DEGROOF PETERCAM ASSET MANAGEMENT

January 2023

SUSTAINABLE AND **RESPONSIBLE** INVESTMENTS POLICY

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SECTIONS APPLIED SPECIFICALLY TO **INVESTMENT FUNDS**

SECTIONS APPLIED SPECIFICALLY TO **MANDATES**

I. INTRODUCTION

This document is the sustainable and responsible investment policy (hereinafter referred to as the "SRI 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 December 2022. It amends and restates the first version of the SRI Policy which was released in March 2016.

It is applied to investment funds which are managed by DPAM, by designation or delegation (to the extent agreed between DPAM and the delegating management company (the "DPAM Funds") and to discretionary portfolio management mandates DPAM manages on behalf of institutional asset owners/investors as agreed between DPAM and its clients. It is also part of the considerations that DPAM takes into account when providing investment advisory services to its clients. It describes the adopted sustainable approaches (ESG integration, best-in-class, sustainability themes, norms-screening, etc.) DPAM can apply across all asset classes. DPAM is convinced about sustainable and responsible investments and this is deeply ingrained in its corporate DNA since 2001

ACTIVE. SUSTAINABLE. RESEARCH.

OUR VISION…	OUR PURPOSE…	OUR AIM…
…is to be your reference partner in sustainable investment solutions	…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.	…is to deliver robust investment performances, be best-in-class across our expertises in alignment with DPAM's shared values and culture.

- We thrive on the conviction that actively managed, sustainable, research-based client solutions or portfolios offer the best opportunities for superior long-term investment results
- This is the reason why Environmental, Social and Governance (ESG) considerations are integrated into our value proposition, our fundamental research and our investment processes for more than 20 years
- The guiding principles supporting our purpose, are authenticity, conviction, transparency and connectivity. These enable us to nurture a strong and long-lasting relationship with our clients. We help them moving forward while delivering outstanding services and investment performances
- Our expertise is built on skilled & talented people, 170 professionals all passionate about what they do. We operate and act in a stimulating non-hierarchical company structure fostering a distinctive culture where everyone's voice is heard.

II. DPAM **A RESPONSIBLE INVESTOR SINCE 2001**

Being a responsible investor goes beyond offering responsible products; it is a global commitment at company level translated into a coherent approach.

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

As a shareholder representative and economic player, DPAM accepts its corporate responsibility. Understanding the dynamic environment, we work in, embracing the complexity of this environment and its requirements with pragmatism and committing to implement and manage our assets according to these are key governance principles for DPAM. Indeed, we understand and accept the dynamic and complex environment we have to deal with:

- Scientific evidence cannot be ignored. Status quo is synonym for unwanted outcomes.
- The regulatory authorities should scrutinize investors and investees alike in a balanced fashion.
- Climate scenarios should guide and steer intensity of regulation and commitment of asset managers and institutional investors.
- Technological evolutions can only occur when they find proper funding.

Integrating sustainability in investment processes is not straightforward. The objective is to have portfolio managers, analysts, and risk managers routinely apply the same processes across ESG factors as they assess opportunities & risks across business and financial parameters.

To defend best practices in terms of corporate governance and ESG challenges, DPAM refers to various reputed sources such as:

- The International Corporate Governance Network (ICGN),
- The 10 Principles of the UN Global Compact,
- The OECD guidelines for multinational enterprises,
- The Sustainable Development Goals set up by the United Nations,
- The OECD Due Diligence Guidance for Responsible Business Conduct,
- The Principles of Responsible Finance,
- The recommendations of the Task Force Climate-related Financial Disclosure (TCFD), etc.

DPAM is committed to sustainable investing and therefore adopts a view on corporate responsibility that is consistent with the political agenda aligned with the Paris Agreement and with international standards and conventions.

This policy is the 1st pillar of a set of sustainable and responsible investments related policies, namely:

- our **Proxy Voting Policy** (**available here**): the voting policy adopted by DPAM aims to defend the values and principles with regard to corporate governance that DPAM advocates and wishes to see applied by the companies in which DPAM invests, on behalf of DPAM Funds or clients in scope of this Proxy Voting Policy.

- Our **Controversial Activities Policy** (**available here**): whenever there is any doubt about a company's involvement – be it already invested in portfolio's or considered as a potential investment for portfolio's – in the controversial activities, as listed in its policy, DPAM will have an engaged dialogue with the company's management

- our **Engagement Policy** (**available here**): DPAM's vision of being a responsible investor is articulated into three pillars:

  1. raising key questions about the consequences of the company's activities;

  2. being a shareholder who engages in a constructive dialogue with companies and ensuring the rights of shareholders are fully exercised; and

  3. being committed to long-term objectives and sustainable financing.

To implement its engagement policy, DPAM has set the dialogue with the different stakeholders at the heart of the process. The Policy describes the rationale for engaging with companies (and countries), expectations and the different channels DPAM uses from formal dialogue through collaborative or individual engagements to more informal engaged dialogue during the numerous meetings with the management of companies organized by the research and investment teams.

This **Sustainable and Responsible Investments Policy** describes and explains DPAM's choices regarding sustainable and responsible investments. In its first part, it explains how DPAM is committed to Sustainable Investor through the important commitments and initiatives it has joined to contribute to sustainable finances worldwide next to other asset owners and managers. The second part describes how DPAM is a sustainable and responsible investor by explaining the philosophy, approach and methodologies DPAM has adopted to implement a pragmatic and ambitious approach to sustainable and responsible investments. Over the last 20 years, DPAM has had the opportunity to proof the different methodologies such as norms screening, negative and positive screening, engagement and impact. It explains what DPAM stands for when it refers to Active, Sustainable and Research. It describes DPAM's philosophy and approaches compared to the various existing approaches regarding sustainable and responsible investments that are enriching but at the same time possibly generate confusion and complexity. DPAM's approach is threefold: ESG integration with or without promoting E&S characteristics and ESG impact by sustainable objectives. Because any investment has an impact, we share our vision regarding impact intentionality and measurement. Finally, DPAM is committed to be a sustainable partner, including our responsibility in terms of transparency and disclosure but as well in terms of sharing knowledge with stakeholders.

1. SCOPE OF THE POLICY

The Policy is applied to public investment funds which are managed by DPAM, by designation or delegation (to the extent agreed between DPAM and the delegating management company) (the “DPAM Funds”) and to discretionary portfolio management mandates DPAM manages on behalf of institutional asset owners/investors, as agreed between DPAM and its clients. It also makes part of the considerations that DPAM takes into account when providing investment advisory services to its clients. It describes the adopted sustainable approaches (ESG integration, best-in-class, sustainability themes, norms-screening, etc.) DPAM can apply in all asset classes. DPAM is convinced about sustainable and responsible investments and this is ingrained in its corporate DNA since 2001. Non-public funds for which DPAM acts as management company may also apply this policy to the extent foreseen in its offering document.

2. OBJECTIVES OF THE POLICY

This sustainable and responsible investments policy aims at describing and explaining DPAM’s choices regarding investments with environmental and/or social characteristics and investments with sustainable objectives, in alignment with the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (hereinafter called “SFDR regulation”).

It lists the commitments of DPAM as a sustainable actor (§1) and explains what DPAM stands for when it refers to Active, Sustainable and Research as its strategic pillars.

