DEGROOF PETERCAM **ASSET MANAGEMENT**

2022

ENGAGEMENT ACTIVITY REPORT

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

Within the financial eco-system, DPAM is a key intermediate and has therefore a role to play as a Sustainable Actor, Investor and Partner.

On October 12, DPAM hosted its 6th Sustainable Seminar. The first panel of experts discussed and delivered their insights on the role of engagement and voting policy by investment managers towards corporates. The second panel discussed engagement towards sovereign bond issuers or debt management offices. At stake is a proper strategic alignment of ambitions and (investment) projects that can tackle urgent climate and societal issues.

The conclusion was obvious yet merits a lot more attention: active engagement and voting are essential components required to achieve societal objectives across ESG challenges. ESG integration without active engagement and voting lacks credibility. Moreover, investment managers are bound, over time, to measure and generate impact across meaningful and measurable sustainable development goals. That requires a reorientation of the debate away from simplified exclusion frameworks towards active ownership engagement with clear escalation paths. First, we reveal corporate engagement success factors. Second, we summarise challenges encountered in sovereign engagement.

Investment managers should direct efforts towards active ownership engagement and apply the divestment option with care. Whilst exclusion is a clear and direct outcome within ESG screening methodologies, blacklists might not help the required acceleration towards environmental and societal objectives. The very existence of indexed, passive equity, corporate bond or aggregate investment solutions guarantees public funding to companies. Divestment decisions of active managers still leave plenty of funding options through captive investments by owners of passive solutions or bank balance sheets. Fair enough, at best, voting power attached to shares in passive instruments can be geared towards change, as they can provide support to shareholder resolutions. Yet, most of the time, it requires active ownership and collaborative engagement (via initiatives like Climate 100+, UN PRI on human rights or with peers) to influence and alter board decisions for the better. For instance, and shareholder resolutions can impact Articles of Associations when pushing for improved governance, lead to adherence to the Scientific Based Target Initiative (SBTi) that pushes companies to set environmental targets by steering capital investments or raising awareness on litigation risks.

Engagement starts with continuous dialogue by analysts and fund managers with management teams and investor relation officers. Questioning executives on their ESG ambitions and their choice of metrics and targets sets the tone. The moment formal individual or collaborative engagement processes are launched, with well-defined calls for action towards boards of directors, specific shareholder resolutions can take shape. Open communication on these actions informs other shareholders but also companies active in the same sector. Activist engagement can direct sector psychology towards an intended behavioural change followed by an effective change in strategy. Successful engagement processes take time, require time. Progress comes in a ‘step and click’ fashion. Shareholder resolution adoption rates might start at a disappointingly low % level but can grow over the years. Moreover, engagement relates also to the willingness of shareholders working behind the scenes and goes well beyond the months around the proxy voting season.

The engagement versus divestment debate deserves more attention. Of course, the threat of being blacklisted versus the eagerness to belong to (best-in-class) whitelists become determinants in the formation of risk premia. Blacklisted or companies becoming victim of divestment behaviour will incur higher funding costs, a higher weighted average cost of capital and fall victim to a higher volatility profile from which investors shy away. Regulators focus on the importance of exclusions but should advocate the necessity of engagement with a similar zeal. Engagement and exclusion should reinforce each other. That is why divesting in credit whilst engaging through equity holdings or vice versa might be overcomplicating methodologies and sending mixed signals to respective boards and management teams.

Engagement within 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. Engagement with institutions in order to improve the quality of data gathering and promote transparency in domains such as education, healthcare, social security…are part of proper due diligence work towards government policy. Engagement is not about criticising governments rather it is asking the right questions that make the distinction between pledges and real actions. Climate targets and pledges over various conferences, should be discussed over credible and budgeted plans to achieve those.

The human impact of climate change is high and broadening in intensity and frequency. Governments that lead the transition by adopting economic policies geared towards decarbonisation and lower dependency on fossil fuel energy sources, will benefit from lower funding costs and easy refinancing. Debt management offices will have to expand their ability to issue green and social bonds whilst administrations will allow for proper structures that can monitor and control public investments. It will be important for instance to promote urban sustainable city projects that unlock prosperity and a higher quality of life for all. Again, as it is key to engage with corporates seeking capex alignment with net zero ambitions and targets, a similar capex alignment in the public investment space is required.

Tackling climate change will be a main driver to obtain peace and security as well as better control over purchasing power. Behavioural change is not enough, and governments should track a credible policy (investment) path through sovereign funding on top of their participation in blended finance projects. The collaboration between public and private funding sources will accelerate the transition. As politicians come and go, sovereign engagement has to raise government accountability. Making use of a climate log that can track emission reduction targets versus remaining carbon budgets should become mainstream. Sovereigns should be put to the test even as government coalitions change. Sustainable investment managers will have to engage with the same intensity towards governments as they do towards corporates.

Effectively, engagement and active ownership are essential foundations upon which functional and effective ESG methodologies are built. Avoiding greenwashing risks requires strong, dynamic engagement and voting frameworks to support and enable transitioning companies and countries.

Peter De Coensel, CEO DPAM

Our purpose, as an active investment manager, is combining financial objectives with our pioneering role as sustainable actor at the service of all our clients, stakeholders and society.

Our aim is to deliver robust investment performances and be best-in-class across our different expertise, aligned with DPAM's shared values and culture.

Guided by our purpose, DPAM has determined its priorities in terms of sustainability outcomes targets according to major global goals, particularly the Paris Agreement and the resulting worldwide commitment to carbon neutrality. Following the ambitious program regarding sustainable finances and in particular environment and climate change worldwide on the political agenda, DPAM aims to finance a fair, inclusive and sustainable transition to a low carbon economy. Engagement with companies and SSA's, ultimately followed by tangible progress of these actors, is at the heart of the approach to achieve this goal, through the whole value chain and eco system and for a maximized net positive impact.

Next to the Paris Agreement and the challenge of global carbon neutrality, DPAM has always adopted a holistic approach regarding sustainable investments and therefore looked at the social and governance dimensions as well.

Human rights and in particular digital rights are in the heart of the priorities of DPAM, given the fast-paced digitalization and the focus of certain of our products on technology enabled innovations. On the one hand, the health crisis has brought the social issue, in particular the safety and health of employees, to the fore. On the other hand, DPAM is increasingly investing internationally and in "disruptive" technologies and activities where human challenges must be continually rethought.

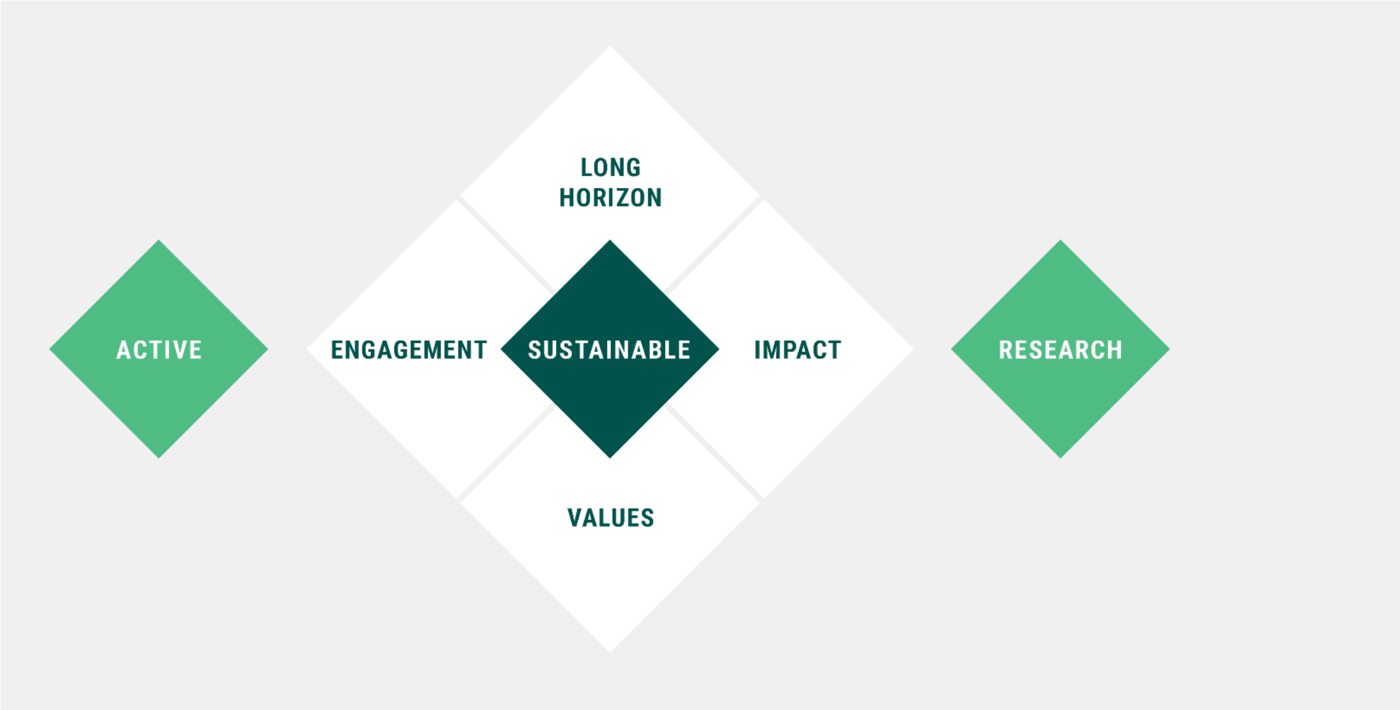
Furthermore, the regulatory framework becomes stringer and stringer on the question of human rights and in particular, human rights due diligence. The new human rights regulations add requirements on supply chains. The responsibility is therefore increasing. Eg. The German Supply Chain Due Diligence Act.

