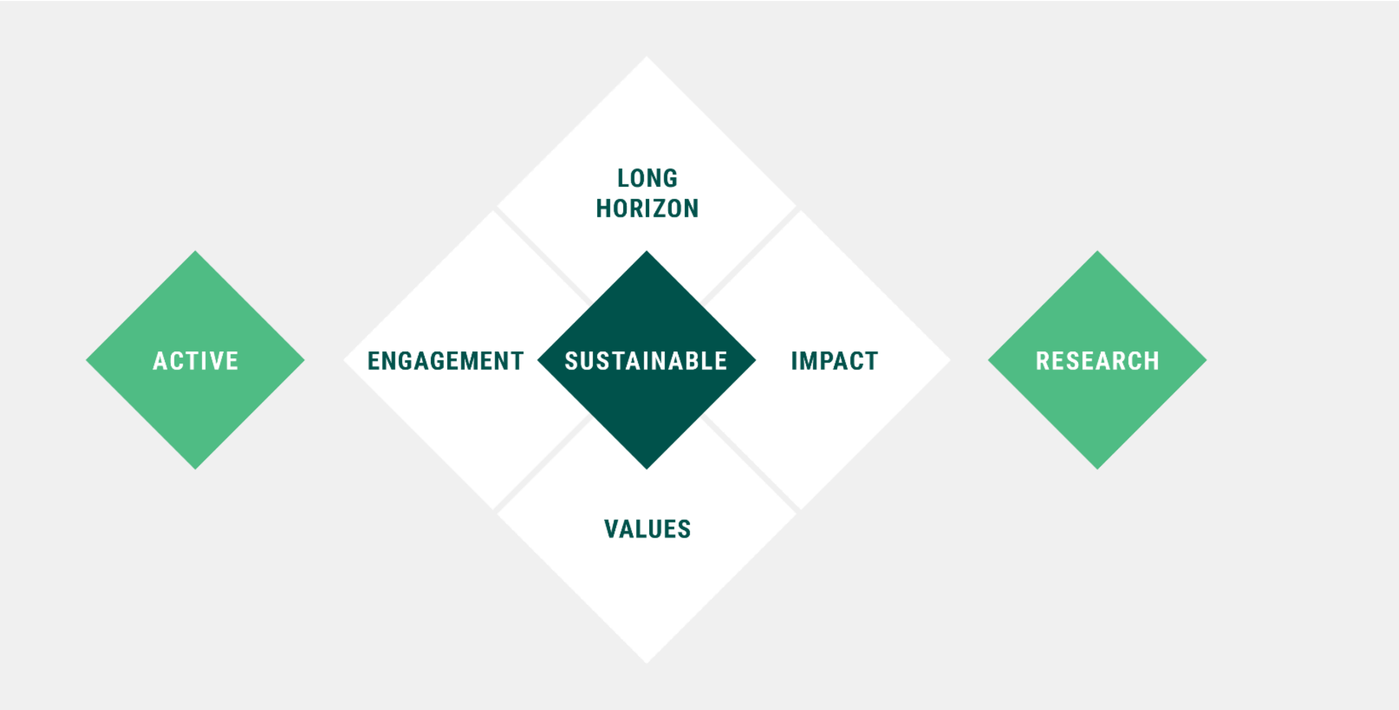
It is DPAM's competent governance body that monitors the engagement process and assesses the engagement outcome.

Engagements on climate-related topics is under the supervision of the TCFD steering group. Additional information on climate focused engagement priorities can be found in the chapter "DPAM values in terms of environment and climate change".

The **TCFD steering group** consists of several Board and senior managers (including the Equity & Fixed Income Chief Investment Officers and the heads of Equity and Fixed Income research). During its quarterly meetings, based on the expertise and experience of all DPAM's portfolio managers, analysts and the RICC, the group reviews and updates DPAM's climate change strategy and risk management process. It seeks to integrate climate change risks and opportunities in the general investment decision process and to assess the impact of climate change on DPAM's investments. It also considers the impact of DPAM's investments on climate change.

III. DPAM'S AIM - **ENGAGING FOR A POSITIVE IMPACT ON SOCIETY**

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 Investment Policy** describes DPAM's approach to sustainable and responsible investments and its commitment to 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, resource scarcity, social inequalities, and modern slavery to name but a few. DPAM is convinced that it can positively contribute to society 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 in the long-run for the society as a whole. The policy also describes how DPAM applies the *Do No Significant Harm* principle. It translates DPAM's commitment to defending fundamental rights and showcases how DPAM reduces its negative impact by avoiding certain activities or behaviours which can significantly harm sustainable and inclusive growth as promoted by the European Commission's 2030-2050 Program. Apart from avoiding and mitigating the negative externalities of its investments, DPAM also seeks to generate a positive impact. The policy also describes how sustainable investments contribute to solutions for the economy through the alignment with the SDGs.

Furthermore, through its **Policy on Controversial Activities**, DPAM affirms its commitment regarding controversial activities and companies' behaviour not to be accomplice of such activities. Indeed, DPAM has committed not to finance controversial activities such as tobacco, thermal coal or nuclear weapons. Next to exclusions, its controversial activity policy also discusses DPAM's stance on other activities, such as unconventional and conventional oil and gas, GMOs, palm oil, democratic requirements, etc. Please refer to the **publicly available policy** for further details.

Finally, DPAM has been reaching out to several companies through collaborative and individual engagements, through new, dedicated, thematic strategies, and through the sharing of its expertise, etc. These initiatives aim to increase the net positive impact of our company.

The two main objectives pursued by DPAM when engaging with countries, companies, rating agencies and other stakeholders are:

- Reducing its negative impact. All investments have an impact, be it positive or negative. It is therefore important to consider the potential harm of our investments and to engage with investees; by reducing the negative impact, we contribute to an increased net positive impact for society.
- Defending our key values and convictions.

In addition, DPAM displays a strong commitment to enhancing the quality of its fundamental research in order to facilitate well-informed investment decisions and foster sustainable long-term performance. DPAM also recognises its responsibility to provide the most pertinent and appropriate information on issuers, ensuring its availability and dissemination.

1. ENGAGEMENT TO IMPROVE THE NEGATIVE EXTERNALITIES OF FINANCED ISSUERS

The "do not harm" principle emerged from several regulatory frameworks covering sustainable investments in Europe (As described in the DPAM Sustainable & Responsible Investments Policy). DPAM has put the necessary checks in place to limit the negative impact of its investment decisions and recommendations. DPAM is also committed to identifying any controversy an invested issuer could face and to engaging with companies 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 reviews of the cases of companies involved in controversies, DPAM can decide to engage and/or divest. By doing so, DPAM spreads best practices and guides issuers towards sustainable and inclusive growth. The RISG reviews companies exposed to severe controversies on a sector-by-sector basis to proactively defend sustainable and responsible investments.

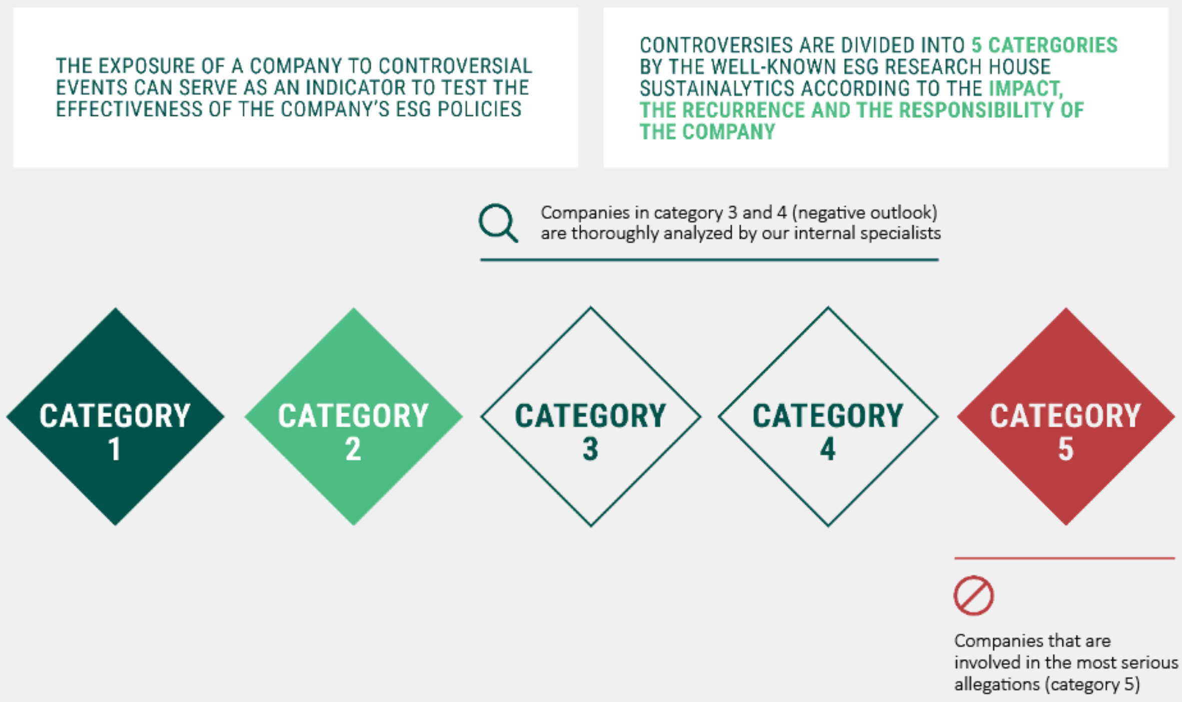
1.1. Priorities

As detailed in our SRI policy, We assess companies based on the allegations they (might) face in relation to ESG controversies, as controversies serve as an important indicator of the effectiveness of ESG-related policies and programs. Companies can face controversies or scandals which present a financial and reputational risk. A reactive engagement could therefore be required to understand the occurrence of the controversy taking place and get a clearer view on how the situation will be remedied.