The description of DPAM’s philosophy and approach to sustainable and responsible investments include the way DPAM identifies sustainability risks and ESG factors, which are integrated in its investment making decision process (§2). Through the different choices, approaches and applied methodologies, DPAM’s aim is to optimize its positive net impact on the society and to reduce as much as possible the negative impact of its investments by systematically integrating the question of the **harmful impacts** investments might have.

Furthermore, DPAM aims at a high level of transparency regarding the different SRI approaches and methodologies depending on the objectives of the funds and mandates, namely integrating ESG factors (a), promoting environment and social characteristics (b) and those with explicit environmental and/or social objectives (sustainable/impact objectives) (c). The approaches and implications are respectively explained (§3 and §4). Finally, because any investment has an impact, we share our vision regarding impact intentionality and measurement (§5).

3. RESPONSIBILITIES

The integration of Environmental, Social & Governance (ESG) factors is the shared responsibility of the investment professionals at DPAM i.e. portfolio managers, fundamental analysts and responsible investment specialists.

Four governance bodies are involved in the SRI investment process: the Responsible Investment Steering Group (RISG), the Voting Advisory Board (VAB), the Fixed Income Sustainability Advisory Board (FISAB) and the TCFD Steering Group. The responsibilities are summarized in the table in Annex 1 to this Policy. These governance bodies report directly to the Management Board of DPAM, under the oversight of DPAM Board of Directors.

III. EXECUTIVE **SUMMARY**

DPAM is committed to sustainability and to be a responsible player since 2001, with a threefold engagement to sustainable investing: to uphold fundamental rights, to avoid controversial activities and finally, to be a responsible stakeholder by bringing sustainable solutions to ESG challenges and by engaging with companies to foster best practices and evolutions.

This document is the overarching policy, supported by a set of three policy documents (proxy voting, controversial activities, engagement) and applies to all investment funds, to discretionary portfolio mandates and is part of the considerations taken into account by DPAM when providing investment advisory services.

It describes DPAM's choices, with which DPAM aims to optimize its positive net impact on the society and to reduce the negative impact of its investments on society as much as possible.

Four governance bodies are involved in the process: the Responsible Investment Steering Group (RISG), the Voting Advisory Board (VAB), the Fixed Income Sustainability Advisory Board (FISAB) and the TCFD steering group. The ESG strategy is supervised by DPAM's Board of Directors.

Challenges such as sound corporate governance, vision of environmental challenges and respectful social license to operate are an integral part of **DPAM's mission and value statement**:

"

Our aim is to perform and to be best-in-class in our expertise and guardian of DPAM's shared values and culture. We thrive on the conviction that actively managed, sustainable, research-based client solutions or portfolios offer the best opportunities for superior long-term investment results. This is the reason why Environmental, Social and Governance (ESG) considerations are integrated into our value proposition, our fundamental research and our investment processes. As an active manager, we combine financial objectives with our pioneering role as ***sustainable actor,*** *both at the service of our clients, our people and society."*

As such, DPAM positions itself at three levels of commitment: as an actor (corporate commitment), as an investor (as part of investment processes and decisions) and as a partner (education, reporting, disclosure and transparency).

As a **sustainable actor**, DPAM is committed to major organizations which share the common aim of promoting long-term sustainable investments. By adhering to UN six Principles for Responsible Investments (PRI) in 2011, DPAM commits to adopting and implementing these core guiding principles for sustainable finance. By supporting key initiatives, particularly the Net Zero Asset Management (NZAM) initiative but also Climate Action 100+ and the TCFD recommendations, DPAM shows its acknowledgment to the international policy agenda's for a sustainable and inclusive growth. To fulfil its responsibility and fiduciary duty, DPAM has defined and set up relevant policies and bodies governing its investments' activities. It can also rely on the appropriate resources in terms of research, be it internal with the full adherence of DPAM investment professionals or be it external with the reliance on several reputed global sources of information and tools.

As a **sustainable investor**, DPAM is convinced of the risk/return optimization of ESG factors integration. These are used to assess sustainability risks and opportunities of investment decisions.

To offer solutions aligned with the 2030-2050 **Program** for a sustainable and inclusive growth and to put its portfolio management expertise to serve the key ESG priorities, DPAM has identified and integrated the environmental, social and governance criteria according to the specificities of asset classes and economic activities. Based on quantitative and qualitative research, the approach focuses on the most material ESG factors i.e. those which could affect the core drivers and most important financial metrics of the company. These are therefore defined for each particular industry and according to the time horizon of the investment decisions and circumstances of the portfolio's construction. Engaging in dialogue with the issuer, either through proxy voting or direct dialogue is at the heart of the process to fine tune fundamental research-driven investments decisions and to spread best practices and innovative solutions for ESG challenges.

This in-depth integration of ESG factors is closely interconnected with the identification of the sustainability risks i.e. **environmental, social or governance event or condition** that, if it occurs, could cause **a negative material impact** on the value of the investment. Through a rigorous disciplined screening of the controversial behaviour of the investee companies, DPAM aims at defending the fundamental rights as stipulated in the Global Standards, in particular the Global Compact principles and to reduce its negative impact by avoiding any activity or behaviour which could significantly harm a sustainable and inclusive growth as promoted by the EC 2030-2050 program.

Finally, DPAM is transparent on the aim of its investment funds and strategies. Aligned with the so-called SFDR regulation, it makes a distinction between the portfolios promoting environmental and social **characteristics** from those promoting environmental and social **objectives**. The search for a positive impact is at the heart of the portfolio construction when promoting environmental and social **objectives**. Firstly, through a strict screening based on controversial activities and behaviour and engaged dialogue, DPAM aims to reduce as much as possible the negative impact of any investment decision. Secondly, by establishing a straightforward link with the UN Sustainable Development Goals, the investments aim at offering solutions to ESG challenges i.e. contributing positively to one of the 17 goals.

As a **sustainable partner**, DPAM is convinced that education and transparency are key pillars to accompany its clients but also the society throughout the whole journey of sustainable investments.

The four governing policies are therefore publicly disclosed namely the controversial activities policy, the engagement program, the voting policy and this SRI policy.

All activities related to sustainable investments – voting, engagement, investments, impact, etc. – are reported regularly and also publicly disclosed.

The sustainable investments section on the DPAM **website** aims to bring together all relevant information relating thereto.

DPAM IS A **COMMITTED SUSTAINABLE ACTOR**

IV. DPAM IS A **COMMITTED SUSTAINABLE ACTOR**

1. STRONG CONVICTION IN SUSTAINABLE AND RESPONSIBLE INVESTMENTS

Given the global challenges of the last decades, DPAM is convinced that integrating challenges such as sound corporate governance, vision of environmental challenges and respectful social license to operate is a driver of long term sustainable performance.