As a result, DPAM has not hesitated to join the Advance collaborative initiative launched by the PRI in Barcelona in December 2022. This initiative is still in its infancy at the time of this report, but we will be enthusiast to develop more in the course of 2023.

On the question of governance, DPAM is convinced that the question of ESG issues must be placed at the highest level, i.e. on the board of directors.

The three dimensions of sustainability are key for DPAM and this since the early steps of our journey to sustainable investments. It is key for us to be therefore active on these three dimensions regarding our engagement. We are devoting the same intensive efforts on the question of climate, notably with NZAM, of human rights or governance. In the next pages, we will give more details how we commit, through individual and collaborative actions, to our environmental, social and governance priorities.

DPAM, through its investments and its operations, its choices and strategies, generates an impact. Our aim is to make this impact as positive and enduring as possible.



Through its Engagement policy, DPAM makes a distinction between:

- entering a dialogue **to improve the quality of the fundamental research** for better-informed investment decisions and sustainable long-term performances and
- engaging formally with the issuers to contribute to a better society. This can be achieved by either:
  - **reducing the negative impact of its investments, or**
  - **by defending values and convictions which are essential for the company and society**.

  These engagement types have a defined escalation process which demonstrates DPAM's seriousness around its commitments and purpose, and its aim to look beyond sole financial investment performances and act as a true sustainable investor. The second section of the report provides more insights, incl. facts & figure, on this type of engagement.

DPAM engages with companies, ESG rating providers and other stakeholders, within the framework of its positioning (**Active. Sustainable**. **Research.**), through collaborative and individual engagements, by launching new dedicated thematic strategies, by disseminating information and sharing expertise and knowledge. These initiatives aim at increasing the **net positive impact our company strives to achieve**.

2022 was also a key year for our investment in sovereigns as we stepped in our program of engagement with countries. Indeed, we launched a programme of active engagement with the countries (typically via their treasury departments) to share the strengths and weaknesses that come out of DPAM proprietary sustainability model and to challenge them to address these issues, underlining the fact that our country allocation is driven by our country model.

II. ENGAGING TO **HAVE A POSITIVE IMPACT ON SOCIETY**

1. ENGAGEMENT FOR IMPROVING THE NEGATIVE EXTERNALITIES OF FINANCED ISSUERS

Aligned with the regulatory "**do not harm**" principle and our willingness of being proactive regarding behaviours of companies, DPAM is attentive to these and the risk of material impact.

Aiming at this double objective, DPAM is committed to reviewing any severe controversy an invested issuer is exposed to, and to engage with the issuer to improve its ESG profile. This allows to meet the EU regulation's threefold objective:

- Ensuring **minimum social safeguards** in terms of human rights
  - This means that issuers must conduct due diligence to avoid any negative impacts and comply with the human and labour rights standards presented in the OECD guidelines, UN Guiding Principles on Business and Human Rights, and Labour Rights conventions.
- Ensuring **good sound governance principles**
  - **Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance
- **Avoiding** that some **activities**, which might be sustainable and contributing to environmental objectives such as climate change mitigation and/or adaptation, are not **deteriorating other environmental** objectives such as biodiversity or circular economy **nor other social objectives**.

The Responsible Investment Steering Group (RISG) is the "guardian" of DPAM's mission to invest responsibly and to align its investments with its commitments. **Reviewing the severe controversies** companies are exposed to, enables DPAM to engage and/or divest to reduce its total negative impact. The RISG systematically reviews companies exposed to severe controversies, sector by sector, to **proactively defend sustainable and responsible investments**.

By reviewing the issuers facing severe controversies related to environmental, social or governance issues in depth, DPAM is also able to monitor the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, to list the most important **principal adverse impacts.**

The sectoral review follows a strict process, guided by a standardized template and involvement of all investment teams: portfolio managers, sectorial analysts, and responsible investments specialists**.** The whole process is described in our **controversial activities policy**.

Over the year, the following sectors were reviewed:

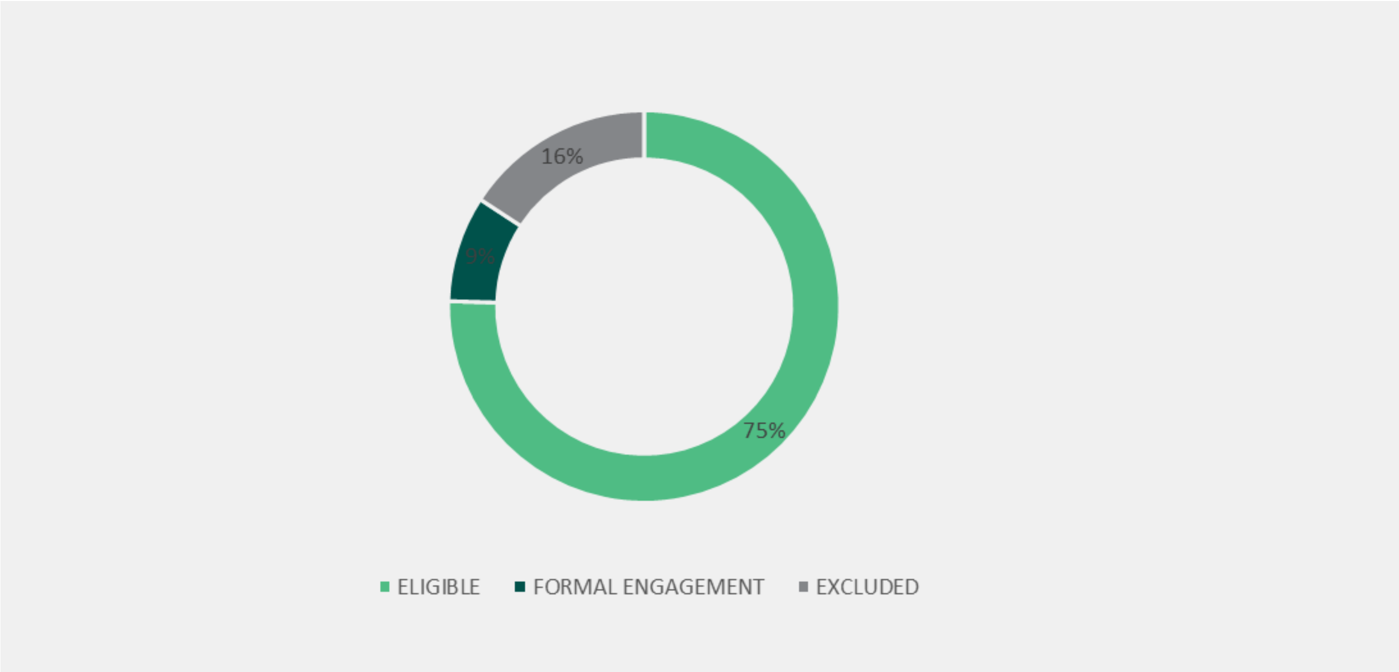
	MONTHS	NUMBER OF COMPANIES REVIEWED	COMPANIES FOR ENGAGEMENT	COMPANIES INELIGIBLE
Pharmaceuticals, Biotechnology & Life Sciences (=Healthcare excluding Health Care Equipment & Services)	January	1	1	
Industrials (excluding Transportation)	February	4	1	
Transportation (=Industrials excluding Capital Goods + Commercial & professional services)		0	0	.
Energy **Utilities** **Materials** (excluding Chemicals)	March	3	1	
Consumer discretionary (excluding Automobiles & Components)	April	2	1	
Consumer staples	May	4	0	
Chemicals (= Materials excluding: Construction Materials; Containers & Packaging; Metals & Mining)	June	4	0	The four companies were kept on the exclusion list for the year.
Autos & components (= Consumers Discretionary excluding Consumer Durables & Apparel + Consumer Services + Retailing)	September	9	1	
Information Technology **Communication services**	October	10	3 dialogues	
Financials	November	11	1	*2* were declared ineligible / excluded.
("Medtech") = **Health Care Equipment & Services**	December	8	1 dialogue	
Real Estate		0	0	-

1.1 Facts and results on controversies' review

The number of companies reviewed by the RISG during 2022 has slightly increased compared with last year: from 51 companies to 57 companies.

The number of exclusions and engagement has also increased compared to the year before, reducing slightly the number of eligible issuers after a controversial review.

- 75% have been declared **eligible** following the ESG controversies reviews (compared to 80%),
- 9% resulted in a **formal engagement (i.e. letter)** (compared to 8%),
- 16% resulted in **exclusion** (compared to 12%)



Case Study: Sanofi

As part of our ongoing review of ESG controversies affecting the companies in which our sustainable strategies are invested, we felt it necessary to conduct a dialogue with Sanofi.

Sanofi is generally perceived as a good student in terms of corporate social responsibility. Nevertheless, the group has been embroiled in some controversies.

This is first of all the problem of the first vaccine against Dengue, which was administered in certain countries of South-East Asia. While the vaccine saved a significant number of human lives, several cases of serious complications had been reported, including several deaths. Therefore, we took this controversy very seriously. Our discussions with Sanofi enabled us to identify the group's responsibility and that of the local health services that administered these vaccines (which is key in avoiding risks). Sanofi also provided clarifications regarding the tests conducted before the authorization of the vaccine, including in Europe and the United States. Without showing complacency towards the group, this dialogue made us revise our initial judgment on this controversy and highlighted the positive contribution this vaccine has on the health of populations when it is adequately administered. We continue to follow up on information that comes out on this topic.

A second controversy pertains to on-going investigations, involving several pharmaceutical companies including Sanofi, into ranitidine drugs over alleged risks can contain or generate the chemical Nitrosodimethylamine (“NDMA”), an alleged human carcinogen. Throughout our discussion, Sanofi could highlight that NDMA hadn’t been detected in the drugs marketed by Sanofi, that the scientific research over the risks that these drugs would metabolize into NDMA once ingested was on-going and did not reach any clear conclusion at this stage, and that Sanofi had recalled its drugs very quickly after the US FDA opened and investigation, thus showing good reactivity. While we continue to monitor this case, this exchange somewhat reassured us as to the degree of gravity of this controversy, in the current state of scientific knowledge.