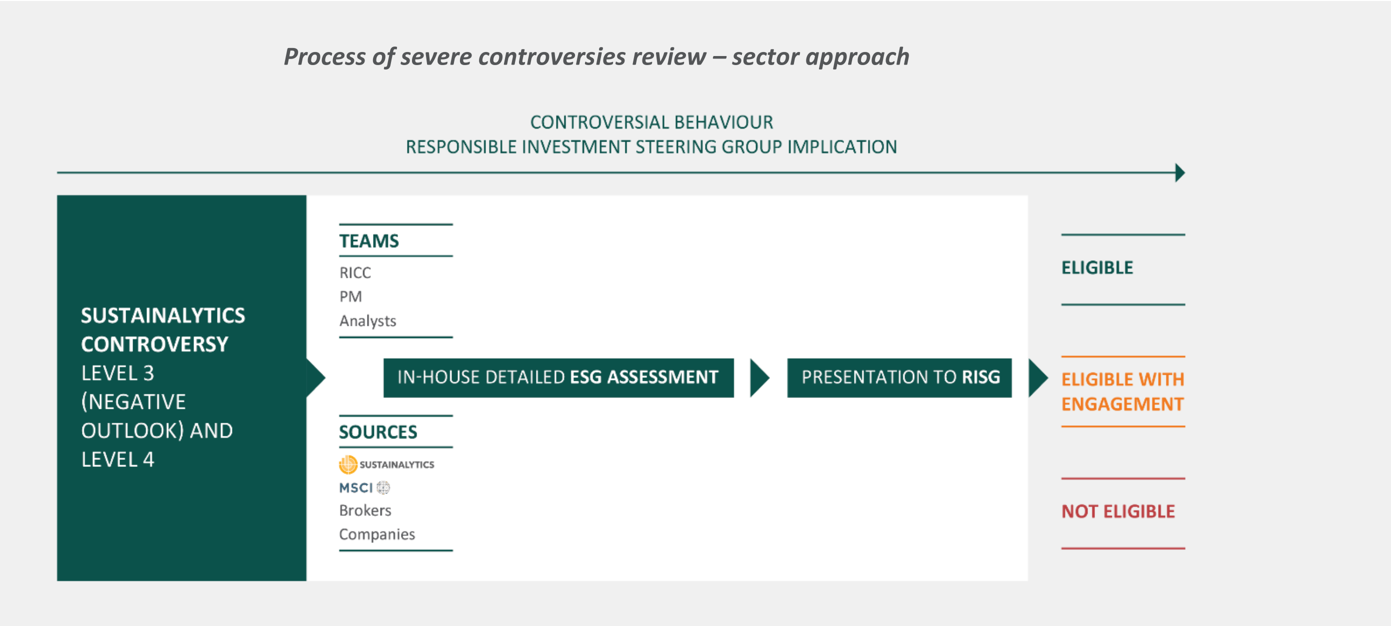
DPAM's "Active, Sustainable, Research" process, conducted via the RICC and with the help of the research and portfolio management teams, involves analysing Sustainalytics' methodology's 'controversy level 4' and 'controversy level 3 with negative outlook', as these could pose a significant risk.

DPAM will conduct internal research on the companies in category 4 and 'category 3 with a negative outlook'. For this research, the portfolio manager or the relevant sector analyst works together with the Responsible Investment (RI) Specialist to review the issues in detail and to discuss them with external experts. It's important to note that any investment in companies facing a level 5 controversy are prohibited in our sustainable strategies.

Systematic review of controversial behaviour of companies – Universe: 15.000 issuers



It is essential to understand what is behind the controversy and whether other weaknesses, in terms of corporate governance for example, may undermine the sustainable growth of the issuer. For this, DPAM relies on sources such as MSCI ESG Research, Sustainalytics, brokers, etc. Based on this information and after discussion with the company and the research providers, the case will be submitted to the Responsible Investment Steering Group (RISG).



Each month, a particular sector is reviewed according to this process.

In case of engagement, the RI specialists, cooperating closely with the relevant analysts and portfolio managers, will engage in a dialogue according to the process described below:

1.2. Means

Any in-depth analysis of important controversies requires engaged dialogue with company executives, to promote learning and the exchange of knowledge. Furthermore, this analysis is relevant for any investment decisions, for both sustainable as well as traditional portfolios.

When an in-depth analysis of ESG controversies has been completed, a report is presented to the Responsible Investment Steering Group (RISG).

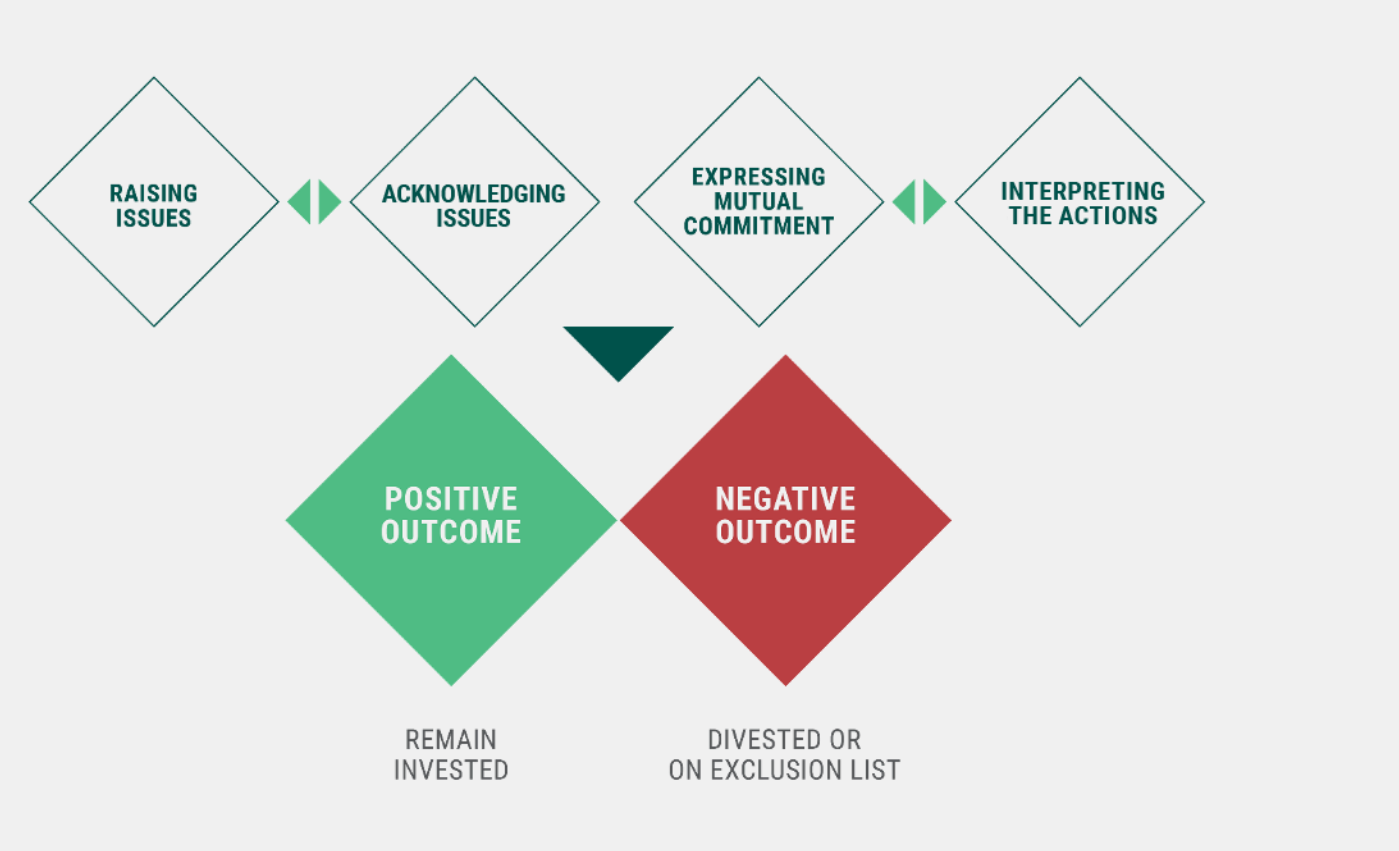
In case of ineligibility, all investment professionals at DPAM are informed on the issuer and details of the ineligible status for sustainability universes. The company might be informed on its ineligibility

In case of eligibility with engagement, engagement letters are written in collaboration with portfolio managers, buy-side analysts and RI specialists to better understand the sustainable profile of the company.