This is integrated **in its mission and value statement**:

> “
>
> *Our aim is to perform and to be best-in-class in our expertise and guardian of DPAM's shared values and culture. We thrive on the conviction that actively managed, sustainable, research-based client solutions or portfolios offer the best opportunities for superior long-term investment results. This is the reason why Environmental, Social and Governance (ESG) considerations are integrated into our value proposition, our fundamental research and our investment processes. As an active manager, we combine financial objectives with our pioneering role as* ***sustainable actor,*** *both at the service of our clients, our people and society.”*

1.1 Signatory of UN PRI since 2011

Already in September 2011, DPAM, i.e. Petercam Institutional Asset Management at that time, signed the United Nations Principles for Responsible Investment (“UN PRI”) to foster the integration of ESG factors into the investment decision-making process as fully convinced of the added value of ESG integration and the importance of sustainable finances. In 2016, following the merger between Degroof and Petercam, it reiterated its commitment to the UN PRI. By adhering to these UN PRI, DPAM commits to adopting and implementing the six UN PRI guiding principles. This publicly demonstrates its commitment to consistently integrate ESG factors as an actively sustainable asset management firm, and to contribute to the development of a long-term investment approach with a sustainable focus.

The top rating A+ DPAM has achieved for its assessment report over the last 4 years is the evidence that DPAM is committed to implement the 6 principles of the UN-backed PRI.

1.2 Signatory of the Net Zero Asset Management Initiative (NZAM)

As an active asset manager and a sustainable actor, investor and partner, 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.

"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

Prior to tackling this significant undertaking, DPAM has 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 commits 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
- To fulfil these commitments, DPAM will abide by the ten-point action plan[3]3 of NZAM.

As DPAM is a member of CDP (formerly the Carbon Disclosure Project), the latter will oversee DPAM's target validation process within one year after the firm's commitment and will be done in close collaboration. DPAM will disclose detailed information and scope within the 12 months of joining the initiative.

Please refer to our **TCFD Report** disclosed for all details regarding our climate action positioning and management.

It is important to understand the commitment of DPAM regarding this initiative as it has binding implications for all assets DPAM is managing. Therefore, any investment decision a portfolio manager can take, will always be engrained in this framework of targeting net zero GHG emissions by 2050. To achieve this by 2050 or earlier, intermediary milestones have been defined and a methodology has been retained.

First of all, DPAM has retained the methodology based on **the Sciences Based Target (SBT) protocol**, which is a forward-looking approach, receiving the adherence of all our investment professionals. Indeed the methodology relies on the SBT portfolio coverage and the temperature rating i.e. the investees set a science-based GHG reduction target or align their emissions with a 1.5°C scenario.

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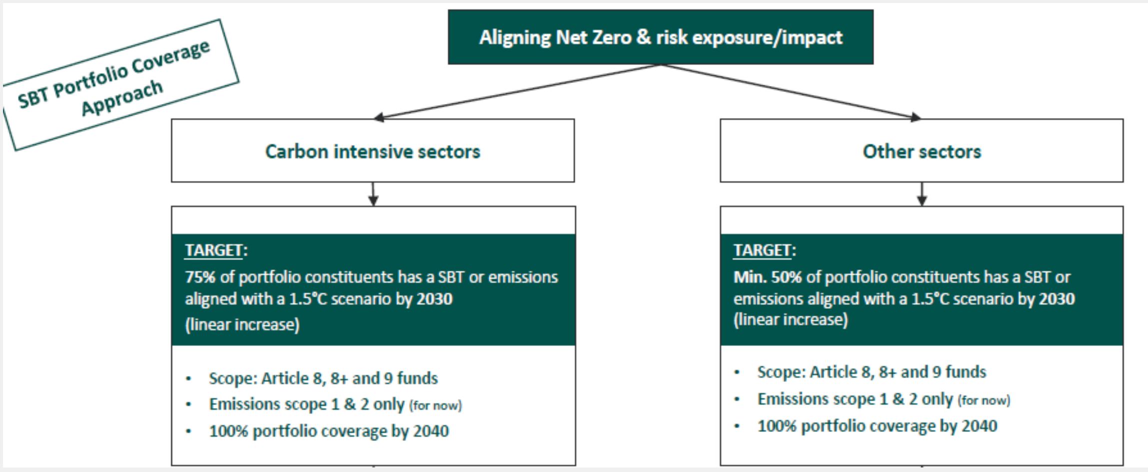
[1] Network Partners of the NZAM initiative include AIGCC, CDP, Ceres, IIGCC, IGCC, PR
[2] Source: Companies taking action – Science Based Targets
[3] Source: Net Zero Asset Manager Initiative, 2020

Secondly, the adopted approach distinguishes the carbon-intensive sectors (TCFD sectors/transition) and the other sectors. Our ambition is to reach 75% of portfolio constituents with a SBT or emissions aligned with a 1.5°C scenario by 2030 for the carbon intensive sectors for the funds categorised as Article 8 or 9. The next target will be a 100% portfolio coverage by 2040. For the other sectors, the target is set at a minimum of 50% of portfolio constituents with a SBT or emissions aligned with a 1.5°C scenario by 2030 for the funds categorised as SFDR article 8 and 9 and a target of 100% portfolio coverage by 2040.

To achieve these, the engagements will be key up to 2025 to achieve the target of 2030, through collaborative initiatives like CDP, SBT campaigns but also through individual engagements benefiting from all fundamental approaches of DPAM.



2. MEMBERSHIP TO SEVERAL INTERNATIONAL FORUMS THAT ADVOCATE SUSTAINABLE INVESTMENTS

Any investment decision has an impact. In order to demonstrate its commitment towards long-term sustainable financial management, DPAM is a signatory to various organizations. They are all organizations, which share its aim to advocate responsible investments. Its membership of international collaborative initiatives ensures that it gains continuous insight into the challenges and opportunities that responsible investment entails.

Next to its commitment to the UN PRI, DPAM is an active member of national forums for responsible investments, namely France (FIR), Spain (Spainsif), Italy (Finanza Sostenibile), Netherlands (VBDO Vereniging van Beleggers voor Duurzame Ontwikkeling) and German-speaking countries (FNG).

3. SUPPORTER OF AMBITIOUS AND SUCCESSFUL INITIATIVES ON ENGAGEMENT

In addition to the two key initiatives such as PRI and NZAM, which have considerable impact on DPAM’s profile as Sustainable Actor and Sustainable Investor, notably regarding shareholder responsibility and fight against climate change, DPAM is supporter of other key ambitious initiatives.

It has **been supporter of the TCFD** since 2018. In 2017, the United Nations adopted the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures (commonly referred to as the "TCFD Recommendations"), mainly on environmental and climate change issues. The latter are a pragmatic and recognized instrument for the implementation of the fiduciary duty of any investor to take ESG factors into account in its management.

Related to this, DPAM also joined the collaborative action **Climate Action 100+** in 2019.

Climate Action 100+ is an initiative led by investors to engage with systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. Investors are calling on companies (i.e. list of 100 largest emitters, increased by 61 additional companies) to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures (http://www.climateaction100.org/).

The initiative has been developed to build on the commitments laid out in the 2014/2015 Global Investor Statement on Climate Change, supported by 409 investors representing more than US $24 trillion.

The same year, DPAM joined **FAIRR**, a collaborative engagement initiative aiming to decrease the environmental impact of the food value chain by encouraging the use of sustainable proteins within food products. DPAM joined this initiative given its involvement in agro-food related companies and shared its insights with the initiative. Furthermore, DPAM contributes to their research by providing expert insights from its analysts, portfolio managers and responsible investments specialists.

Finally in June 2020, DPAM decided to support **Investor Alliance for Human Rights**, The membership is currently comprised of over 160 institutional investors, including asset management firms, trade union funds, public pension funds, foundations, endowments, faith-based organizations, and family funds. Their members currently represent a total of over US$4 trillion in assets under management across 18 countries.