These dialogues made it possible to go beyond the mere coverage of these subjects by the press. Without taking company statements at face value, it is useful to give companies the opportunity to clarify their position, and especially to provide information from independent sources, making it possible to clarify the scientific context around these controversies. In doing so, the dialogue can be rewarding for both investors and companies.

2. ENGAGEMENT FOR DEFENDING OUR VALUES AND CONVICTIONS

The values and convictions are derived from major global goals, mainly the Paris Agreement and its resulting global commitment to carbon neutrality as well as the 17 Sustainable Development Goals, which have become a standard framework to assess and report on ESG impact.

It is essential for DPAM to stand up for its **environmental, social and governance** beliefs.

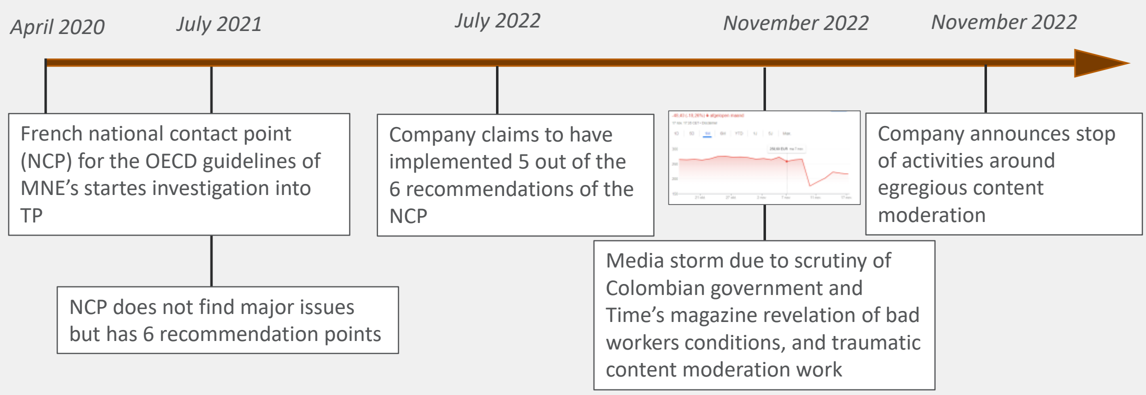
To be successful, an engagement should follow a strict monitoring and time line.

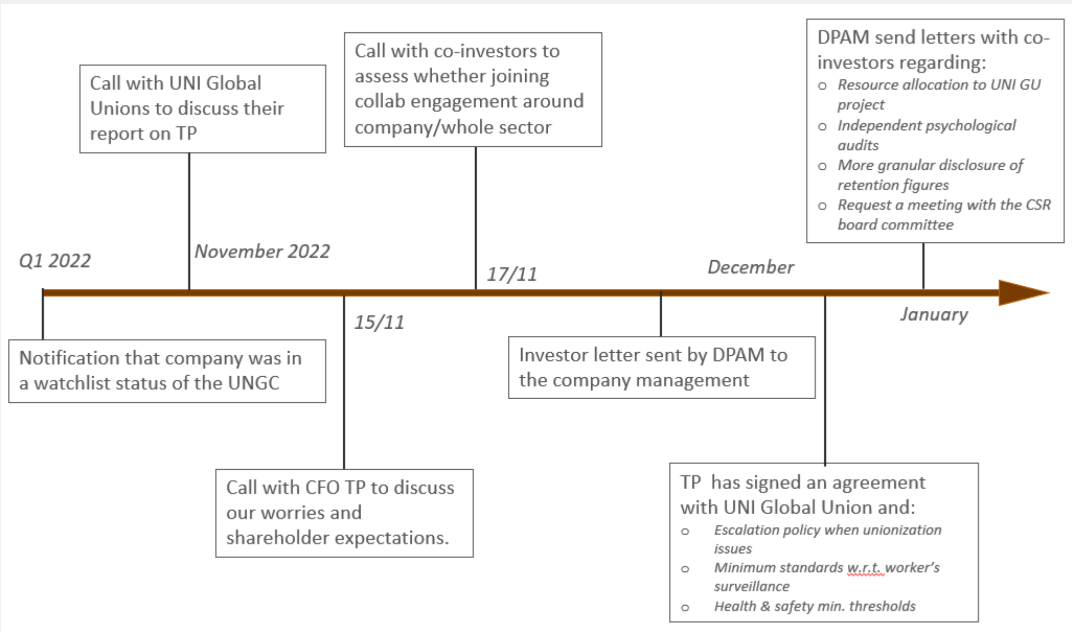
The case study of Teleperformance

The French company provides outsourced customer experience management services such as customer care solutions, technical support, customer acquisition services, digital solutions, analytics, etc.

In April 2020, the French National Contact Point (NCP) for the OECD guidelines of Multinational enterprises started an investigation regarding issues of union hampering and working conditions.

Since first quarter 2022, the company has been put on watchlist regarding the 3rd principle of Global Standards: businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.





2.1 DPAM values in terms of environment

The Paris Agreement but also the worldwide commitment to carbon neutrality have reinforced our conviction to increasingly focus on climate-related as risks and opportunities in our investment decision making process. Following our support to TCFD recommendations and our active membership in Climate Action 100+ and CDP, DPAM aims at increasing its ambitions and promote best practices on the topic.

In 2022, DPAM continued its efforts regarding its conviction on environment and the need to align with the Paris Agreement.

Firstly, DPAM decided in April 2022, after careful consideration, to join the Net-Zero Asset Managers (NZAM) Initiative. This requires asset managers to commit to support investing aligned with net zero emissions by 2050 or sooner. DPAM performed a thorough feasibility study to measure how it could maximise the degree of its commitment without compromising the core tenets of its strategies. Confident about the results of this study, DPAM decided to join the NZAM Initiative and align its methodology with the approaches endorsed by the Network Partners[1]. This includes more specifically the Science-Based Targets Initiative for Financial Institutions, which provide companies with a clearly defined pathway for reducing their emissions[2].

To become part of the NZAM Initiative, DPAM will commit to several key goals:

- Working in partnership with asset owner clients on 'Net Zero by 2050' decarbonisation goals
- Setting an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions
- Reviewing these interim targets at least every five years to eventually cover 100% of AuM

As DPAM is a member of CDP (formerly the Carbon Disclosure Project), the latter has overseen DPAM's target validation process, based on detailed information and scope to join the initiative.

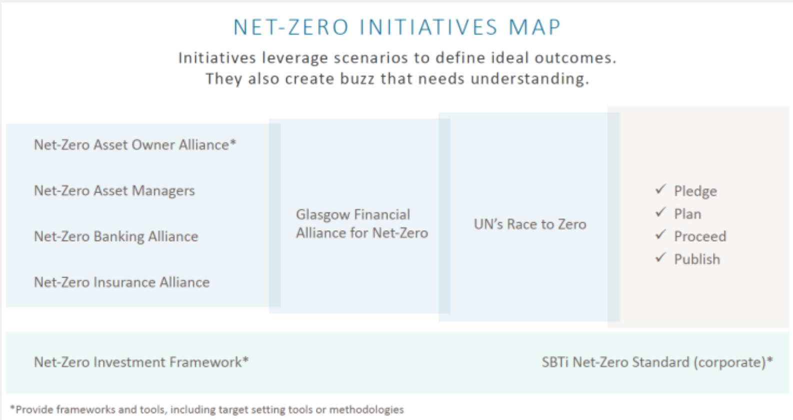
> *By integrating climate change risks and opportunities in its investments decision process, DPAM has continuously assessed the impact of climate change on its investments and considered the impact of its investments on climate change. So-called climate-related transition risks are continuously increasing. Hence, assessing our investees' readiness via Net Zero commitments has become key in the investment case. As an investor, it is now time to take the next, natural step and commit to NZAM.*
>
> — Peter De Coensel, CEO DPAM

[1] Network Partners of the NZAM initiative include AIGCC, CDP, Ceres, IIGCC, IGCC, PRI.

[2] Source: Companies taking action – Science Based Targets

As part of our climate-related risk assessment at issuer level, analysts and portfolio managers do take into account reduction targets of individual issuers. The Glasgow Financial Alliance for Net Zero (GFANZ) was launched in 2021 and combines actions within the financial industry, such as the Net Zero Asset Managers initiative and the Net Zero Asset Owner Alliance (see figure below). These initiatives, in particular the former, will be impacting and guiding DPAM's climate and investment strategy, also on individual portfolio level and from a climate risk perspective, as we consider it our fiduciary and societal duty to do so.

Net Zero Initiatives Map



Source: GFANZ

More information on the target can be found in the figure below or via following link.

Secondly, it decided to join an additional network active on the question, next to Climate Action 100+ and CDP i.e. the Institutional Investors Group on Climate Change (IIGCC). This is the European membership body for investor collaboration on climate change.

It aims at:

- Shaping sustainable finance and climate policy, and regulation for key sectors
- Supporting market development to facilitate investor action on climate change
- Guiding investors in managing climate risks and opportunities and aligning portfolios to climate goals
- Accelerating investment in climate solutions
- Driving net zero business strategies and support real economy impact through stewardship and sector-level engagement

This will accelerate our engagement efforts regarding net zero engagement and other environmental convictions we defend.

In 2022, DPAM continued its active participation in the collaborative initiatives it is member of i.e. Climate Action 100+, the CDP (non-disclosure campaign & Science-based Targets campaign), the FAIRR initiative and IIGCC.

Next to this, DPAM engaged to curb emissions and to diversify business models, notably in the energy sector by joining institutional investors to write and co-file a shareholder proposal on scope 3 emissions targets of the oil major Total Energies. Although the resolution was eventually rejected by the company, actions have been taken to re-initiate the activity in 2023.