Generally speaking, this engagement will be conducted as an individual initiative led by DPAM. If collaborative initiatives regarding the issuer and the controversy are already occurring, DPAM will decide whether to join the collaborative initiative to improve its effectiveness.

Our engagement process generally starts with an initial contact to raise our questions, concerns, as well as a preliminary list of our expectations and objectives in terms of progress.

The issuer is invited to acknowledge these concerns and come back with answers and guidance on the expectations and objectives. The outcome of the engagement will be assessed by the RISG. In case of a negative outcome, the issuer will be ineligible and put on our blacklist, making it ineligible for any of our SFDR article 8 and 9 portfolios.



1.3. Escalation process

The escalation process refers to DPAM's roadmap in case of an unsuccessful engagement, during which the issuer was not open to dialogue, the dialogue was not constructive or the escalation steps (see below) were ultimately deemed insufficient.

The escalation process will differ depending on whether the engagement is individual or collaborative in nature. In case of the latter, escalation is often defined in agreement with all the engaged investees. For individual engagement, divestment remains an action of last resort. DPAM aims at constructive dialogue when engaging with companies and will therefore first use all possible means to improve a non-constructive dialogue, notably: sending reminders with an increasingly assertive tone, seeking additional investor support, raising the issue to board representatives and/or the Chairman, using proxy voting if relevant, (co-)submitting or supporting shareholder resolutions, sharing results and engagement with peers, etc. Divestment remains the ultimate, alternative option. The indexing strategies are in the scope of the engagement policy, as is its defined escalation process. As far as indexing strategies are concerned, the divestment decision should be applied if it does not cause an active violation of the fund's investment policy, objective, tracking constraint and replication methodology in the regulatory documents/prospectus.

2. ENGAGEMENT TO DEFEND OUR VALUES AND CONVICTIONS

Next to diminishing the harmful effects of its investments, DPAM also engages with companies to convey its expectations regarding distinct corporate governance, environmental, social and governance topics. By taking this proactive stance on key topics, DPAM strives to increase the positive impact of its investments and avoid companies that are likely to face severe controversies in the future. Per key topic, DPAM describes its priorities, its means to materialise these priorities, concrete objectives and finally the applicable escalation process.

2.1. DPAM values in terms of corporate governance

Being a responsible investor is a genuine management tool. It mainly allows DPAM to assess the quality of the 'G' in its integrated ESG approach.

Committed to transparency and the promotion of best practices, DPAM wants to ensure its voting intentions are understood.

First of all, DPAM's voting policy, which is available **on the website**, provides an overview of the guidelines that are applied to the bulk of the cases. The annual voting activity report, which is also available **on the DPAM website**, provides an overview of the major voting trends. These documents are available to any company in which DPAM holds a position and which would like to know the outcome of its voting instructions.

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

1. The protection of shareholders to create long-term value and promote the equal treatment of shareholders and the protection of minority shareholders on the basis of the principle "one share, one vote, one dividend";
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.

2.1.1. Priorities

Since 2014, DPAM's Voting Advisory Board has conducted autonomous engagement on corporate governance.

The Voting Advisory Board has identified six key topics for which our company is committed to providing systematic information to shareholders prior to their 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 transparency;
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 independence of its committees and board of directors. DPAM will systematically vote against a combination of the roles of CEO and Chairman of the Board;
3. **Anti-takeover defences** (poison pills). DPAM rejects any initiative that may harm the rights of minority shareholders;
4. **Multiple voting rights**: DPAM is a staunch advocate of the principle "one share, one vote, one dividend", and is therefore 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, a clear figure 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 favourably 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.

6. **Say on Climate**: the topic is new and best practices need time to evolve and mature. Nevertheless, DPAM relies on best practices which have been previously identified by the Institutional Investors Group on Climate Change i.e. Net zero commitment or ambition; medium term targets aligned with 1.5° or a verified Sciences-Based Target initiative; decarbonisation plan and external TCFD report. Alternatively, it can also include reports such as short-term targets, progress on emission reductions and progress on operational emissions.

2.1.2. Means

DPAM conducts its engagement autonomously by means of a letter sent to company executives and Investor Relations managers. This increases its impact on investees' corporate governance, beyond proxy voting instructions.

2.1.3. Objectives/Expectations

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 highlighted in DPAM's letter to the company.

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

- The functions of Chairman and CEO are separate;
- The appointment (or renewal) of members on the Board of Directors maintains a balance between executive and non-executive/independent directors;
- The candidate is presented by an independent appointment committee;
- Sufficiently-detailed information on the candidate's profile is available to assess the independence of the candidate;
- Ideally, the length of the mandate does not exceed six years;
- The candidate does not hold more than five director mandates in listed companies in total (or three in case of executive mandates)

Regarding commitment to **greater transparency and integrity of information**, the nomination of a director is considered 'contentious' if there is insufficient transparency regarding the nominee. In case the company does not disclose enough information about the proposed board members in advance of the shareholder meeting, DPAM is unable to evaluate the overall structure of the board of directors. A lack of disclosure casts a negative light on the appointment of the nominee. In that case, DPAM has adopted to vote in favour of the nominee but will be keep a close eye on 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 on the nomination process for company directors and members of the Board of Directors. Transparency on the composition of the Board of Directors allows DPAM to assess to what extent the balance of power is respected. It is the responsibility of the company to provide information in due time before General Meetings and to ensure that this information is reliable, clear and complete.

DPAM considers that **multiple voting share classes** are not in the best interest of shareholders. Consequently, it believes that it is not appropriate to approve the such measures. It encourages companies to protect shareholders by focusing on long-term interests and value creation, ensuring equal treatment between all shareholders and protecting the rights of minority shareholders. The recommendations to protect minority shareholders through the principle of “one share, one vote, one dividend” include:

- 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 has been provided;
- 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 program should not allow the company to buy back its own share for anti-takeover purposes.

Finally, the **remuneration of key executives and board members** is an essential part of sound corporate governance and must be aligned with the long-term objectives of the company as well as shareholder interests. DPAM refers to the link between remuneration and long-term company performance, with 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 be transparent about the relationship between remuneration and the long-term performance of the company. Shareholders should have access to quantitative information about performance targets that have to be met by executive and board members. The remuneration needs to be defined by an independent Remuneration and Compensation Committee or equivalent. DPAM encourages sufficient disclosure of the executive remuneration policy, and its degree of alignment with the objective of long-term value creation for the company. The remuneration policy should include:

- Specific performance targets, metrics and pay-out structures, including at least two performance metrics to provide a complete picture of the company's performance;
- Conditions for payments to board members for extra-board activities;
- The terms to be observed about holding and trading company stock and the procedures to be followed in the granting and re-pricing of options;
- Recovery provisions, such as malus and claw-back provisions as well as 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 shareholder interests. Any proposal of re-pricing is analysed. Furthermore, remuneration reports including change of control provisions are also viewed with skepticism as these kind of provisions may discourage potential buyers from bidding on the company.

2.1.4. Escalation process

Engagements to defend our corporate governance values tend to follow a specific escalation process; firstly, this process is strictly limited to our investments in equities. And secondly, the voting activity is governed by a dedicated advisory group namely the Voting Advisory Board (VAB). The escalation process is clearly stated in the engagement letter.

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.

The VAB has agreed on an escalation process in case of no reaction to our engagement letters and no improvement in the next proxy seasons. The process of escalation for every engagement theme is defined, with the ultimate resort being to directly contact the Chairman of the company's board of directors about our corporate governance worries.

TOPICS OF ENGAGEMENT	1ST YEAR	2ND YEAR	3D YEAR	4TH YEAR
INDEPENDENCE	ABSTAIN	AGAINST	AGAINST	CHAIRMAN OF THE BOARD
REMUNERATION	ABSTAIN	AGAINST	AGAINST	CHAIRMAN OF THE BOARD
POISON PILLS	AGAINST	AGAINST	CHAIRMAN OF THE BOARD	CHAIRMAN OF THE BOARD
TECHNICALITY	FOR	AGAINST	AGAINST	CHAIRMAN OF THE BOARD
ONE SHARE ONE VOTE ONE DIVIDEND	AGAINST	AGAINST	CHAIRMAN OF THE BOARD	CHAIRMAN OF THE BOARD
SEPARATION OF ROLES	AGAINST	AGAINST	CHAIRMAN OF THE BOARD	

2.2. DPAM values in terms of environment and climate change

Almost all countries have committed to carbon neutrality in the coming decades. This has both economic and financial consequences. Firstly, it means a complete exit from fossil fuels by 2050 and an aggressive decarbonisation process. Secondly, it is an estimated investment cost of over USD 5 trillion per year until 2030, which requires considerable financing. Climate-related risks and opportunities are on the rise.