Investor Alliance for Human Rights is a collective action platform for responsible investments that is grounded in respect for people's fundamental rights. The initiative focuses on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct and standard-setting activities that push for robust business and human rights policies.

As environment in general and biodiversity in particular are in the heart of worldwide concern, DPAM has also been supporting the **Finance for Biodiversity Pledge** since December 2020. This Pledge aims to call on global leaders and commit to protect and restore biodiversity through their finance activities and investments in the run-up to the COP 15 to the Convention on Biological Diversity (CBD) in May 2021.

4. DPAM STEWARDSHIP - ACTIVE OWNERSHIP

4.1 Shareholder responsibility – Proxy voting

DPAM is acting responsibly and with commitment to shareholders' meetings. Taking part in shareholders' meetings is also an important dimension of DPAM's social responsibility.

Exercising voting rights is an efficient way of showing its commitment to a more sustainable financial industry, advocating sustainable growth and a long-term risk management approach. General meetings are a place for exchanging ideas between shareholders and company executives. This allows investors to address specific issues more thoroughly, or to raise questions.

By means of its Voting Policy, DPAM makes sure that board of the investee companies is adequately equipped to ensure its role, including the adequate diversity in terms of gender, expertise, cultures and knowledge. Furthermore, it aims at the respect of the rights of shareholders, and therefore the rights of minority shareholders and other stakeholders notably trough proposals related to environmental or social topics. The Voting Policy fully discloses DPAM's vision on corporate governance within listed companies, its expectations as well as its approach as a responsible investor.

The Voting Policy (adopted for the first time in 2013 and revised from time to time is applied to all funds managed by DPAM by designation and all funds which have delegated the exercise of their voting rights to DPAM. It also applies to certain discretionary portfolio management mandates by virtue of which institutional asset owners/investors have mandated DPAM to vote in their portfolios according to DPAM's Voting Policy. DPAM therefore assesses more than 600 global companies on primarily governance issues, but also, increasingly, on environmental and social issues.

DPAM Voting Policy is **available here**. A yearly activity report is also published on its website.

4.2 Engagement

Given the multiple challenges and interactions companies are exposed to, a cautious and open-minded attitude is required, which is why DPAM has adopted an approach based on dialogue and collaboration with investees. This collaborative process takes place both within DPAM and externally.

DPAM adopted an engagement program in the second half of 2014. Since then, it has leveraged on experience, knowledge and sharing cooperation to adopt the latest engagement program publicly disclosed here.

In this policy, DPAM explains how it implements its two main engagement objectives namely:

- Engaging for improving the negative externalities of financed issuers
- Engaging for defending values and convictions on E, S and G factors.

The whole process of engagement, including the escalation process, is described in the policy.

The engagement policy can have implications for all portfolios managed by DPAM and the scope of the issuers with whom DPAM engages is defined in the policy, in particular by the themes identified as priorities. The positions in our portfolios do not determine the engagements. The issuers are selected because they either have been identified by the controversy review by the RISG or they are in the scope of the thematic priorities DPAM has defined on E, S & G aspects to defend its values and convictions.

Next to the formal engagement, it is useful to mention that ESG considerations are also discussed internally among the responsible investment specialists and the investment professionals to **challenge** financial and extra-financial findings and recommendations. This discussion increases the **awareness** of investment professionals as regards ESG risks and opportunities and enables a better understanding of sectorial challenges at financial and non-financial levels. It also makes it possible to challenge, where applicable, the external information and assessment of ESG ratings for companies that DPAM receives from specialized agencies.

Finally, the engagement is also an efficient manner to correct backward looking ESG data & research. It enables to have dialogues focusing on the future and on the practices the issuers are adopting to be aligned with the required transition. This forward-looking perspective is essential to ensuring that future company practices are aligned with our current expectations and requirements.

4.2.1 Engaging as a bondholder

DPAM's vision on engaging with issuers is a global one which is added value to the whole investment decision making process and **for all asset classes**.

The bond holders do not benefit from the same equity holders' position or legal rights as they do not have same voting rights. This is the reason why engaging with the issuers is particularly important for **DPAM's fixed income team**. First of all, as sustainability risks and opportunities are integrated at inception of the research process, the ESG profile of the issuer is taken into account by our credit analysts and fixed income portfolio managers. Secondly, all the engaged dialogues to get more information on specific ESG issues or on Sustainable Development Goal (SDG)[4]'s outcome of products and services are key information for all investment professionals, being bond or equity holders. Thirdly, DPAM can be an important bond holder through the portfolios it is managing and does not hesitate to commit to its sustainability responsibility when discussing with the syndicated banks (or syndication banks) on the primary market.

This engagement should also be seen from the angle of **sovereign bonds**. DPAM has been a pioneer in developing a sustainability model at country level (since 2007). With the assistance of external experts in its Fixed Income Sustainability Advisory Board, DPAM has developed a robust model built on sustainability pillars to assess the ESG profile of the developed and developing countries. The results of this model for each country are in the heart of the **systematic** and **formal** engagement process we have started as sovereign bond holders, as described extensively in the policy.

[4] The Sustainable Development Goals are the 17 goals defined by the United Nations in the heart of the 2030 Agenda for Sustainable Development. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

5. CONFLICT OF INTEREST POLICY

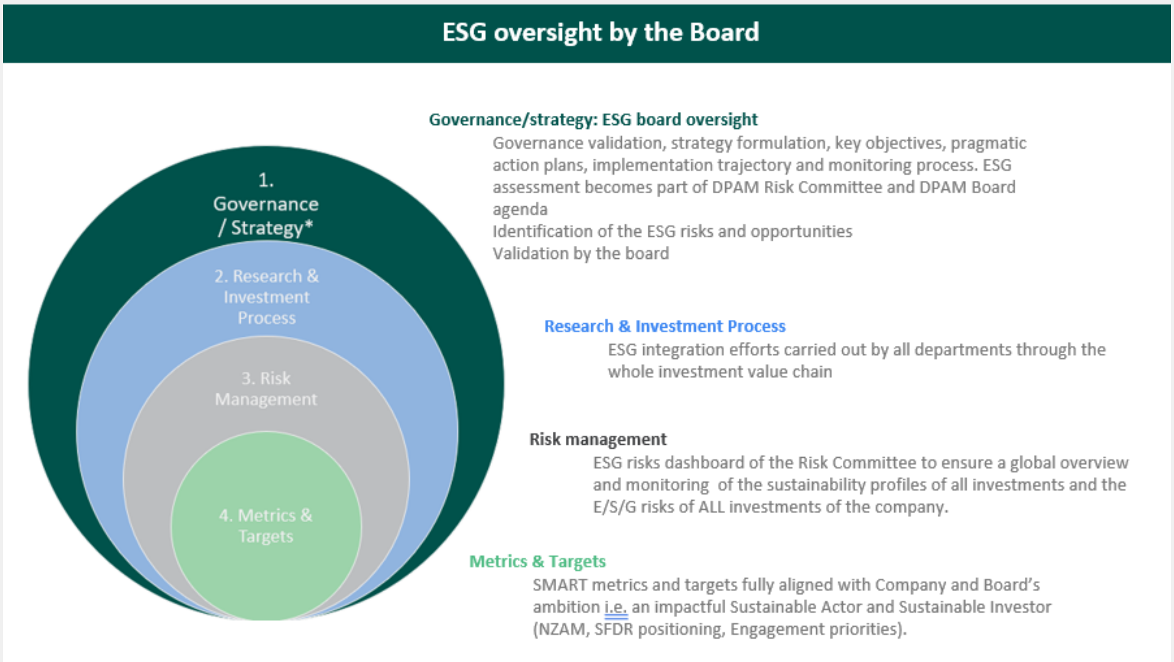
DPAM has a dedicated and comprehensive Conflicts of Interests Policy. DPAM ensures the rules stipulated in this Policy are enforced by Internal Audit, Risk Management and Compliance. It entails a definition of conflicts of interests, maintenance of an up-to-date conflict of interests' cartography and register. An inventory of potential conflicts of interests has been drafted and the compliance department has to report suspicions of market abuses to the FSMA (local regulators). These measures ensure potential conflicts of interests can be detected and avoided.