Furthermore, to align with the above-mentioned actions to increase to ambitions of oil majors, DPAM joined FollowThis, an organization uniting shareholders to push big oil to transition and move beyond business as usual. Preparing the 2023 AGMs, 4 other co-filings have occurred at various O&G majors in December 2022.

More details on the aim, status and progress of these initiatives can be found hereafter as well as in our 2022 TCFD Report.

2.2 DPAM values in terms of social and human rights

As an important investor in technologies and disruptive companies, we are convinced of our responsibility to ensure this digital transition takes place with respect for human rights in the digital sphere. Technological companies could contribute to the improvement of human rights but might also violate these in case insufficient due diligence takes place. It is our responsibility to ensure that this our portfolio companies promote best practices in this regard.

Responsible use of Facial Recognition – to promote human rights best practices in digitalisation

DPAM joined a collaborative initiative around the use of Facial Recognition Technology in 2021.

In 2022, the initiative finalised its first step of the process i.e. collecting all possible best practices regarding the use of this technology, which has continuously changing our daily lives and our vision of the world. Part of the biometric recognition family of technologies, Facial Recognition Technology (FRT) 'identifies' or 'verifies' the identity of a person using a picture or video of their face. In contrast to fingerprints, iris scans, voice recognition, or most other biometric systems, FRT does not require any physical interaction by the end-user. FRT is easily accessible, automatic, seamless, and cost effective. Governments, law enforcement agencies and corporates are rushing to adopt FRT in pursuit of increased security and improved efficiency.

Nevertheless, in some instances, new technologies such as FRT may also undermine our fundamental rights. Yet this technology is being designed and used in a largely unconstrained way, presenting risks to basic human right and this technology has given rise to numerous controversies. These controversies might represent serious reputational, operational, and financial risks for the companies involved in FRT, as well as salient risks to human rights. As mass surveillance expands, technological innovation is outpacing human rights protection. There are growing reports of bans, fines, and backlisting the use of FRT.

The best practice guide, which was established at the end of 2022, encompasses best practices w.r.t. policy and ethics, product definition and design as well as governance, marketing and product use. The development of the technology is running significantly faster than the regulatory focus on this technology, increasing the responsibility for companies to adopt a strict policy on the role of FRT.

The second phase, which started in 2023 will focus on explaining companies active in that domain, which best practices we were able to identify and nudge them to apply this as well. Through these engagements investors can fill a gap currently left open due to a lack of regulation. This regulation is prone to catch up though. Companies that have implemented the best practices that we were able to identify won't be impact as much by regulation around this technology.

Scrutiny regarding supply chains is increasing, and human rights are increasingly regulated with a responsabilisation of all stakeholders; the companies and the financial institutions in first position.

The regulation already increased during the last decade – the French Corporate Duty of Vigilance Law (2017), the UK Modern Slavery Act (2015) or the California Transparency in Supply Chain Act (2010) to name some of the main ones. New regulations are coming from all the globe and give also water to the EU Commission's attempt to deliver a EU Social Taxonomy, aligned with the OECD Due Diligence Guidance. Moreover, the EU Commission is in its last straight line to deliver the Corporate Sustainability Due Diligence Directive. The goal of the directive is spurring corporates to include the impact on the environmental and human rights of its activities in its corporate strategy, through risk management and monitoring. The directive also provisions that victim of negative externalities are also granted remedy mechanisms by corporates.

The Uyghur Forced Labor Prevention Act, a Federal Law in the US, showcases the necessity to consider human rights in the supply chain. The act's goal is to ensure that American entities are not funding forced labor among ethnic minorities in the Xinjinag region. This means that some manufacturers from the region are sanctioned to export products to the US. In case these manufacturers are part of a supply chain of a US company, this might bring problems the company's supply chain. A proper human rights due diligence would have avoided this problem. Similar legislative proposals are under way in Europe, as the European Parliament adopted a resolution in June of last year condemning crimes against humanity against the Uyghurs in China and calling for a ban on the import of products made by forced labor. Following the resolution, the EU Commission published a proposed regulation on prohibiting products made with forced labor on the Union Market with the purpose to empower the EU member states to detain, seize or order the withdrawal of a product from the EU market if it finds that such product was made with forced labor.

A Collaborative initiative in focus – human rights due diligence – ADVANCE

This stewardship initiative on human and social rights was launched last December 1 during the session on social and human rights of the PRI in Person in Barcelona.

Around 220 investors have signed up to endorse the initiative, which amounts to over $USD 30 trillion in assets managed by investors (double counting included). Around 120 investors are participating in the engagement as a lead or collaborating investor for at least one focus company. Each company engagement group has roughly 1-2 lead investors and 4 collaborating investors.

DPAM is proud to be lead investor in the case of **EDP and Acciona**.

The objective of the Initiative is to advance human rights and positive outcomes for people through investor stewardship.

This Initiative primarily seeks change through investors' use of influence with portfolio companies. The following expectations are set for companies:

- Fully implement the United Nations Guiding Principles on Business and Human Rights (UNGPs) – the guardrail of corporate conduct on human rights
- Align their political engagement with their responsibility to respect human rights
- Deepen progress on the most severe human rights issues in their operations and across their value chains

The engagements started with the infrastructure and utilities' sectors, but is prone to expand to other high-risk sectors as well.

As for the environmental efforts, DPAM continued its efforts in other collaborative initiatives regarding social and human rights, notably in the collaborative initiative **Investor Alliance for Human Rights**. The Alliance focusses on the investor responsibility to respect human rights through lobbying, corporate engagements that drive responsible business conduct, and standard-setting activities that push for robust business and human rights policies. In that context we have joined several collaborative engagements, spearheaded by the alliance. In these initiatives, DPAM took the role as lead investor, next to be a supporter in others. :

- Uyghur workforce collaboration;
- Ranking digital rights engagements;
- Corporate human rights benchmark collaboration;

Implementation of assessment guidelines on IT-rights of end users;

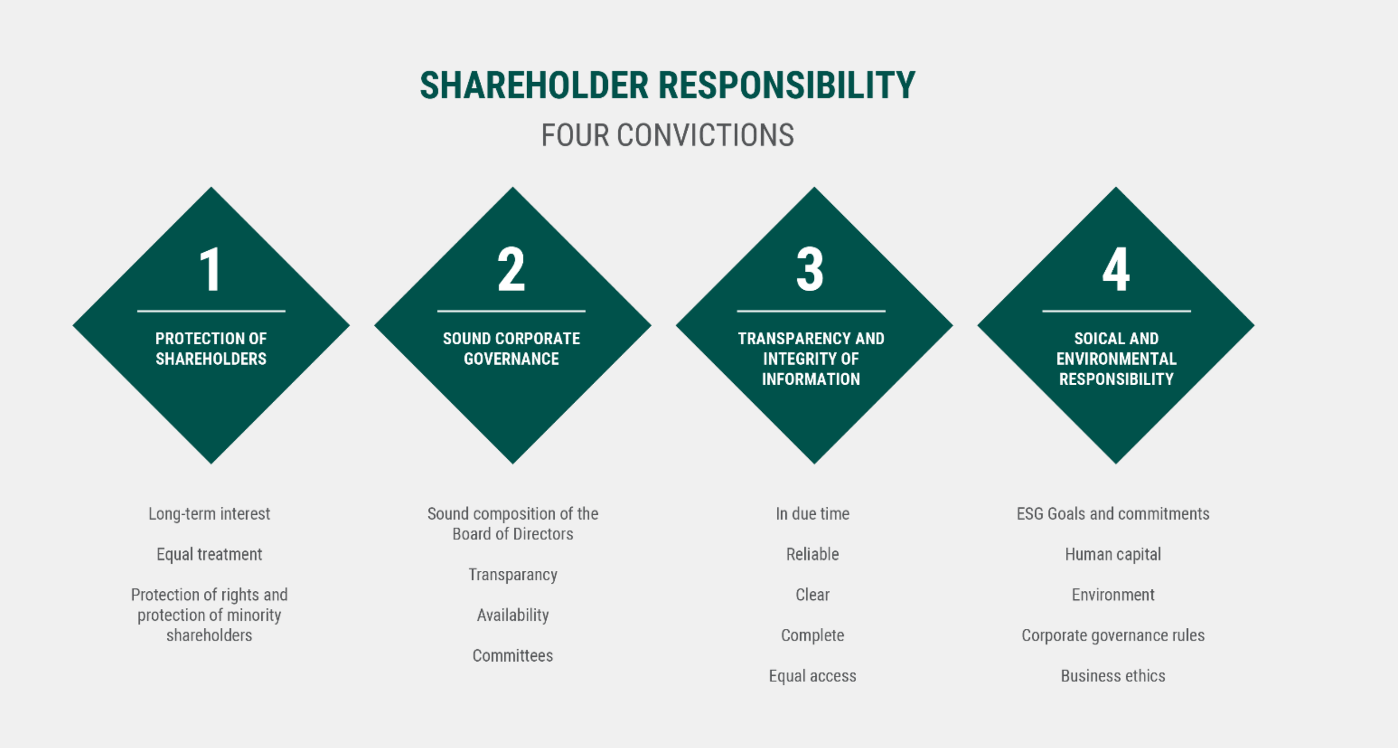
- Back-and-forth discussions on the next engagement

Other:

Possible engagement on topic of facial recognition (updates to follow)

2.3 DPAM values in terms of corporate governance

The Voting Policy, adopted since 2013, is articulated around four pillars, which reflect the corporate governance principles that DPAM wishes listed companies to apply, namely: protection of shareholders (1), sound corporate governance and composition of the board of directors (2), transparency and integrity of financial information (3) and ESG responsibility (4).