Climate change is therefore at the heart of current debates, commitments and regulatory actions. DPAM has committed to support the climate transition. Since November 2018, it is also a supporter of the TCFD recommendations. DPAM issued its first report in 2020 (covering the reporting year 2019). Furthermore, it joined the collaborative initiatives Climate Action 100+, CDP and IIGCN via which it has started to lead engagement cases on climate disclosure and performance. DPAM has also launched a strategy dedicated to climate change and gained expertise on the development of low-carbon mandates and detailed climate reporting.

But DPAM is willing to raise the bar. It has continued its progress to positively contribute to the climate transition by joining the **Net Zero Asset Managers initiative (NZAM)**. Our company also increased its transparency through the reporting of environmental metrics. Its fourth TCFD reporting, detailing the progress made towards implementing the TCFD recommendations, is available **on our website**.

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2.2.1. Priorities

Following the Paris Alignment and related Net-Zero target setting (the fourth component of the TCFD recommendations), DPAM's TCFD Steering Committee decided to join the NZAM initiative. Hence, science-based target setting by investees will be the key performance indicator to prioritise when engaging with investees on environmental matters.

Engagement as a key pillar to reach Net Zero

Investor initiatives targeting 'Net Zero' portfolios can apply a variety of methodologies. Regardless of the chosen methodology, the performance of individual investees ultimately impacts the portfolio's climate performance. Hence, active ownership or corporate engagement to push investees towards credible, science-based emission-reduction paths is considered key when committing to Net Zero. As stipulated in the **Net Zero Asset Managers 10-point commitment plan,** investors commit to:

Implementing a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition to have all assets under management achieve net zero emissions by 2050 or sooner.

Next to emission-reduction target setting, the focus on scope 3 emissions[1] reinforces the disclosure of the portfolios' carbon footprint and allows for better control and monitoring of the climate risk exposure of DPAM's portfolios.

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[1] Calculation methodology according to the Regulatory Technical Standards of the Sustainable Finance Disclosure Regulation.

DPAM has committed to systematically calculating the net zero alignment of the SFDR article 8 and 9 investment funds. Sovereign bond investments are excluded due to the absence of a target methodology. Mandates are not yet part of the scope as these are subject to client agreements and dependent on clients and managers' regulatory environments. Based on this, DPAM's TCFD Steering Committee will develop possible actions for the portfolios or investees which fail this exercise. Actions could include, but are not limited to, engagement with the companies which are falling behind in this transition, with a particular focus on both science-based targets setting and scope 3 emissions as described above.

2.2.2. Means

The engagement actions on science-based target setting and climate-related supply chain risks (incl. scope 3) 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 internal and external sources, including but not limited to:

- Internal DPAM TCFD assessments;
- CDP questionnaires (climate, water, forests) and campaigns (i.e. the annual 'Non-Disclosure Campaign' and 'Science-Based targets Campaign);
- CA100+ supporting material and engagement actions (i.e. the Net Zero Corporate Benchmark engagement);
- Thematic research providers (e.g. FAIRR, Transition Pathway Initiative, etc.);
- Extra-financial data providers (Trucost, Sustainalytics, MSCI);
- Broker research.

DPAM will engage through written correspondence, conference calls or in-person meetings, following the process detailed in the 'Engagement for a Better Understanding of the Sustainable Profile of Companies' section.

2.2.3. Objectives/Expectations

The engagement on corporate-emission-reduction target setting is a key pillar of the NZAM commitment. As a result, our collaborative engagement initiatives with investees strongly focus on the crucial role of setting (science-based) emission-reduction targets. Since the '1.5 degrees'-alignment of a portfolio depends on its constituents by default, we strongly believe these actions should be prioritised. The Science-based Target (SBT) initiative also recognises investee engagement on science-based target setting as a key pillar for investor target setting.

The objectives of the engagement are mainly:

- To increase awareness and formulate concrete expectations regarding SBT setting by investees, and **to** ultimately **grow the number of investees with validated SBTs**. Next to this, our engagements will facilitate research as it allows to gain insights in companies' approaches and plans to reach these targets;

- 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 is it not limited to:
  - Scope 3 emission reduction targets, where material;
  - Disclosing of scope 3 emissions;
  - Monitoring and measuring of supply chain emissions;
  - Including environmental (emissions) criteria in supplier selection and supplier engagement;
  - Substituting and/or reducing carbon-intensive supplies and replacing these with other, low-carbon solutions; public commitments to tackle deforestation.

2.3. DPAM values on social and human rights

By defending the fundamental rights, particularly human and labour rights, DPAM sets the tone regarding human and social values in its commitments.

For DPAM's sustainable credit and equity strategies, this is assessed via compliance with global standards, excluding non-compliant companies from the investment universe.

For DPAM's sustainable sovereign bonds investments, non-democratic countries are not eligible for investment. Transparency and democratic values are at the heart of DPAM's proprietary sustainable country model.

DPAM's controversial activities policy affirms our responsibility to arbitrate choices concerning social and human rights, such as unconventional armament, nuclear weapons, tobacco, alcohol, and agricultural commodities.

Secondly, when analysing the impact of its investments and limiting their negative effects – notably through in-depth ESG analysis – social issues are regularly at the heart of the discussions and debates. These are organised through collaborative and individual engagements, commitments and/or investments restrictions.

2.3.1. 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 chains** as the cornerstone topics to defend its human convictions. The focus on these aspects coincides with recent regulatory developments as well as the emergence of new ESG standards when it comes to disruptive and innovative technologies.

Regarding **digital rights**, DPAM is convinced that data is an economic driver and resource for innovation. Indeed, personal data is becoming more and more valuable for companies. It allows companies to get more feedback and broaden its scope to improve its products and services. It is a key element of the 4th industrial revolution and requires full integration in companies' strategies. To ensure the responsible use of data, regulation is increasing over the world, not only with the GDPR Directive but also the EU's Digital Services Act (DSA) and the Digital Markets Act (DMA), which have been a pioneering gamechanger in this regard. But businesses must also take this concern seriously for other reasons. First, a digital trust deficit could erode both reputation and brand. Second, data protection breaches and misuses could lead to high fines and penalties, which are material for the business bottom line of the company. Third, data can also present an opportunity. It could be a driver for innovation and could also be used for positive social impact.

Furthermore, COVID-19 has intensified remote working to ensure business continuity. Businesses are therefore dealing with new and unprecedented operational and legal challenges, at the heart of which are key data protection considerations.

Assessing company practices on digital rights is still difficult due to a lack of standardisation. The emergence of new applications and the developments of new technologies, such as facial recognition technology, makes respecting these rights even more complex.