Furthermore, regarding sustainability strategies, the eligible universe, defined by the sustainability screening, is updated by the Responsible Investment Competence Center independently of the portfolio management teams, and communicated to the risk management and portfolio management teams at the same time.

Finally, the presence of external experts in our advisory boards (Voting Advisory Board and Fixed Income Sustainability Advisory Board) helps us as well to prevent from conflict of interest. External members are of particular added value in potential conflicts of interests when participating in shareholders meetings for example.

6. POLICIES AND GOVERNANCE

6.1 DPAM's Board of Directors responsible for the ESG oversight



Following the best practices promoted by the TCFD framework, DPAM has ensured that sustainable investments are governed in a framework in which governance encompasses all dimensions to ensure that all are set up in a formal and structured process.

6.2 The four DPAM's foundation/reference policies

As a reminder, DPAM's commitment as Sustainable Actor, Investor and Partner is founded on 4 key sustainable investments related policies, described in the introduction namely: the Voting Policy (**available here**), the Controversial Activities Policy (**available here**), the Engagement Policy (**available here**) and the present Sustainable and Responsible Investments Policy.

6.3 Governance and steering bodies

The various governance bodies, bolstered by external experts, have fostered a strong credibility and expertise in the approach to make ESG research relevant and material. Indeed, it is important to tap into the knowledge of various independent experts specialized in environmental, governance and social fields. As a member of DPAM's scientific boards (the Voting Advisory Board and the Fixed Income Sustainability Advisory Board) or as an invitee to 'Responsible Investment Corners' external experts play an important role in enhancing DPAM's processes and methodologies.

6.3.1 The Fixed Income Sustainability Advisory Board (FISAB)

The FISAB consists of seven voting members with most external experts and meet three times a year. The complementary background of the members guarantees expertise and knowledge in constructing the proprietary model assessing the sustainability of countries, developed by DPAM in 2007.

The role of the FISAB is:

- To select the criteria to assess the sustainability of countries;
- To determine the weights attributed to these selected sustainability criteria;
- To critically and accurately review the model and the resulting ranking to ensure continuous improvement;
- To validate the list of eligible countries, this may serve as eligible investment universe for sustainable portfolios.

6.3.2 The Voting Advisory Board (VAB)

It consists of external and internal members, who meet three times a year. The Advisory Board is responsible for the strategic framework of responsible ownership applied to all DPAM Funds and discretionary portfolio management mandates whose clients have expressly delegated the exercise of their voting rights to DPAM. It guards and actively seeks a coherent and credible implementation of the said Voting Policy.

Its role is to:

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

6.3.3 The TCFD Steering Group

To integrate climate-related risks in DPAM's investment processes, a group of investment professionals was set up by the Management Board to steer the TCFD implementation process. The TCFD steering group consists of internal members among whom Management Board members and RISG members. Fed by the expertise and experience of DPAM's investment professionals, the group meets eight times per year to review, update and strengthen its climate change strategy and risk management process, including the review of metrics and targets and engagement on environment concerns.

The TCFD Steering Group has an advisory and operational/executive role concerning the implementation of the TCFD recommendations and the NZAM commitment in DPAM's overall investment activities. As such, this includes following responsibilities:

a) ***Reporting*** *to DPAM Management Board on the implementation and integration of the TCFD recommendations. This includes:*

- Presenting an annual status report (status, progress and future actions);
- Presenting a bi-annual asset allocation overview and, in case required, formulating appropriate recommendations;
- Formulating ad-hoc recommendations to the Management Board in relation to data providers and tools to facilitate the integration of the TCFD recommendations;
- Formulating ad-hoc recommendations to the Management Board in relation to metrics and targets setting for portfolios and/or at DPAM level.

b) ***Evaluation** and steering of operational integration of climate-related risks and opportunities in investment decision making activities, by all actors involved (i.e. portfolio managers, analysts, risk, responsible investment specialists, sales). This includes:*

- Assessing and evaluating exposure to climate-risks at DPAM level and individual portfolio level through the use of:

    i. sector allocation monitoring (i.e. TCFD monitoring dashboard)

    ii. climate performance and scenario analysis/alignment of individual portfolios

    iii. TCFD assessments at investee level of all portfolios

    iv. climate/ESG VaR

    v. other metrics and tools still to be defined;

- Ensuring proper training of investment professionals and other actors involved.

6.3.4 The Responsible Investment Steering Group

DPAM has set up a Steering Group for Responsible Investment ("RISG"), which is the initiator and guardian of DPAM's identity to be Active, Sustainable & Research-driven and its mission to be a leading responsible investor.

The RISG oversees the implementation of DPAM's mission statement with regard to Responsible Investment. The RISG is both the pioneer and the guardian of the coherence, consistency and credibility of DPAM's investment process in the light of its strategic commitment toward Responsible Investing. Its role is (1) to promote responsible investing and to spread ESG knowledge within DPAM and beyond and (2) to enhance RI & ESG expertise internally and externally. Among other tasks, the RISG ensures the integration of ESG issues into investment analysis and decision-making processes by developing ESG-related tools, metrics and analyses. It ensures the transparency and consistency among the approaches, methodologies, products, solutions and services offered by DPAM. The RISG validates initiatives related to sustainable & responsible investment. As a guardian of the UNPRI, the RISG informs and educates in-house stakeholders, and raises awareness of ESG issues among all professionals at DPAM, notably the research, portfolio/fund management, risk and compliance entities.

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

7. PEOPLE, RESOURCES AND CAPABILITIES

7.1 The Responsible Investment Competence Center

The **Responsible Investment Competence Center** ("RICC") is headed by the Chief Sustainable Investment Officer (CSIO) and comprises four additional full-time ESG specialists. The RICC guides initiatives, methodologies and projects related to the ESG aspects of the investment processes. The CSIO reports directly to the Management Board of DPAM.

The activities of the RICC are threefold.

Firstly, the members of the RICC focus on increasing the ESG expertise of DPAM. This includes the analysis of new developments as well as the monitoring of the internal ESG strategies and the active involvement in further enhancing the construction and the quality of these strategies. The ESG specialists support the investment teams (both the portfolio managers and buy-side analysts) in gathering detailed qualitative information on specific themes or sectors from a top-down perspective[5]. The ESG specialists challenge the analysis of extra-financial research providers and engage with targeted companies for fact-checking and to reach the best possible conclusions. In general, the RICC acts as the internal point of contact for questions relating to DPAM's ESG strategy and investment approach.