Since 2014, DPAM has conducted engagement autonomously and directly by contacting organizations via letters to company executives, for the purpose of increasing DPAM's impact on investees' corporate governance. By doing so, DPAM does further than simply voting in general assemblies. This direct engagement effort complements the proxy voting by explaining to investee companies' management teams the rationale behind DPAM's votes. The topics of engagement have been defined within the Voting Advisory Board (transparency of information, independence of the board of directors, anti-takeover defenses, multiple voting rights and transparency of the executive function remuneration report). The objectives of the engagement have also been clearly defined i.e. these letters have three major objectives. Firstly, they aim to inform companies about our approach and make them aware of the principles that we defend. 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 opportunity to highlight social, environmental and governance challenges as well as the added value of sustainable development.

Please refer to the separate **voting activity report 2022** for the results DPAM obtained as responsible shareholder.

2.4 DPAM values in terms of governance

Following best practices observed in Climate Action 100+ regarding engagement on climate and oversight by Board of Directors but also a future sustainable corporate governance directive, DPAM is convinced that the whole ESG factors should be put at the highest level of governance for a systematic and full integration.

Our aim in engaging with issuers is to encourage appropriate board composition and expertise to understand ESG risks and opportunities and to involve middle management in ESG priorities.

Governance is broader than corporate governance. Several themes can be mentioned here as political lobbying, business ethics, tax fairness/avoidance, bribery and corruption, etc. DPAM's staff is particularly sensitive to ethical business issues, which is a core value for the company. It therefore follows naturally that these issues also remain a priority in the engagements we conduct with the various issuers.

The engagement on Governance matters often takes place during specific engaged dialogues between DPAM's analysts and portfolio managers and companies. These specific engagements specifically target Sustainability issues which have been identified as relevant and material following DPAM's proprietary assessments (e.g. scorecards, controversy assessments, etc.).

Case Study: ESG expertise on Taxation

Engaging on taxation matters for the first year, DPAM contacted seven companies. Reviewing the positions held in our sustainable strategies, and based on data from our ESG providers, it became apparent that engagement was relevant for EDP and AbbVie.

EDP is under investigation by the Portuguese tax authorities over the sale of several hydroelectric dams in 2020. Following an initial exchange, EDP was able to provide a legitimate explanation for the format chosen for these asset disposals, and the company was able to highlight its policy on tax transparency. The dialogue continues.

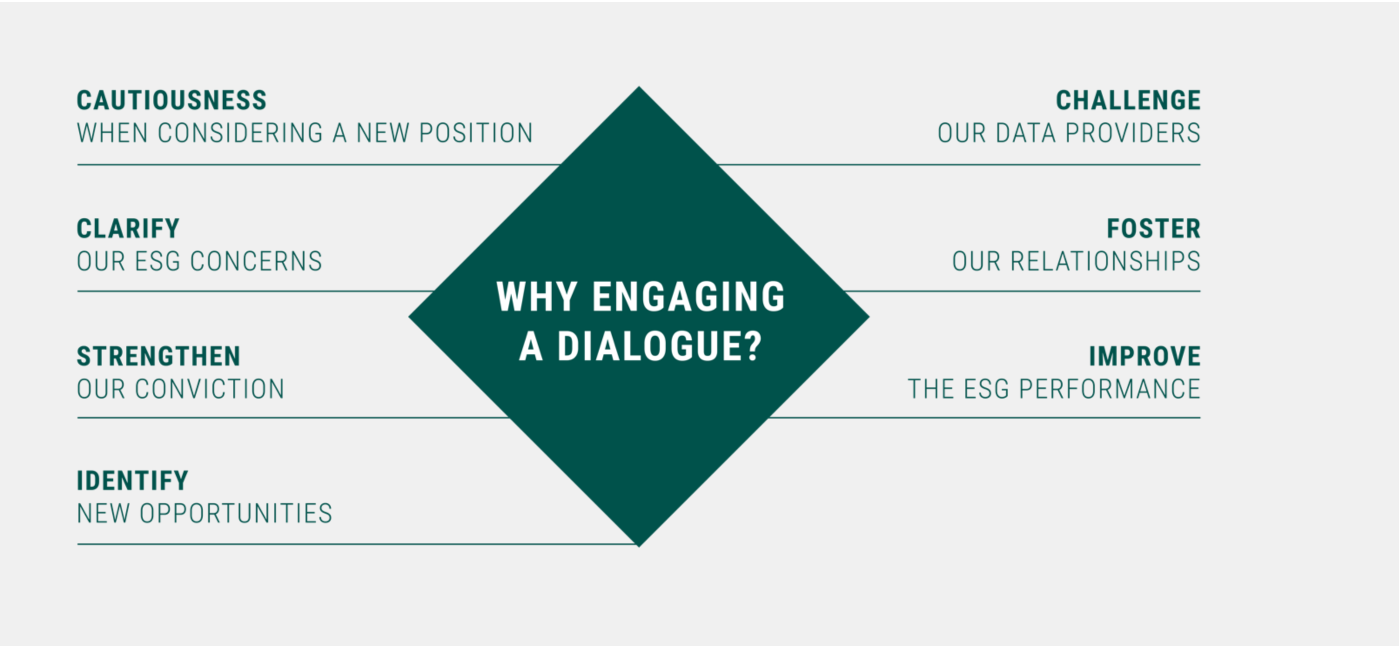
AbbVie is under investigation by the U.S. Senate Committee of Finance into its international tax practices over potential violations related to allegations of shifting profits overseas to avoid paying taxes in the U.S. Our initial exchange with AbbVie revealed significant differences in perception between the group and the US Senate report. AbbVie also pointed out that it publishes country-by-country reporting through SEC Form 89757. However, it appears that this document is not publicly available. Following this first exchange, we believe it is necessary to continue the dialogue with specific questions. The dialogue continues.

DPAM has also initiated a dialogue with the big names in the tech sector, namely Alphabet, Amazon, Apple, Meta and Microsoft. This sector is regularly targeted by press articles and NGO reports criticising its alleged use of aggressive tax optimisation practices facilitated by the intangible nature of a significant part of their activities. Without prejudging the impact of this engagement effort, we are therefore sending engagement letters requesting 1) clarification of the controversies in which these companies are involved, and 2) details of their roadmap for adopting country-by-country reporting along the lines of the GRI 207: TAX 2019 framework. These engagements are ongoing.

3. ENGAGED DIALOGUE FOR A BETTER UNDERSTANDING OF THE SUSTAINABLE PROFILE OF COMPANIES

DPAM as **Active, Sustainable, Research-driven** asset manager has the ability and opportunity to choose between divesting and engaging. Indeed, when the risk – being of reputation or material for companies who deny the paradigm change climate is requiring on their business – is too high, exclusion appears to be the only option. But the framework must be clearly defined and set up. This is the aim of our Policy on controversial activities. It sets our standards in terms of environmental accountability. The way DPAM invests matters.

Engagement will **likely be the prioritised approach**. Based on **in-depth research** with notably the use of scorecards, which focus on the main fundamental and ESG KPI's, our portfolio management and research teams are able to identify the key and underlying risks and opportunities with a forward-looking perspective, which is clearly lacking with traditional exclusion and divesting approaches. These scorecards also integrate material risks and opportunities linked to the UN SDG's to have a full picture of the investment impact and to assess the most effective way to make the required pressure on companies for a sustainable and inclusive growth.



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

The engaged dialogues are carried out by portfolio managers, analysts and responsible investment specialists.

Indeed, more than 20 buy-side equity and credit analysts are continuing their efforts to apply environmental, social and governance factors upstream in the investment process, supported by the Responsible Investment specialists. Throughout their numerous meetings (approx.750 meetings) with companies' management teams, our analysts encourage companies to report on their efforts to incorporate the ESG challenges into their strategies and to adopt the best practices within their industry. In line with DPAM's sustainable and responsible philosophy we both invest in the best ESG profiles, and we encourage and promote best practices among issuers with more moderate ESG scores but which demonstrate a genuine willingness to improve. The aim is always to encourage efforts and promote best practice in the ESG area.

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

The interaction and involvement of analysts and portfolio managers is key to success for DPAM.

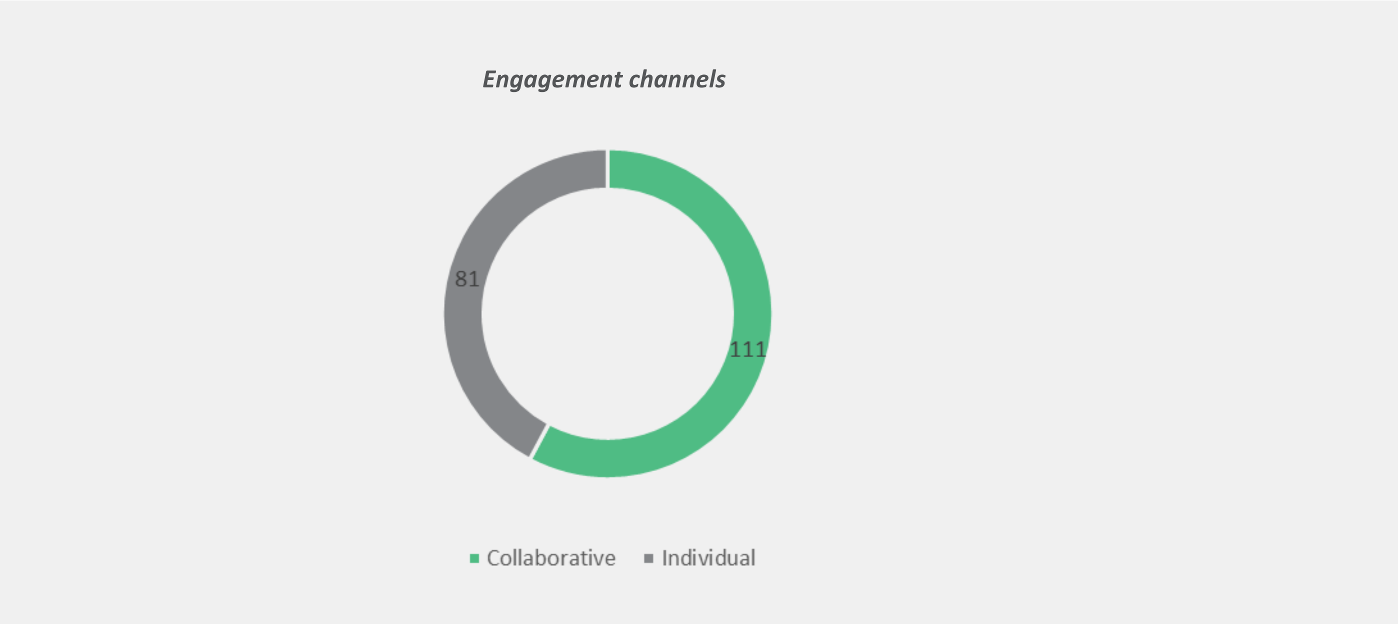
The analysts and the portfolio managers have followed several trainings regarding ESG integration and sustainable investments. Following the increasing regulations and ambitions at DPAM, it is key that all DPAM professionals are at the forefront of the latest developments in ESG integration.