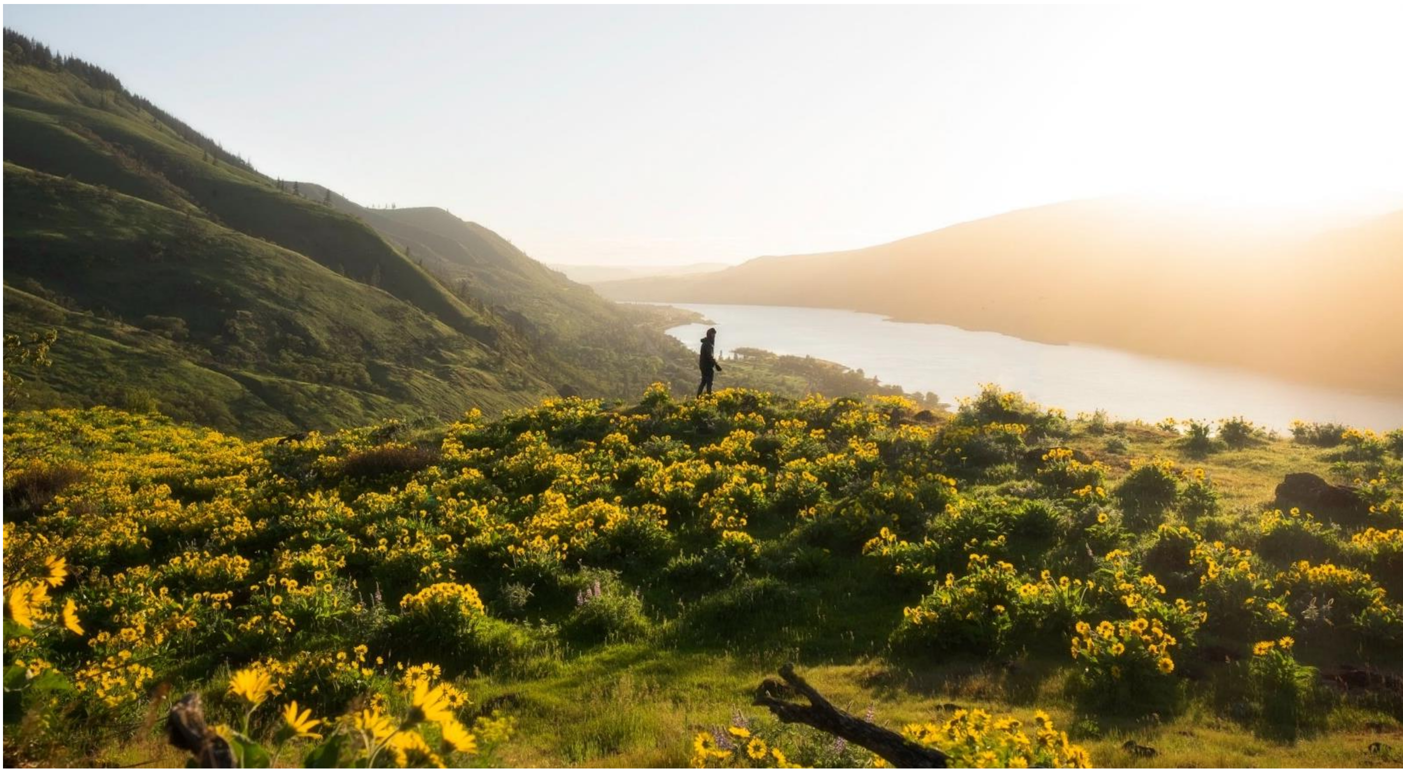
Digital rights pertain to **all human rights in a digital environment**. This definition is quite broad, which is why these rights tend to focus on distinct issues. These include - among others - the right to privacy, freedom of expression and the right to internet access.

The peculiar case of facial recognition

Since digital rights can be impacted in a wide range of situations and by a large number of technologies, we want to identify the future technologies that could challenge these rights. That is why we have joined a collaborative investor initiative that focusses on facial recognition.

The concept of facial recognition relates to 'the process of identifying or verifying the identity of a person using a picture or a video of their face'.

This initiative addresses the human rights impact linked to the development and use of facial recognition technology. The goal will be to first understand the human rights issues linked to this technology, define best practices, and disseminate these in companies that are exposed to this technology. In 2022, we finished the consultations with the companies to prepare a best practice guide for companies that use this technology.



Regarding **supply chains**, the COVID-19 crisis has revealed the importance of resilience and sustainability. Indeed, the resilience of the supply chain focuses on the ability to face external shocks, while sustainability will analyse the social impact on products and services' lifecycle and how best to align this impact with global sustainability challenges. Supply chain sustainability management tends to be seen – erroneously – as costs and risks driven to assess a company's license to operate. Nevertheless, choices made 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 greater labour productivity. The regulation on responsibility towards one's supply chain has increased over the last decade – the recent German Supply Chain Due Diligence Act, 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 but a few. 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. That's why DPAM wants to make this topic a priority in terms of engagement.

Moving towards a social EU Taxonomy

According to the latest information on the social taxonomy regulation, it will follow a similar structure to the Green Taxonomy. It will likely be based on the principles of (1) avoiding and addressing impact based on company expenditures to alleviate risks and (2) company turnover used to assess the enhancing of the positive impact of specific economic activities.

The three major objectives of the social taxonomy are:

- decent work: social dialogue, living wages, health & safety and lifelong learning;
- adequate living standards and wellbeing for end-users: healthcare, social housing, long-term care, education;
- inclusive and sustainable communities and societies: access to basic economic infrastructure, inclusion of people with disabilities.

Our current policies and practices already form a solid base from which to assess the contribution in terms of avoiding and addressing negative impact (review of controversies). Indeed, the focus on respecting human rights is deeply ingrained in our ESG analyses and is further maintained through compliance with the UN Global Compact. On the corporate governance side, we refer to the important elements listed in our corporate governance values. Finally, our Sustainable and Responsible investments policy details how our impact and determines the alignment of our portfolios with the UN Sustainable Development Goals, more particularly the goals related to basic needs such as goals 1, 3, 6, 8 and 12 and related to empowerment such as goal 1, 4, 5, 10, 11 and 16.

Naturally, our engagement priorities will evolve in parallel with the further disclosure of this EU social taxonomy.

2.3.2. Means

Our engagement actions on data privacy, social supply chain risks, the promotion of basic needs and empowerment 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;
- Global Reporting Initiative standards on responsible procurement;
- Carbon Disclosure Project supply chain survey;
- UN Guiding principles on business and human rights;
- Investor Alliance for Human Rights;
- Ranking Digital Rights Corporate Accountability Index;
- Know the chain benchmarks;
- Financials for living wage analyses;
- World benchmarking alliance; the Corporate human rights benchmark,

DPAM will engage through written correspondence as well as conference calls and in person meetings. It follows the process as described in the section 'Engagement for a better understanding of the sustainable profile of companies'.

2.3.3. Objectives/Expectations

Data privacy

- To raise awareness regarding company 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 the exchange of value;
- To get a view on data privacy experts and their positioning in the organisation;
- To be able to assess security processes and the robustness of company tools;
- To increase the culture of data privacy and cyber security in general, notably to get a view on training and best practices, on the implementation of dedicated programs and the adherence to international standards.

Supply chain

- To commit and implement the UN Guiding Principles on Business and Human Rights, adapted to the company context.
- To promote long-term and qualitative relationships with suppliers;
- To help companies understand the ESG impact on the lifecycle of their products, to increase awareness regarding the integration of lifecycle in the investee companies' responsible supply chain management;
- To increase prevention mechanisms against modern slavery;
- To encourage adoption of optimal systems to control the commitment to sustainability 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 these 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 the percentage of high risk factories and/or countries of operation within a company's supply chains (source ICCR).

DPAM has a long tradition of reliance on independent experts for ESG issues. It has aligned its supply chain recommendations with those of the Investor Alliance for Human Rights, a collective action platform for responsible investment. This platform is grounded in respect for people's fundamental rights, and has identified five main issues on which to engage; security and conflict, forced labour, working conditions, protection of human rights and indigenous peoples' rights.

2.4. 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 and associated risks. Companies that excel at identifying and incorporating these issues into their strategy have a competitive edge which creates sustainable value in the long term.

2.4.1. Priorities

It is therefore essential that ESG is at the heart of the boardroom's discussion and debate.

In alignment with TCFD recommendations but broader than a strict focus on 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 are ESG risks embedded in the enterprise's risk management, process and how are these risks discussed by the Board? How does the Board of Directors anticipate ESG risks: skill assessments, trainings, specific responsibility for ESG challenges, etc.

This firstly requires an agreement on the definition of the ESG factors that 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 relevance to the company and discuss how these should be integrated in the business strategy. The purpose of the company, beyond its profitability, should be clearly stated, as should its role towards 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 wants to ensure that the board is adequately composed and structured to oversee and monitor the ESG aspects in the context of its strategy and long-term value creation.

Furthermore, in terms of governance, the regulatory requirement to apply minimum safeguards has led us to reinforce our scrutiny over controversies, incidents, and scandals to which issuers may be exposed. Moreover, the shift from a shareholder supremacy model to a stakeholder governance model emphasises the notion of a company's "mission" towards *Society*. This has opened the door to interesting debates on the delicate balance of the corporate governance microcosm.

After discussing the purpose and role of businesses in society, the **issue of tax equity and avoidance**, which is closely linked to competition law, comes into play. Although sustainable finance actors have taken some limited initiatives, it remains a multifaceted and challenging topic.

Yet, over the last two years, efforts at OECD-, G20- and EU-level have begun to bear fruit. By the end of 2021, 136 countries had reached a landmark agreement that applies a minimum tax rate of 15% on corporate profit. At the EU level, the EU public Country-by-Country Reporting Directive will fully enter into force in June 2024, making it harder for large multinational companies to optimise their tax basis within the EU. While many countries must reduce their fiscal deficits, the mitigation of tax optimisation will remain a priority for many governments over the coming years. The topic of tax transparency and tax fairness is a priority for DPAM, its portfolio managers and research teams due to their high materiality. Yet, it is also a particularly sensitive topic for many companies and some of their shareholders. We have therefore established a progressive and evolutionary approach, designed to follow the progress of companies in these areas. This approach is based on engagement, as DPAM remains convinced that engagement can help promote responsible practices in the tax area.