Secondly, the RICC acts as the ESG specialist for external commercial activities. Our Responsible Investment Strategist is often asked by the media to comment on ESG related topics and the team supports DPAM's sales teams to explain DPAM's ESG commitment to clients, to comment on DPAM's strategies and dedicated products and to optimize recurring ESG-related reporting and information. Internally, the RICC also engages in interactions with departments of DPAM, for example by organizing ESG-themed presentations, with a view to optimize the awareness about our ESG competencies.

Finally, the RICC materializes DPAM's ESG commitment through international membership in various regulatory and topical organizations and through building out DPAM's activities in terms of proxy voting and engagement. The RICC acts as the privileged contact point for matters pertaining to the UN PRI.

7.2 Integration into research and portfolio management teams

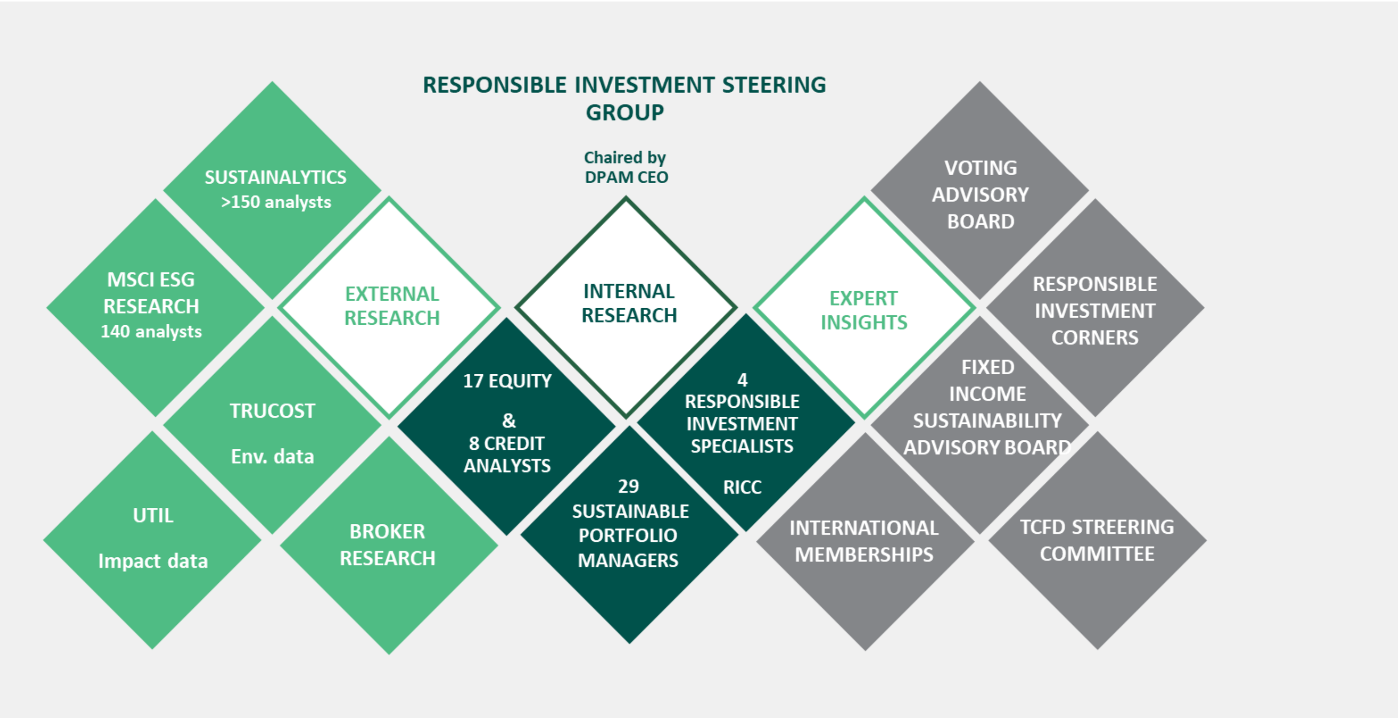
Committed to the first principle of UN PRI, DPAM integrates responsible investment indicators in buy-side investment research- regardless of the sustainability mandate of the investment portfolios The RI expertise revolves around the RICC, which includes specialists working in each of the investment competences: Fixed Income Fund Management, Credit Research, Equity Management and Equity Buy-side Research.

DPAM employs a team of both credit and equity buy-side analysts with experience across sectors. By combining the sector expertise of its analysts with the ESG-analysis from the RICC, DPAM can identify the key sustainability drivers for each sector, and to assess companies ESG performance accordingly. DPAM's buy-side recommendations include at least a general overview of the company's ESG performance. Eventually, the buy-side recommendations are supplemented with specific sector- or criteria-related ESG research and/or engagement initiatives when the ESG information available on the company is insufficient. When the research teams require more in-depth research on a particular stock or industry, they reach out to the RICC for further analysis and assistance. The portfolio managers (across asset classes) are involved in managing sustainable portfolios for which they also integrate ESG-considerations in their bottom-up stock selection.

[5] To notice that ESG analysts could be directly active in buy-side research teams to assist analysts and portfolio managers in the specific implementation requirements on issuers and instruments from a bottom-up perspective.

To encourage interaction, the investment and research teams and the RICC share the same floor. Our investment teams are trained to signal potential ESG issues, to comply with and to understand the construction of DPAM's eligible universe and to interpret external extra-financial research on specific companies or industries. In case of specific controversies or questions, the investment teams interact with RICC in order to support their analysis and decision-making. Meanwhile, the RICC regularly participates to the investment teams strategy meetings in order to better understand their views and expertise and to encourage a daily dialogue on the qualitative and quantitative ESG aspects of potential investments.

This conviction of added value of ESG in the investment process has evolved in a conviction for DPAM itself i.e. the investment professionals have pro-actively proposed an increasing number of sustainable initiatives at DPAM level. The extra financial report is a testimony thereof.



7.3 External resources

DPAM's external resources include extra-financial, company-specific and industry-wide research from the two leading extra-financial rating agencies **Sustainalytics and MSCI ESG Research**., The corporate governance of an extra-financial information company is an aspect reviewed in the course of their selection process. Other elements taken into account are the relevance of the information, the coverage, and the reactivity towards controversies and market events, for instance how long it takes to cover a security that enters the universe.

As a supporter of the TCFD recommendations and committed to assess the environmental risks accurately, the data from the specialist in **environmental data Trucost** are also a key input.