For example, we can mention our colleague on listed real estate who joined the working group on Sustainable Finance Disclosure Regulation (SFDR) created by the European Public Real Estate Association (EPRA). This is part of the several efforts DPAM has done to contribute to a relevant and credible regulation regarding sustainable investments.

III. DPAM'S **ENGAGEMENT ACTIVITY INTO FIGURES**

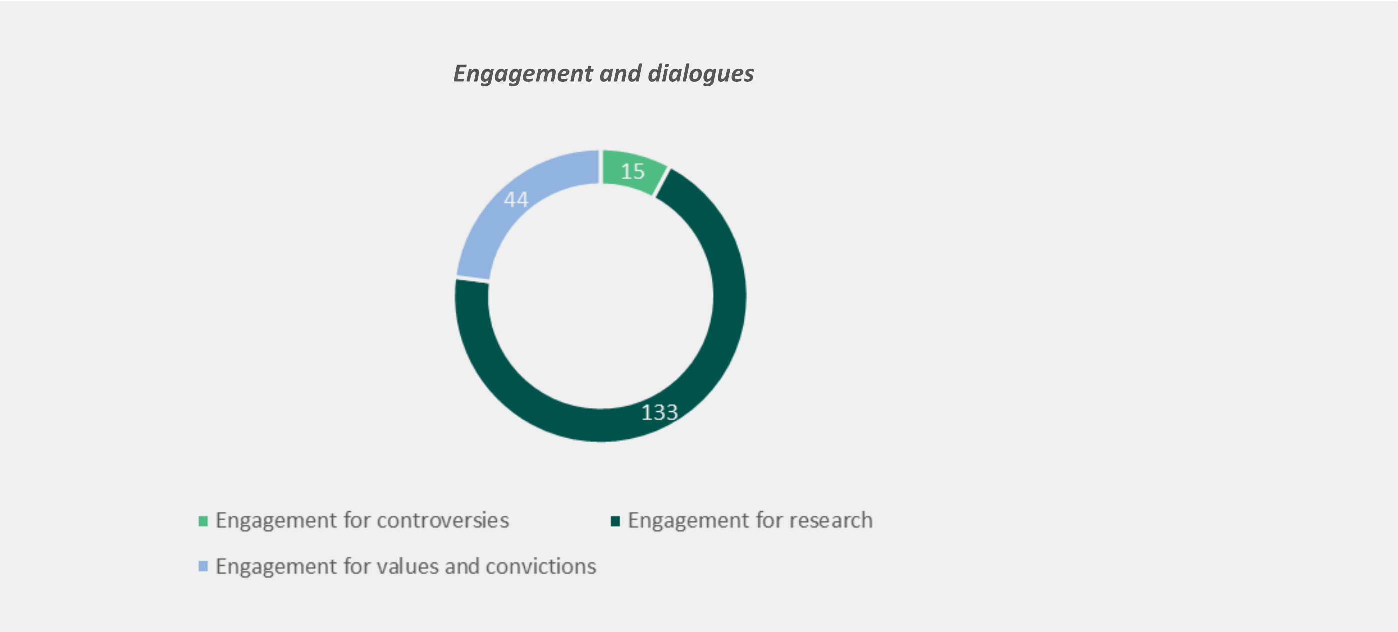
1. HOW DID WE ENGAGE IN 2022?

All statistics below refer to the number of issuers on which DPAM has entered into dialogue to promote ESG best practices or formal engagement to promote ESG convictions.



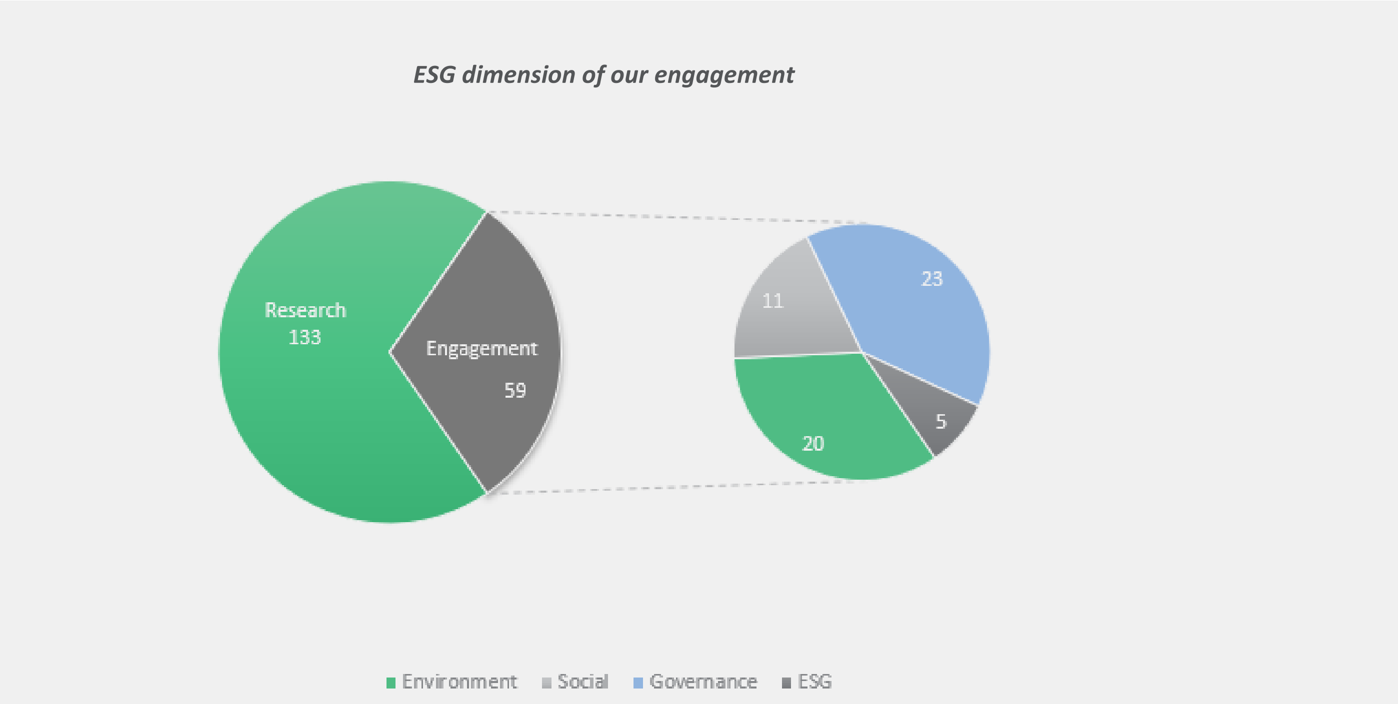
Collaborative means engagement carried out through a collaborative initiative (FAIRR, Climate Action 100+, CDP, Facial Recognition, etc.) DPAM is member of.