DPAM uses several metrics to measure tax transparency, the involvement in tax controversies, the estimated corporate tax gap, and the level of confidence of the estimates. This helps DPAM identify companies that, we believe, are involved in aggressive tax optimisation. DPAM systematically verifies the rationale behind the inclusion of companies on the list and reserves the right to add or subtract companies to the list, when it identifies a company at risk on taxation matters, or conversely when it detects that the estimates used to draw the list are incorrect. From there, DPAM prepares engagement questions, to be addressed to company management, aimed at promoting good practice in tax transparency and tax fairness. To do so, DPAM refers to the *GRI 207: Tax 2019 standard*, which is the first and only globally-applicable public reporting standard for tax transparency. The *GRI 207: Tax 2019 standard* sets expectations for disclosure of tax payments on a Country-by-Country basis, alongside tax strategy and governance. It is designed to “enable organisations to better understand and communicate information about their tax practices publicly”. When defining engagement questions, DPAM checks whether the company has published a Tax Strategy document, whether it is already reporting on taxes using the *GRI 207: Tax 2019 standard*, and/or whether this Tax Strategy is already aligned with these standards.

By highlighting the gaps between companies' practices and good practice, and by engaging with them, DPAM encourages companies to upgrade their practices on issues of tax transparency and fairness. By repeating this exercise year after year, DPAM supports and accompanies companies' progress on these issues over time.

2.4.2. 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:

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

DPAM will engage through written correspondence as well as conference calls and in person meetings. It follows the process described in the section 'Engagement for a better understanding of the sustainable profile of companies'.

2.4.3. Objectives/Expectations[2]

ESG board oversight

- To ensure that the board has identified the material ESG issues that are strategically significant i.e. key for the long-term, 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. The impact of mega trends and challenges like technological disruption, radical changes in consumer behaviour, resource scarcity, etc. need to be analysed and the impact on the company's long-term value creation needs to be assessed.
- To expect that the issuer understands 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 and achieve the goals of Paris Agreement.
- 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 is not limited to:
  - Acknowledgment of management and board level oversight of ESG matters (in own reporting and via support/membership of relevant organisations);
  - Integration of ESG matters in the overall business strategy;
  - Remuneration linked to ESG targets (including disclosure and quantification);
  - Disclosure on stakeholder engagement activities (i.e. lobbying);

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

- To ensure that appropriate communication on ESG is provided to all stakeholders. There is a significant demand for ESG data; the board should encourage management to appropriately inform its stakeholders on the role of ESG in the strategy. Integrated reporting and use of existing standards on ESG reporting are encouraged. It is also worthwhile to encourage longer-term communication with shareholders and to use, for example, the earnings guidance communication to explain progress on ESG targets and discuss how these targets are contributing to the global sustainable performance of the company.
- To make the board responsible for involving middle management in ESG priorities. The middle managers in charge of products and services developed by the company need to be involved in the definition of ESG risks and opportunities that impact the business. To ensure buy-in, individual performance should be evaluated and rewarded by taking into account both financial and ESG performance.

Taxation

- to enable organisations to better understand and communicate information about their tax practices publicly;
- to encourage companies to upgrade their practices on issues of tax transparency and fairness;
- to support and accompany companies' progress on these issues over time.

IV. **HOW AND WHEN TO ENGAGE** - ENGAGEMENT PROCESS

Engagement can be a long process and tangible outcomes can take years to materialise. As a result, prioritising certain engagement themes can optimise impact and efficiency. DPAM recognises that 'overnight' changes will not occur. Accordingly, monitoring both countries and companies, and engaging in regular interactions help us understand their responsiveness. In cases where engagement has limited impact, the investment case for the underlying security will be reviewed.

DPAM views engagement in a broad sense, which may involve a formal engagement process with clearly defined targets and an escalation program, or could manifest as voting at shareholder meetings and providing the company with specific voting instructions beforehand. Alternatively, engagement may also take shape as an engaged dialogue with a company or country during meetings to gain more clarity on their ESG practices and vision. Regardless of the channel used to engage with a company, the primary objectives are (1) to enhance the investment decision-making process and (2) to increase DPAM's net positive impact. Engagement is viewed as a management tool that investors can utilise to better assess global risks, uphold certain values and best practices, evaluate opportunities, and encourage companies to become more sustainable. As such, engagement is a long-term process that, if well-structured and provided it creates a snowball effect, can add value for issuers and enhance their performance, as well as the long-term viability of investments.

DPAM adopts a proportionate approach when applying this Engagement Policy. The level of engagement is dependent on DPAM's investment exposure as well as the materiality of the issue. Engagement serves as valuable information for DPAM professionals to make investment decisions for investment funds managed by DPAM (either by designation or delegation) or for discretionary portfolio management mandates that DPAM manages on behalf of institutional asset owners/investors.

In addition to the engagement topics and priorities stated above, DPAM may engage in dialogues with issuers on a case-by-case basis, based on the principles outlined in the DPAM Proxy Voting Policy (available here), DPAM Controversial Activities Policy (available here), and DPAM Sustainable & Responsible Investment Policy (available here).

Given the challenges and interactions that issuers face, an open-minded attitude is essential. Therefore, DPAM has adopted an approach based on dialogue and collaboration. Engagement may take the form of formal individual or collaborative engagements.

1. FORMAL INDIVIDUAL AND COLLABORATIVE ENGAGEMENTS

DPAM participates in both individual and collaborative engagement initiatives. Its participation in specific collaborative engagements is determined by the scope of its engagement priorities, the potential impact of the engagement initiative, and the issuers that are involved.

Individual engagements are triggered by DPAM's investment convictions and its desire to optimise its net positive impact. These engagements are determined by a review of controversial activities, which is described in more detail in the engagement for reducing the harmful effects of our investments. DPAM also considers its willingness to defend specific convictions, values, and priorities when deciding on individual engagements.

DPAM's Responsible Investment Steering Group (RISG) selects and decides to join certain collaborative initiatives based on two approaches. First, it identifies the major ESG topics within the industries in which it invests. For these topics, DPAM maps the global collaborative initiatives that have been put in place based on a variety of criteria, including thematic and geographical scope, suitability, acknowledgment/credibility, and support. Second, DPAM strives to find a suitable balance between collaborative initiatives that cover companies 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, DPAM ensures that it focuses on the collaborative engagement that is relevant for its investments and where it can create synergies between the collaborative initiatives and DPAM's investment activities.

Each year, DPAM's RISG reviews the list of collaborative initiatives it has engaged in to assess whether the engagement was successful in achieving its goals. These goals include effectively engaging with relevant companies and making significant improvements to advocate for system change across a certain industry or specific activity. In cases where a collaborative initiative does not meet either of these goals, and this failure is not attributed to DPAM's involvement, DPAM may decide to stop the collaborative engagement if possible.

2. ENGAGING AS A BONDHOLDER

Bondholders do not enjoy the same equity holders' legal rights or position, as they do not possess similar voting rights. This is precisely why engaging with issuers is crucial for DPAM's fixed-income team. Firstly, sustainability risks and opportunities are integrated at the very start of the research process as credit analysts and fixed-income portfolio managers integrate ESG profiles of the issuer. Secondly, engaged dialogues to acquire more information on specific ESG issues or Sustainable Development Goal (SDG) outcomes of products and services provide crucial information for investment professionals, whether they are bond or equity holders. Thirdly, DPAM can be a significant bondholder through the portfolios it manages and commits to its sustainability responsibility when discussing with syndicated banks on the primary market.

Engagement with corporates often takes place in the context of issuance of labelled bonds, such as sustainability-linked bonds or green bonds. During the issuance period, multiple dedicated calls take place to enhance communication between future bondholders and the issuing corporate entity. These calls provide an ideal opportunity to explain our expectations regarding labelled bond frameworks, the delineation of use of proceeds instruments or reporting. Our dedicated climate strategy incorporates a rigorous process to screen labelled bonds, and DPAM deems it essential to share its findings on bond quality with issuers, even if we deem the investment unviable due to a weak framework. Sharing our findings enables issuers to improve their labelled bond frameworks in the future.

Engagement can also be viewed from the angle of sovereign bonds. DPAM has been a pioneer in developing a sustainability model at the country level (since 2007). With the assistance of external experts in its Fixed Income Sustainability Advisory Board, DPAM has developed a robust model to assess the ESG profile of developed and developing countries. Sovereign bond portfolio construction relies on in-depth research of a country's fundamentals, requiring several investor trips to meet with supervisory authorities, central banks, government officials, employers' associations, and supranational entities such as the IMF, the World Bank or the OECD. This provides an opportunity to raise awareness about sustainability approaches in government bond investments and to discuss and challenge ESG challenges positively. DPAM sovereign bond portfolio managers can have extensive conversations with issuers (national debt management agencies) about DPAM's sustainability model and what expectations are from a sustainable country. In some cases, they can discuss the national strengths and weaknesses identified in the proprietary model. It is interesting to note that, despite the relatively small size of DPAM's holdings compared to the size of outstanding debt, national debt agencies are generally receptive to agendas like DPAM's, opening doors for engagement that would not be possible in other circumstances.