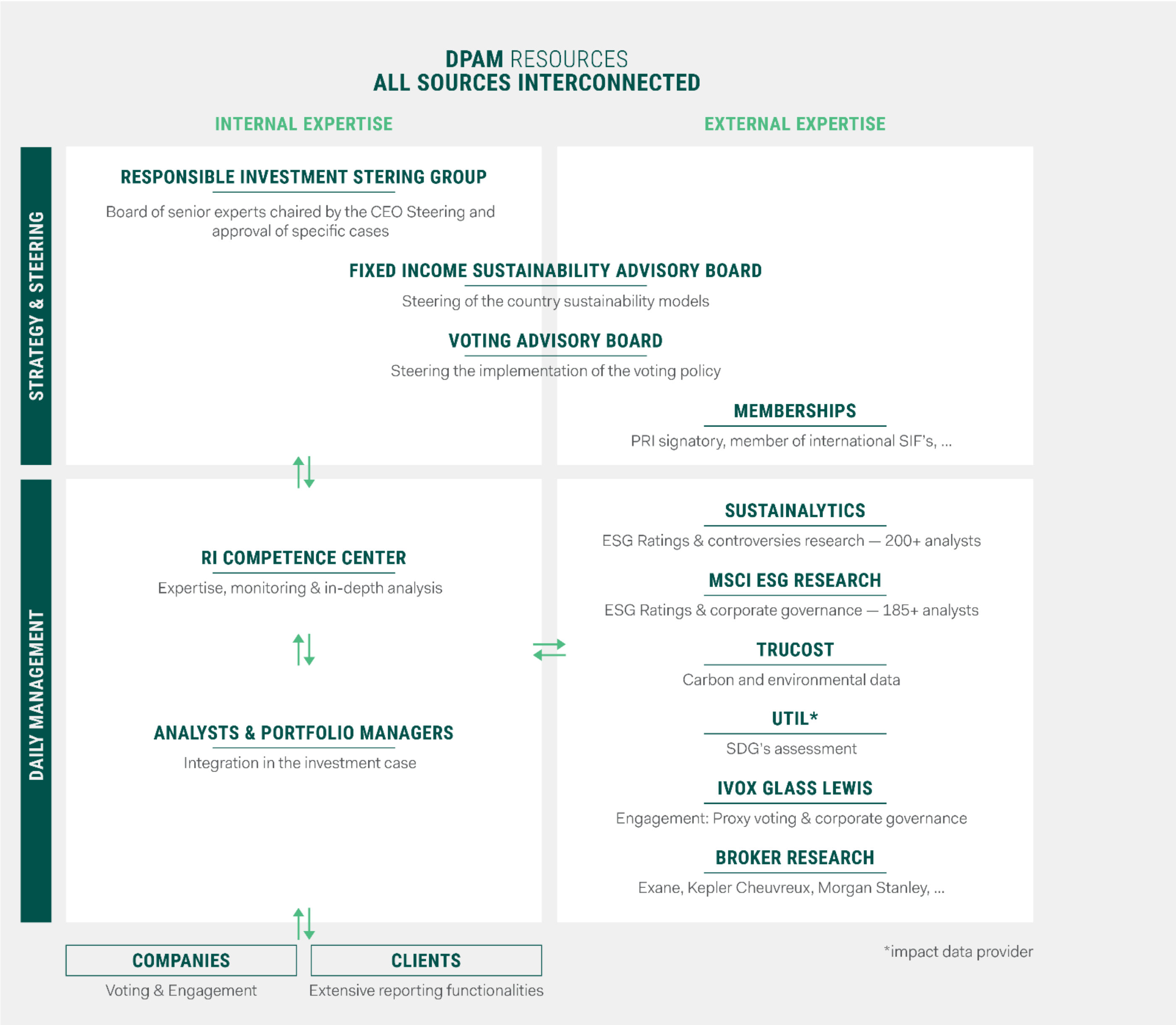
To complement these and to ensure the full alignment with the net zero initiative, two additional sources specialised in environmental data were added: CDP temperature rating tool and the carbon earnings at risk from S&P. Furthermore the open database from Sciences Base Target protocol is also a source of information.

The Util supplier is also used as an external source to objectivise the assessment/measurement of the impact of investments and their contribution to sustainable development objectives.

Besides the extra financial data providers, DPAM has access to a large amount of ESG data produced by various international sources of reference and a **wide set of brokers** with specialized research on selected ESG-related topics, which helps DPAM to continuously develop its in-house ESG assessment methodologies. Both the RICC and the investment teams have access to these sources. DPAM's analysts can also access a large number of ESG-related data points on the external analytics platforms to support their reflections.

Next to this broker research, DPAM also relies on publicly available information to bolster its analyses. This publicly available data can be categorized according to two different sources. First, the sources derived from reputed entities such as the World Bank or the Economist Intelligence Unit. These sources tend to be the backbone of our proprietary country model. The second sources tend to be publicly disclosed information from NGO's and organizations focussing on a very specific ESG topic. Examples of such sources are the Ranking Digital Rights, the World Benchmarking Alliance, or Business-Human Rights. It is important to note that we use these sources as an input in our analyses, and not blindly take over rankings.

Finally, DPAM regularly teams up with various external experts and engages in dialogue with other key players in the market. The RICC organizes responsible investment corners as well in which it invites various experts to share their knowledge with DPAM's employees on a specific topic. DPAM also engages experts in its topical working groups like the climate transition, the responsible tax treatment, the international treaties in oppressed countries, and the integration of biodiversity in country's models, etc.


DPAM RESOURCES
ALL SOURCES INTERCONNECTED
INTERNAL EXPERTISE
EXTERNAL EXPERTISE
STRATEGY & STEERING
RESPONSIBLE INVESTMENT STERING GROUP
Board of senior experts chaired by the CEO Steering and approval of specific cases
FIXED INCOME SUSTAINABILITY ADVISORY BOARD
Steering of the country sustainability models
VOTING ADVISORY BOARD
Steering the implementation of the voting policy
MEMBERSHIPS
PRI signatory, member of international SIF's, ...
DAILY MANAGEMENT
RI COMPETENCE CENTER
Expertise, monitoring & in-depth analysis
ANALYSTS & PORTFOLIO MANAGERS
Integration in the investment case
SUSTAINALYTICS
ESG Ratings & controversies research — 200+ analysts
MSCI ESG RESEARCH
ESG Ratings & corporate governance — 185+ analysts
TRUCOST
Carbon and environmental data
UTIL*
SDG's assessment
IVOX GLASS LEWIS
Engagement: Proxy voting & corporate governance
BROKER RESEARCH
Exane, Kepler Cheuvreux, Morgan Stanley, ...
COMPANIES
Voting & Engagement
CLIENTS
Extensive reporting functionalities
*impact data provider

DPAM IS A **COMMITTED SUSTAINABLE INVESTOR**

V. DPAM IS A **COMMITTED SUSTAINABLE INVESTOR**

DPAM is convinced of the risk/return optimization of ESG factors integration. It considers sustainability challenges as risks as well as opportunities. The ESG factors are used to assess the sustainability risks and opportunities of investment decisions.

DPAM is committed to offer solutions aligned with the European Commission's 2030-2050 **Program**[6] for a sustainable and inclusive growth and to put its portfolio management expertise to serve the key ESG priorities. This is also the reason why DPAM decided to join the Net Zero Asset Management initiative (NZAM) (see above).

Within this objective, it is important to define material ESG factors, priorities and targets.

1. ESG: DPAM'S DEFINITION

ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.

1.1 Environment

A set of ambitious international, regional and national public decisions on climate and the environment are beginning to emerge.

These are going to mainly one direction around the globe: achieving carbon neutrality by 2050 for Europe and USA and by 2060 for China.

There are mainly two ways to achieve this: either decreasing emissions (by reducing consumption and improving clean energy) or developing and leveraging on carbon capture and storage programs.

The winning sectors are obvious (clean solutions, technology, infrastructure) while the transition ones - transport, utilities and energy to list the main ones – are facing important challenges and business paradigm shifts.