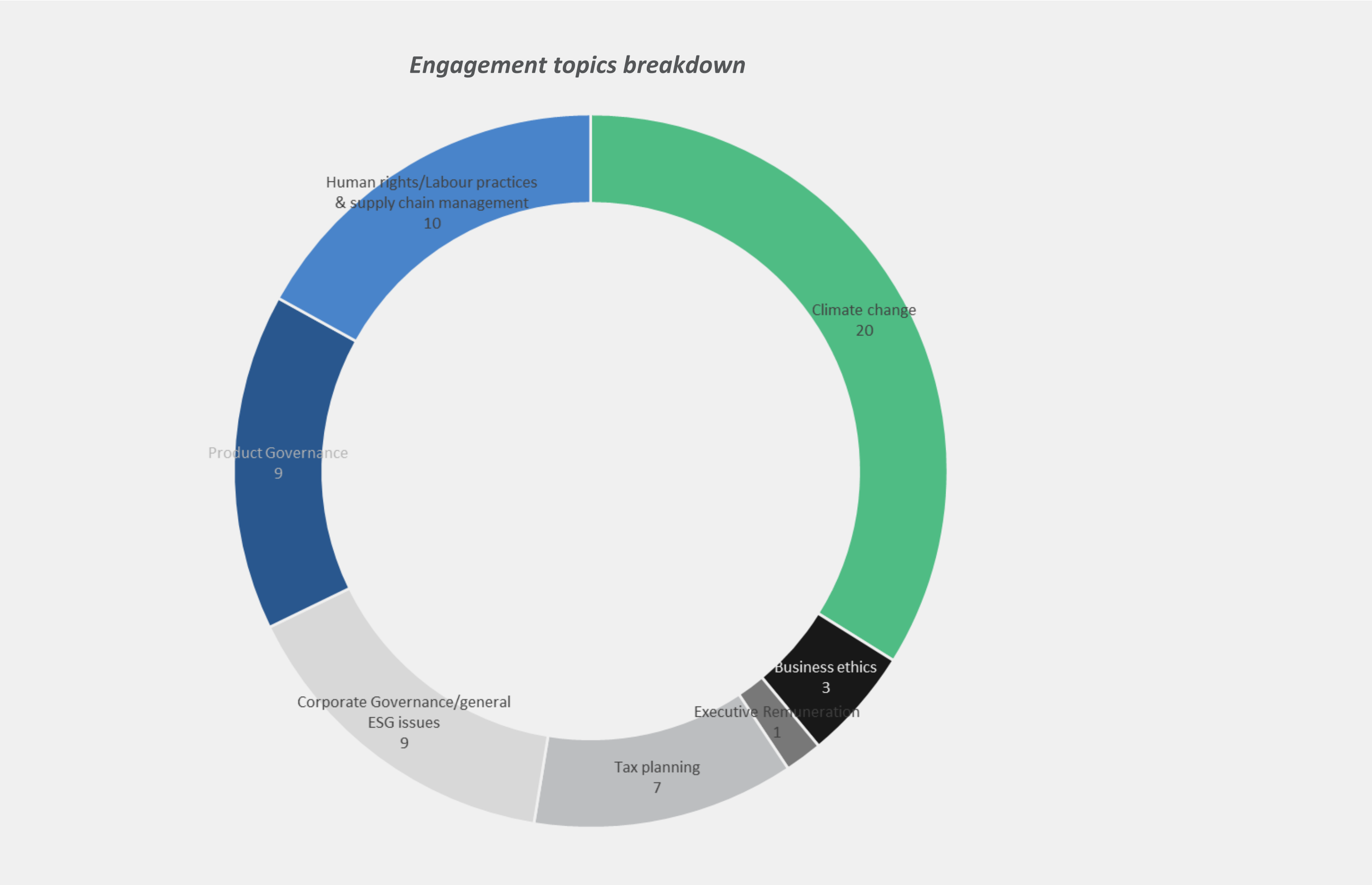
Individual engagement is engagement DPAM has decided to launch on its proper initiative.



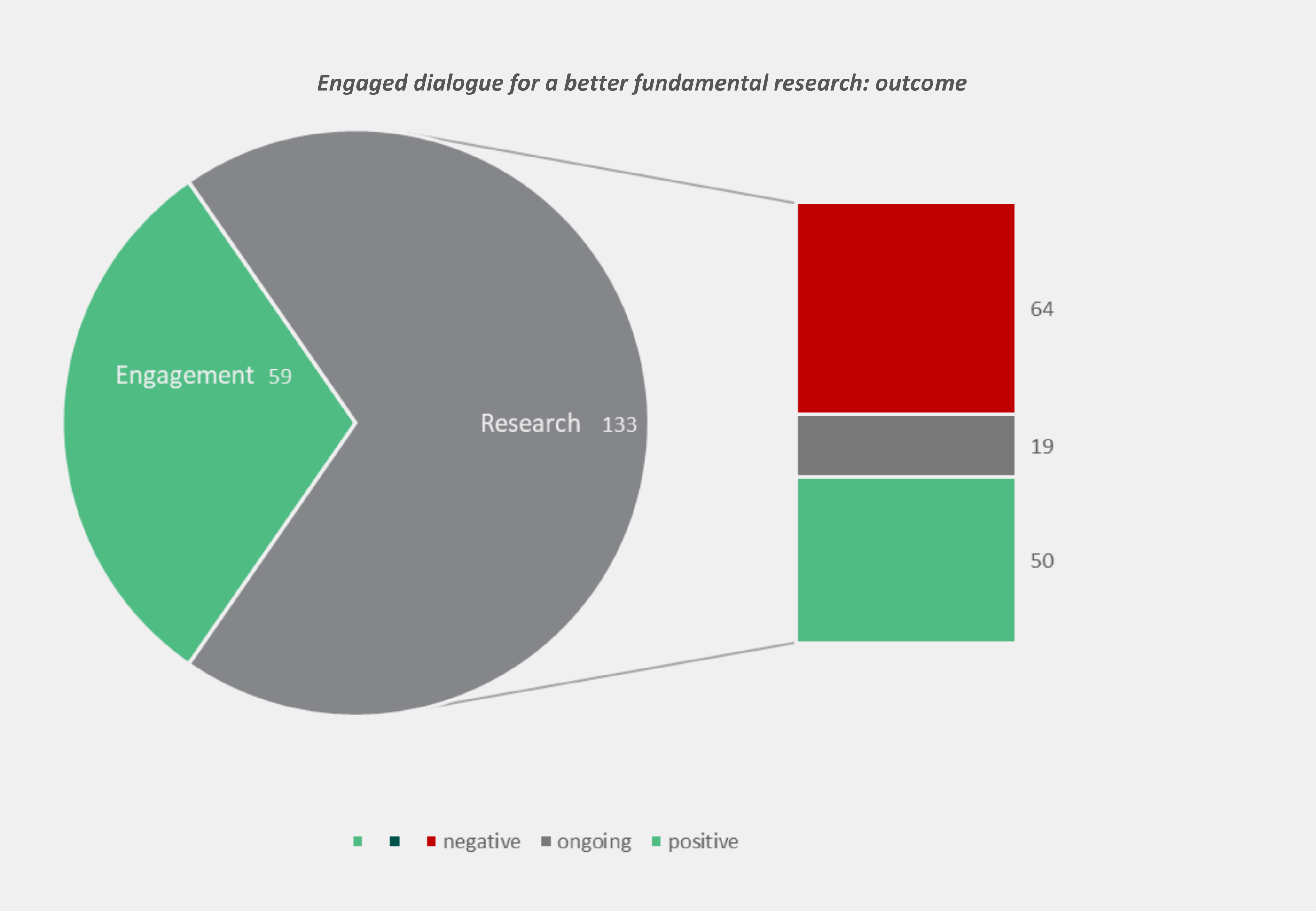
2. ON WHICH TOPICS DID WE ENGAGE IN 2022?

Solely focusing on the engagements done to improve society, the prioritised topics breakdown are depicted below of.



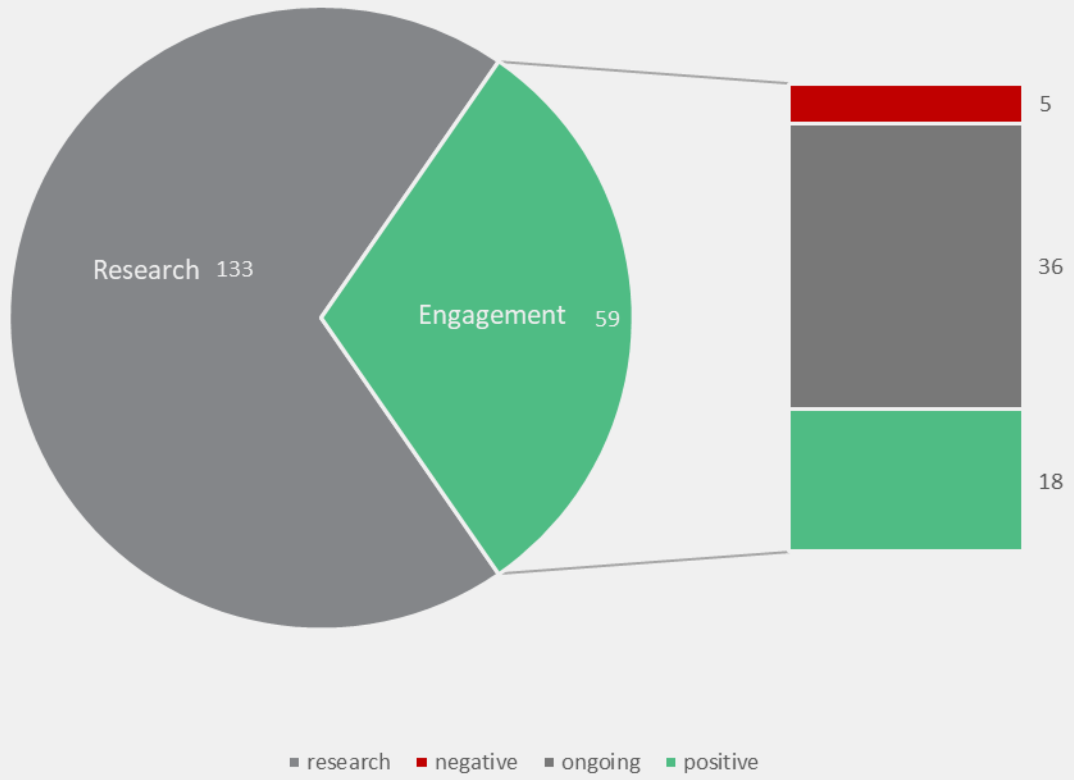


3. WHICH RESULTS DID WE OBTAIN IN 2022?



Regarding engaged dialogue in the framework of improving our fundamental research, the outcome is rather to obtain answers to our questions. Nevertheless, these aim at clarifying ESG concerns or confirming ESG advantages of companies. In all cases, it is also a way to contribute to a positive impact to the Society and conveying our expectations to our investees. The outcome can therefore be considered negative (no answer), ongoing (awareness but no result yet) or positive (willingness to change and adapt). There is however no formal escalation process.

Impact engagement results



Engagement results by types of engagement across engagement for research purposes and conviction based engagements

4. ENGAGED DIALOGUES WITH COUNTRIES

2022 marks the launch of our systematic country engagement program.

As explained in our engagement policy, engaging with countries is a different approach than engaging with our company.

Our primary objective is to raise awareness among governments of the importance of ESG issues, including in sovereign bond investments. Secondly, we would like to introduce our sustainability model, how it works and what it teaches, in particular the scorecard established for each of the countries in the eligible universe. In this way, we can highlight the strengths and areas for attention of each of the countries we are reviewing. This meeting can take different forms (on-site visits, virtual meetings, emails) and with different stakeholders in the bond value chain (technicians, technocrats, ministers, etc.). Finally, we insist on the importance of green finance and share our expectations on the qualities of a verified impact bond.