The aim is not to elaborate on these country sustainability models, but rather to explain how the output of these models is used to enter into a dialogue with the different countries in order to:

- **Explain** our approach and how it may impact our investment decision making;
- **Raise awareness** about the outcome of our models and to ultimately pass on a clear message to policy makers that country sustainability can be a key driver of investor appetite; and,
- Be **receptive** to any constructive feedback to enhance our models.

As democratic countries are governed by a voting electorate, and not by voting shareholders, there is clearly a different link between government bond holders and governments, . Nonetheless, our aim is to favour funding countries that are managed in a sustainable way. We see it as our responsibility to inform countries on how and why we make these decisions. Hence the need for a country engagement framework.

2.1. Concept

Country engagement is based on a two-step approach:

1. Creation of a Country Sustainability Scorecard (CSS). This a 1–2-page document outlining the sustainability score of a country versus its peers. It also offers a breakdown of the score across the pillars. This document does not go into the most granular detail (e.g. not per individual metric). It is updated every time the country models are refreshed.
2. The CSS is used to contact the different issuers. This requires us to:
    - Seek the relevant contacts or entitities within the national treasury, debt management office or equivalent;
    - Inform them about our approach and share the country's CSS;
    - Invite them to provide feedback on the scores of their relevant government departments;
    - Foster further dialogue about their strengths and weaknesses highlighting how specific GSS issuance might work to tackle the latter;
    - Receive feedback on our model where appropriate;
    - In addition, we would like to inform them about our Green, Social & Sustainability Government Bond Policy, and provide feedback on the alignment of their current or future issuance frameworks with DPAM's GSS sovereign bond framework hierarchy (see DPAM GSS Government Bond Policy). Forward looking, the current versus expected share of GSS debt issuance (versus total debt issuance) will be questioned and discussed.

2.2. Implementation and rollout

As this is a resource intensive activity, we are planning a gradual ramp-up of this engagement process. This also allows us to improve the process as we progress. The process will be driven by portfolio managers as they typically already have frequent conversations with the different Destination Management Organisations. A dedicated mailbox will be created for this purpose. The roll-out is scheduled as follows (i.e. initiate steps a. to c. above):

- For OECD countries: gradual rollout [by mid 2023, reaching 90% of countries of the portfolio]
- For Emerging markets: gradual rollout [by mid 2024, reaching 90% of countries of the portfolio]

2.3. Assessing and disclosing engagement outcomes

Assessing engagement outcomes can be complex, especially within the government bonds sphere. Nonetheless, DPAM reports annually on its country engagement. Engagement outcomes will be assessed as follows:

- Level 0, i.e. no feedback/reaction was provided by the issuer (following a reminder).
- Level 1, i.e. issuer was open to feedback/engagement, no actions or new commitments undertaken.
- Level 2, i.e. issuer provided structural feedback on the model/ESG profile and/or GSS issuance and new commitments or actions were taken (e.g. forwarding to relevant department).

When engaging as a bondholder, it is particularly important to focus on engagement when investing in labelled bonds. In line with our climate strategy, these labelled bonds undergo extensive ESG analysis through our internal scorecard. To establish this scorecard and gain a holistic view of the labelled bond (including the reason for issuance, coherence with the corporate strategy, ring-fencing mechanisms, etc.), we often contact the issuer or syndicate for clarifications. During these conversations, we emphasise the importance we place on specific sustainability characteristics of labelled bonds.

The market for labelled bonds has experienced rapid changes, with the continuous introduction of new types of bonds (e.g. sustainability-linked bonds, transition bonds, or climate awareness bonds). A qualitative assessment of these new instruments is therefore crucial to identify and ensure adherence to international standards, as well as to create additional environmental benefits.

Through these engagements, we can select labelled bonds that will have a positive impact on the environment and elevate the entire labelled bond sector to higher environmental quality standards. If we find the framework of a labelled bond to be subpar and we engage with the issuer, we communicate the reason for not investing to encourage improvement of future frameworks.

3. ADVOCACY ACTIONS

As part of its commitment to continuously advocating for best practices, DPAM is part of several professional organisations, working groups and national sustainable investment forums that foster the development of sustainable investment solutions. DPAM is always open to sharing its knowledge or to engaging in dialogue with organisations eager to advance sustainable finance.

DPAM works with a number of external experts to build upon its knowledge of specific ESG areas. These experts provide advice on integrating ESG practices through involvement in DPAM's investment groups, and by educating colleagues on relevant topics.

V. WHAT TO EXPECT FROM INVESTEE COUNTRIES/COMPANIES – MONITORING PROCESS

For each engagement aim, DPAM has identified its expectations or objectives, and formulates these during its engagement with companies, regardless of the channel used. These objectives are developed by DPAM's responsible investment specialists, in collaboration with its research and investment teams. It ensures the consistency and robustness of these objectives, which are 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 reputable sources such as the International Corporate Governance Network, 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 or the recommendations of the Task Force Climate-related Financial Disclosure (TCFD).

1. MEASURING THE EFFECTIVENESS OF AN ENGAGEMENT

The success of an engagement is broadly assessed through 5 key points:

1. Willingness of the company to engage in dialogue;
2. Acknowledgment of the significance of the raised ESG issue(s);
3. Willingness to improve its ESG performance;
4. Active implementation of a policy or a target;
5. Evidence of tangible improvements.

2. ESCALATION PROCESS

DPAM will evaluate how successful their engagement and escalation process was based on these five points. The scope of the escalation process covers engagement on controversies, TCFD assessment results, ESG Scorecards (if engagement is necessary), and defending values and convictions. Note that the corporate governance section relies on a separate, customised approach.

The escalation process refers to DPAM's roadmap in case of unsuccessful engagement. This means that the issuer was not open to dialogue, the dialogue was not constructive or the escalation steps (see below) were deemed to be insufficient in the end.

The escalation process will differ depending on whether the engagement is individual or collaborative in nature. In case of the latter, escalation is often defined in agreement with all the engaged investees.

For individual engagement with companies[3], DPAM has defined a number of escalation elements[4], which can justify the on-going process of the engagement/or can be used to engage i.e.

1. Formal engagement letter with requests;
2. Identification of supporting investors via private/public letter;
3. Proxy Voting (resolutions, directors, remuneration, etc.);
4. (Co-)filing of resolution;
5. Public statement;
6. AGM stance

Divestment remains an action of last resort, and is only used when no progress has been identified. This lack of progress is defined by the absence of any of the elements below over a 3-year rolling period:

- Letters: no implementation of the requests; and/or,
- Support: no identification of key investors / initiatives ; and/or,
- Proxy Voting: no change of Chairman, no remuneration rejection or board/nomination committee opposition;
- AGM stance: no offered slot at AGM ; and/or,
- Resolutions:
  - No flagging of resolution
  - No solicitation of proxy providers
  - No (co-)filing possible
  - No significant increase in shareholder supporting the resolution (if filed)
  - No implementation of shareholder proposals receiving majority vote

The Responsible Investment Steering Group is the advisory board that assesses the engagement outcomes and evaluates the next steps to be validated.

VI. **ENGAGEMENT TRANSPARENCY** – REPORTING AND CONSISTENCY

This Engagement Policy is publicly available on our **DPAM website**.

[3] Engagement with countries follows the country-specific process described above.
[4] In no specific chronological order.

All documentation and progress of engagement conducted by the research and investment teams and the responsible investment specialists are tracked in databases which are 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, objectives and progress on engagement milestones). Some engagements tend to be more effective when kept confidential. Even so, the report is as detailed and exhaustive as possible without sacrificing the efficacy of ongoing dialogues.

With respect to transparency, it is also important for DPAM to be consistent with its convictions and values across all of its activities.

This is the reason why DPAM conveys its values and convictions in all its communication with its partners and stakeholders through seminars, conferences, articles, etc. DPAM is convinced that education is among the most efficient ways to promote best practices and mutual learning.

VII. **ENGAGED DIALOGUE** TO BETTER UNDERSTAND THE **SUSTAINABLE PROFILES OF COMPANIES**

As an active, sustainable, research-driven asset manager, we have a responsibility to improve ESG disclosure from issuers and ESG information from ratings providers. It is a key priority to make better investment decisions by clarifying ESG concerns, strengthening convictions, identifying new opportunities, etc. Engaged dialogue on specific ESG questions helps us to make better informed investment decisions, based on better understanding of the global sustainable picture. It also aids us to spread better and more relevant information across the whole investment value chain

This takes the format of an informal discussion, within the firm and externally.

- First of all, ESG considerations are discussed internally in cooperation with investment professionals to challenge financial and extra-financial findings and recommendations. This discussion increases the awareness of investment professionals regarding ESG risks and opportunities and enables a better understanding of sectoral challenges from both a financial and extra-financial perspective. It makes it possible to challenge, when applicable, external information and ESG ratings of companies provided by specialised agencies.

- Secondly, external initiatives stimulate debate on complex ESG topics in a positive yet critical manner, paving the way for the implementation of new ESG approaches while enhancing 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 its ESG knowledge and the financial research process and methodology through discussion, debates, and interconnectivity with external experts. DPAM organises events with external specialists on specific sustainability topics to increase awareness among investment professionals regarding ESG issues.

- Finally, DPAM promotes 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 assess the ESG involvement of (potential) investee companies. During meetings with senior management, DPAM’s investment professionals raise questions related to ESG issues and engage with the company to promote ESG best practices..

2.1. 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 optimise 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 and help us make long-term investment decisions;
- To demonstrate a long-term commitment instead of 'short-termism';
- To constructively recommend corrective measures and best practices;
- To foster best practices in terms of ESG disclosure and to be a responsible intermediary and economic actor among issuers, rating providers and investors. This ensures that the most relevant information is disseminated.

Close to 30 buy-side equity and credit analysts are continuously applying ESG factors upstream in the investment process. They are supported by the responsible investment specialists during this process. Throughout 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 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 questions we've received from these specific engaged dialogues are based on materiality issues as identified in our proprietary assessments (e.g. scorecards, controversy assessments, TCFD assessments, etc.).

2.2. Means

To better understand ESG-related risk factors as well as opportunities and to complete fundamental research, DPAM will contact companies and ESG research providers and/or brokers in the following cases: to better understand ESG risk factors and opportunities (1), to support disclosure of material and relevant ESG information (2) and for advocacy reasons (3).

Themes and issuers are selected considering their degree of financial materiality. This is done in close discussion with analysts, responsible investment specialists and portfolio managers. The managers and buy-side researchers have a large toolbox at their disposal, e.g. specific internally-developed scorecards, buy-side analysts and responsible investment specialists. These will be at the heart of the engagement process i.e. engagement will be driven by the identified key performance indicators, which have been poorly disclosed in the past. The sector exposures and the strategies' holdings may impact the selection of themes and issuers as well. Managers and buy-side researchers are further helped by specific research templates and tools developed to tackle specific ESG challenges (e.g. the TCFD recommendations and the systematic integration of climate risks in one's analyses). This analysis framework is also developed in co-operation with the different teams and serves as basis for discussions on companies' transition towards a lower carbon economy.

2.2.1. A better understanding of certain risk factors and opportunities

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, DPAM will organise a call/meeting with the company or will put these topics on the agenda of any planned meetings or conferences. DPAM encourages its analysts and portfolio managers to integrate ESG issues and megatrends into their interviews with corporate management. The credit and equity analysts engage with management, 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.

2.2.2. Supporting disclosure of material and relevant ESG information

Smaller companies (typically small and mid-caps) tend to be inadequately covered by ESG ratings providers and do not publish as much ESG information as larger groups, which can result in a low score by ESG rating agencies, and potential exclusion. Furthermore, ESG rating agencies sometimes improperly assign a company to a peer group, which is used for comparing company ESG policies and achievements. This may notably happen with specific companies in certain specialised economic activities, or with companies which are highly diversified. In such cases, the criteria used to assess ESG policies and performance may be less relevant, and these companies may be incorrectly penalised with a low ESG score. Through targeted questions, 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 partner with DPAM ESG specialists and initiate a dialogue with the company to determine whether it can respond to the questions raised, or to discuss key ESG criteria the company is expected to disclose.

2.2.3. Engaging with ESG ratings agencies

Over the years, the ESG rating agencies have gained importance and influence in financial markets and in companies across the globe. Indeed, together with the passive investment trend, more indexes are created that adopt ESG integration and ESG factors in their methodology. These factors come directly from ESG ratings agencies and are therefore key for companies aiming to be included in these indexes to benefit from financing flows from investors interested in index solutions. It is also the role of active, sustainable and research-driven actors such as DPAM to ensure that these ratings and general ESG information is complete, correct, adequate and relevant. Therefore DPAM is challenging research provided by ESG providers and other sources of information.

2.3. **Escalation process**

The best -in-class approach adopted by DPAM is twofold:

- For sufficiently large and covered universes, we rely on a quantitative axis based on data from our external providers;
- on the other hand, for smaller universes and thematic strategies, we use a qualitative axis with scorecards.

In the latter case, a so-called white list of eligible names is established every six months. In case of insufficient information or low score on the scorecards, DPAM aims at giving itself six months, counting from the date of initial engagement, to reach a conclusion on an issuer. Within this period of 6 months, DPAM will send questions to the issuer, send several reminders (in case of no answer), analyse the answers from the issuer, possibly ask complementary questions, make a holistic analysis of the situation, assess escalation steps such as the ones mentioned above and eventually decide whether to remain invested, to continue the escalation, to divest, and/or to put the issuer on the exclusion list. If there is a valid and legitimate reason for the engagement period to exceed this 6-month period (for instance in case we need to monitor the progress of an issuer beyond 6 months, or in case an important report or metric is about to be disclosed by the issuer), this might be allowed in exceptional circumstances.

VIII. INTERNAL PROCESS – SUMMARY TABLE

TOPIC	**HARMFUL EFFECTS OF IMPACT**
OBJECTIVES	▪ DNSH principle disclosure ▪ Reducing the harmful effects of investments
MEANS	▪ Systematic analysis of level 3 negative outlook and level 4 controversies ▪ Individual engagement with companies
RESPONSIBILITIES	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC)
CONTROL	▪ Responsible Investment Steering Group **Measuring the effectiveness of engagement** **Escalation process**

TOPIC	**PROMOTION OF VALUES & CONVICTIONS** **CORPORATE GOVERNANCE**
OBJECTIVES	▪ To clarify DPAM voting instructions to companies ▪ 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.
MEANS	▪ Letters to company executives and IR managers
RESPONSIBILITIES	▪ Responsible Investment Competence Center (RICC)
CONTROL	▪ Voting Advisory Board **Escalation process**

TOPIC	GOVERNANCE

OBJECTIVES	▪ To ensure that the board has identified, among material ESG issues that affect the business activity, those which are strategically significant i.e. key to the long-term and sustainable viability 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 the impact of mega trends and challenges like technological disruption, radical changes in consumers' behaviour, resource scarcity, etc. has been analysed on long-term value creation.
	▪ To expect that the issuer understands 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 the 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 best-in-class sector examples, regulatory evolutions (in particular the EU Green Deal), collaborative engagement resources, etc. This includes, but is not limited to:
	  ▪ Acknowledgment of management and board level oversight of ESG matters (in own reporting and via support/membership of relevant organisations);
	  ▪ 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 management to appropriately inform its stakeholders regarding ESG embedded in the strategy. Integrated reporting and use of existing standards regarding ESG reporting is encouraged. It could also be best practice to encourage longer-term 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 a suitable board composition that is able to understand ESG risks and opportunities and can oversee management's handling of these issues. This should include the allocation of oversight responsibilities; the information flow to be provided to the board.
	▪ To make the board responsible for getting involved in middle management's ESG priorities. Middle management 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 according to both financial and ESG performance metrics.
	▪ Send a signal to companies that tax transparency is an important issue for sustainable investors, both from an ethical perspective and to limit the risk of future tax adjustments and penalties. Encourage them to provide a high level of transparency through country-by-country reporting, and encourage them to adopt the GRI 207: TAX 2019 reporting framework.

MEANS	▪ Systematic analysis of level 3 negative outlook and level 4 controversies ▪ Individual engagement with companies

RESPONSIBILITIES	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC)
CONTROL	▪ 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**

TOPIC	**CLIMATE CHANGE**

OBJECTIVES	The objectives of our engagement are:
	▪ to have a constructive dialogue with investees regarding the impact of the new regulatory requirements and their strategy to anticipate these 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 is 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 (emission) 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	▪ Engaged dialogues ▪ Collaborative engagements ▪ Individual engagements
RESPONSIBILITIES	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC) ▪ TCFD Steering Group
CONTROL	▪ 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**

TOPIC	**SOCIAL & HUMAN RIGHTS** **DATA PRIVACY** **SUPPLY CHAIN**
OBJECTIVES	**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 it ▪ To be able to assess security processes and tool 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 dedicated programs. **Supply chain** ▪ To promote long-term and qualitative relationships with its suppliers ▪ To help companies understand the ESG impact on the lifecycle of the product and to increase awareness regarding integration of this lifecycle in the investee companies' responsible supply chain management. ▪ To increase prevention mechanisms against modern slavery ▪ To encourage the adoption of optimal systems to control the sustainabile 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 percentage of high-risk factories and/or countries of operation within their supply chains (source ICCR) Quid basic needs and empowerment?
MEANS	▪ Engaged dialogues ▪ Collaborative engagements ▪ Individual engagements
RESPONSIBILITIES	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC)

CONTROL

- 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

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