In 2022, we have initiated 37 dialogues with 34 different countries. 22 dialogues with OECD countries and 15 with emerging economies.

Our engagement is serious, disciplined and systematic. But it is of course a learning curve for both sides of the dialogue. It is still too early to say what the results of these engagements will be, but we believe we have raised awareness in 25 countries and will continue the discussion on the model and the respective scorecard with 12 countries. In 2023, we will further increase our coverage of countries in which we are invested and in which we are engaged in dialogue.

IV. **KEY THEMES AND PRIORITIES** FOR COMING YEARS

1. A CHALLENGING REGULATORY LANDSCAPE

Regulation is one of the key challenges for market participants. The rise of ESG (Environmental, Social, and Governance) has led to increased scrutiny and the need for greater transparency **to avoid malpractices** like 'greenwashing' (i.e., the practice of making false or misleading claims about the environmental benefits of a product or service). Recently, we have also noticed **several instances of so-called 'green bleaching'** (i.e., the practice of purposefully deciding not to claim the environmental benefits of a product or service in order to avoid the reporting obligations that come with making such claims). Several financial companies have been reclassifying previous Art. 9 products as Art. 8 to avoid all necessary reporting and disclosure requirements.

As sustainable investing continues to grow, we can expect to **see greater regulation in this area**, which may continue to impact how companies approach ESG investing and the claims they make about their sustainable activities.

2. SECURING THE FUTURE: FROM PROMISE TO ACTION

As the world works on its energy transition, energy security and safety has come to the fore. And it's not just climate change that has pushed on this transition. As **Russia's war in Ukraine** drags on, it has offered **additional incentives** for countries to accelerate their own energy transition to ensure their national energy needs are met. **Commitments from major countries** like the US, EU, Japan, South Korea, India, and China have been unprecedented in their efforts to transition to renewable energy sources and reduce greenhouse gas emissions. Many have pledged their support for Net Zero efforts. As of today, **80% of the global population and 91% of global GDP are covered by these commitments**. But it's not just Net Zero commitments that are shaping the future of sustainability. In the US alone, USD 370 billion will be spent on energy and climate-related initiatives. Similarly, the Fit for 55 program and Repower EU aim to double the amount of renewable energy used in the EU by 2030 through increased projects and energy efficiency measures. This opens up a large number of investment opportunities.

Still, even with the most ambitious scenario of achieving net zero emissions, **the goal of limiting the rise in global temperatures to under 2C is not guaranteed**. To make this ambitious scenario a reality, a substantial amount of funding is required with estimates ranging up to USD 4 trillion by 2030.

It's clear that **urgent alignment of economic, climate, and security priorities is** needed. The recent COP27 summit was a prime opportunity for progress in this area, but unfortunately, the outcome was disappointing.

3. CHINA AND THE GLOBAL TRANSITION TO SUSTAINABILITY

From the bottlenecks in key commodities, to geopolitical tensions and fragmented supply chains, **the road to clean energy is fraught with obstacles**.

China seems unavoidable on this road. Indeed, it is currently dominating the clean transition, particularly in the realm of solar panel technology. However, their leadership comes with its own set of challenges, including questionable human rights issues.

The transition should not simply be a tradeoff, where we temporarily focus on the 'E' of ESG, to the detriment of the 'S' & 'G' factors. A sustainable transformation with a focus on ESG should ensure that **all three elements**

are considered in equal measure. By reaching out and actively engaging with companies and sovereigns, and by leveraging their expertise, **financial companies can play an important role** in guiding key entities on their ESG journey.

4. SOCIAL RESPONSIBILITY: THE UGLY DUCKLING

The "S" in ESG – that is, the principle of social license to operate – is often considered the ugly duckling of the bunch. But make no mistake, **it is just as important as its environmental and governance counterparts**. In fact, it is directly linked to environmental issues, as air pollution is the number one killer worldwide. In addition, climate change is also having a profound effect on the global economy, leading to rising energy and food prices, which put pressure on worker conditions and pay. This, in turn, increases the risk of recession and could have severe consequences for the labour market.

This complex issue must also be **understood in the context of ongoing demographic shifts**. As baby boomers (a third of the global workforce) retire, they are leaving the labor market faster than they are being replaced by younger generations. This is a problem that requires **a comprehensive solution regarding the expertise and experience gap**, and we might do well to look towards the Scandinavian model for inspiration, which tends to be more intergenerational.

5. CAPITAL ALLOCATION AND THE COST OF NET ZERO

It is evident that the transition to net zero emissions carries a cost for certain sectors and activities. We have seen **a shift in the allocation of capital as a result of climate action**.

Nevertheless, investment in environmental, but also more broadly, ESG products continue to support the sustainable trend.

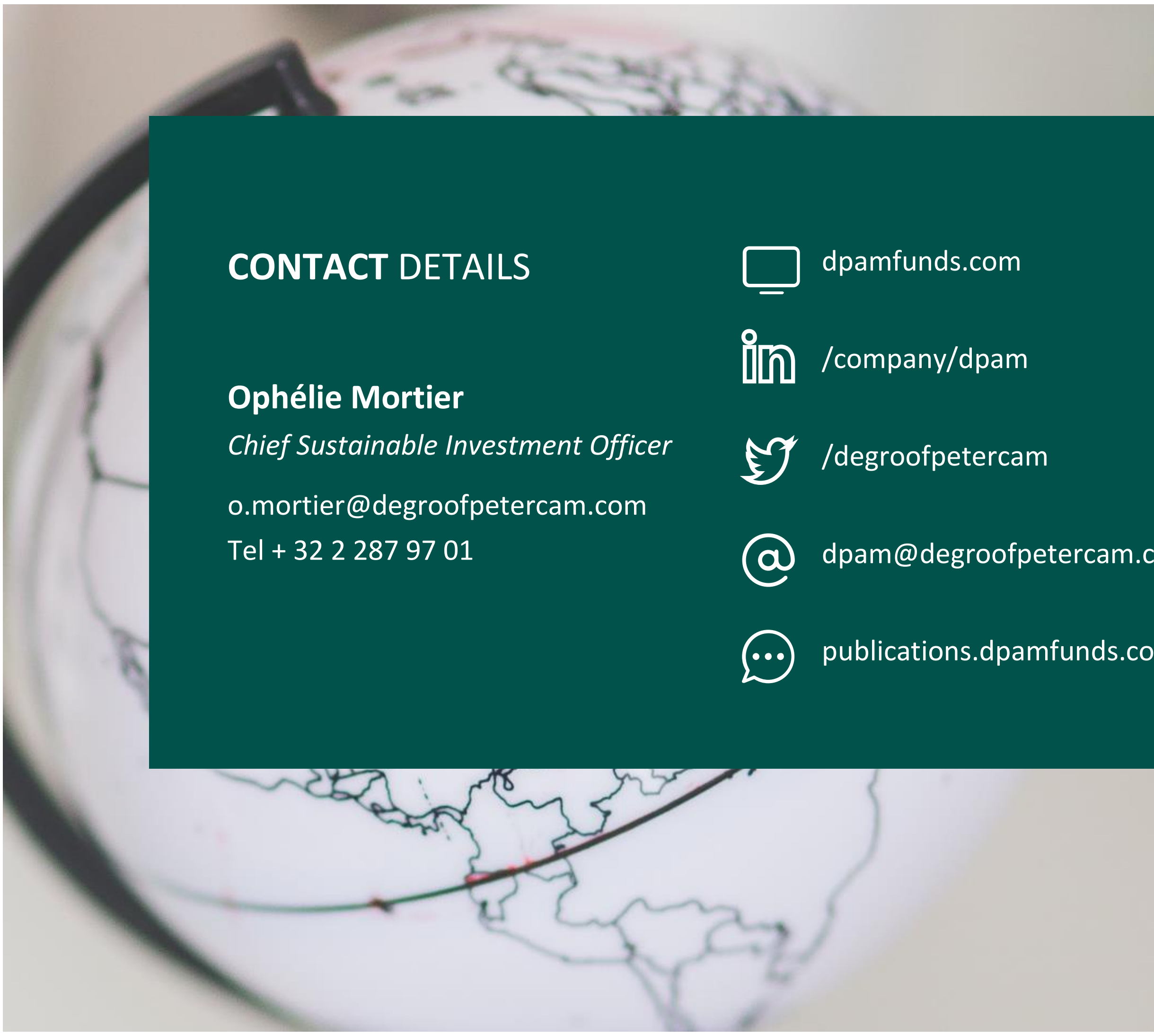
The perceived underperformance of ESG stocks year-to-date is also a hot topic at the moment. This is not necessarily a reflection of the viability of the ESG market, but rather **a question of sector allocation in combination with ESG premia and the real yield increase**.

It is clear that "green/sustainable" issuers are trading at a premium, with some commanding a 40% price increase. The use of labeled bonds is also on the rise, although this comes with its own set of challenges, including the need to avoid greenwashing. Even so, **we are convinced that there are still many opportunities to be found for those willing to look.**

V. BE FOCUSED FOR **BIGGER IMPACT**

DPAM recognizes the proliferation of engagement initiatives on general ESG issues and in particular climate change. We consider that more centralization and streamlining of initiatives would allow for greater efficiency, coverage and above all impact on companies for society.

A relevant initiative is an initiative with clear scope, clear expectations and objectives and appropriate escalation process. We believe that it is better to join existing initiatives and give them every chance of achieving the desired results than to launch new initiatives with other, similar, but still unfulfilled objectives. So, to avoid contributing to this proliferation of various engagement initiatives, we have defined our own "check list" before joining new invitation to optimize our results and the results of the already launched initiatives.



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