DPAM is committed to support the climate transition over the last years. It has supported the TCFD recommendations and issued its first inaugural report in 2019. DPAM joined the collaborative initiatives Climate Action 100+ and Carbon Disclosure Project (CDP) via which it has started to lead several engagement cases. It has launched a strategy fully dedicated to climate challenge and gained expertise on low-carbon portfolios and climate reporting. Since June 2017, it has been calculating the **carbon footprint (scope 1 and 2 emissions)**[7] of all managed investment funds and since January 2022 scope 3 emissions as well for its sustainable investment funds.

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[6] This includes notably the EU Strategic Plan for sustainable finances, the Green Deal, the Fit for 55 package, etc.

[7] Scope 1 emissions: Direct emissions, from sources held or controlled by the entity or organization that reports
Scope 2 emissions: indirect emissions linked to the consumption of electricity and to the heat or steam required to manufacture the product

DPAM expects companies and governments to clearly articulate how climate change challenges are integrated into their strategies and policies.

DPAM considers a wide range of environmental issues in its investment process, and notably **climate change** and **its impact on resource scarcity, i.e. food security, water security, energy security and land security**.

The availability of water is a key foundation layer on which many economic activities rely, and water shortages are already a problem in many regions of the world (California, China, Australia, India and Indonesia). Water scarcity is a risk that must be taken into account, particularly for certain sectors such as agriculture (food and beverage), as access to water is critical to the continuation of the economic activity.

As supporter of TCFD recommendations, DPAM focuses on physical and transition risks i.e.:

- **Transition risks**, which find their origin in the (required) shift towards a low-carbon economy, are mainly policy-based and are more severe for companies operating in carbon-intensive sectors. The transition risks result from the ambition to limit global warming and prevent the occurrence of severe negative climate change patterns, which can have a devastating effect on the economy (policy and legal, technology, market and reputational risks)

- **Physical risks**, related to the physical impacts of climate change such as flooding or lack of resources. The acute physical risks result from changing weather patterns, are event-driven and impact the physical assets of a company (flooding, wild-fires or hurricanes). The chronic physical risks result from changing climate patterns and are longer-term shifts such as sea-level rise or severe reoccurring and irreversible periods of droughts, resulting in water scarcity or reduced crop yields.

DPAM has defined as a priority the assessment to the **alignment with a below 1.5° scenario** of the portfolios it is managing. Based on this and aligned with NZAM, DPAM's TCFD Steering Group will develop possible actions for the portfolios or investees which fail the exercise. Actions will include, but are not limited to, engagement with the companies which are falling behind this transition, with a focus on **scope 3 emissions** [8](aligned with DPAM's environmental engagement priority). As a forward-looking indicator, it helps to assess the materiality of environmental risk at portfolio management level.

The ESG factors DPAM integrates in its investment process should be aligned with the Principal Adverse Impact indicators as defined by SFDR.

- As a reminder, the PAI are "**Principal adverse impact indicators**" (or PAI), a list of indicators/metrics provided at EU level which can be used to assess the negative impact of an issuer/a portfolio on environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Please refer to the section on Principal Adverse Impact indicators to understand how these are integrated in the methodology and investment process.

[8] Scope 3 emissions : Other indirect emissions, linked to the supply chain (upstream) and the use of the products and services during their life cycle (downstream)

1.2 Social

Quite some ESG aspects tend to be linked to social, and the term starts to lead its own life in the mind of investors, clients, and civil society alike. There are many separate social aspects of ESG, but all of them are essentially about social relationships. As a generalization we can state that the social aspects of the S in ESG look at the interaction of corporate activities with its stakeholders, both in a positive and a negative way; the impact on the social systems and societies within which it operates. This could be referred to as the conceptual "**social license to operate**".

As mentioned, social covers the interaction between corporate activities and its stakeholders. Overall, it is possible to discern three stakeholder groups affected by a company's activities: Employees across the supply chain, consumers, and communities. Each social topic can therefore be classified according to the impact it has on a distinct stakeholder group.

Initiatives to mitigate negative externalities on **employees, both inside a company and in its supply chain**, can be described as **providing decent work**. This may help to improve the company's sustainable credibility, retain & attract talented employees, safeguard against potential political backlashes such as specific trade embargo's and eventually raise productivity. To achieve these positive effects, we ensure that proper labour practices are put in place, human rights in the supply chain are being monitored and respected and decent health & safety measures are taken.

We look beyond the direct sphere of influence of a company by ensuring that they follow the UN guiding principles on business and human rights. These principles describe tangible actions and commitments that need to be taken by corporates to ensure the identification, prevention, and potential remediation of human rights infringements throughout a company's value chain. Major controversies in this regard are flagged through noncompliance with internationally recognized standards such as the ILO Conventions or the UN Conventions in our norms-based screenings.

DPAM aims at a systematic analysis of a company's management practices on salient social issues that a company may be facing. An analysis based on the sectorial and geographical exposure and supply chain breadth of the company will determine these salient social issues. Examples of these issues can be **employee safety, child labour or forced labour** but can be grouped under the **respect of human rights.**

Another key stakeholder group are the **consumers or end-users**. It is key for businesses to ensure that its products are helping the wellbeing of its end-users and that the company considers product responsibility throughout its product life cycle. Based on a company's distinct sector, we can identify social risks that companies need to mitigate in this regard. These risks may be arising around **digital rights, product safety, product labelling & marketing or product access.**

Social responsibility is also key with regards to the **local communities** in which organizations operate, and as regards corporate interaction with other social institutions, such as local authorities. Social responsibility entails the **duty to compete fairly** with other firms, and to actively mitigate the risks associated with anti-competitive behaviour linked to monopolistic practices.

The social indicators DPAM integrate in its fundamental research go therefore beyond the themes of the mandatory social PAI focusing on social and employee matters (see below).

1.3 Governance

The scope of governance covers the impact that a company's management, processes and behaviors have on the long-term interest of the business, on its investors and on the community in which it operates. It complements the required standards of governance as mandated by the regulatory framework.

Governance is a key criterion in DPAM's research. Companies' behavior comes in at the top of the list of all governance topics. For a long time, DPAM's research and portfolio management teams have had a strong interest in all matters relating to the governance of a company, as it is the key driver of longer-term investment performance. By meeting with a company's top management, an analyst is able to form an opinion on the quality of the management team and the credibility of its stated objectives, with a view to determining whether the management can succeed in implementing a business plan strategy and in generating sustainable value creation. Governance is in the "DNA of DPAM" when it comes to assessing managements' sustainability. Furthermore, analysts are in contact with brokers, sector specialists, institutional clients and other relevant parties to challenge what management says and compare it with what it does in reality. This is a guarantee against so-called "green washing".

Yet, corporate governance data tends to be qualitative by nature, which can be a challenge for ESG analysis, making it more difficult for measuring impact on the financial performance. DPAM's approach therefore consists in collecting a set of corporate governance data or features and then converting them into a score reflecting the quality of business management. More precisely, we monitor the following governance criteria:

- Board of directors – independence, diversity and skills
- Audit and internal controls - non-audit fees
- Executive remuneration
- Business management controversies
- Shareholder's dissatisfaction
- Protection of minority shareholders
- Etc.

Governance also involves **business ethics**, meaning mainly issues related to **bribery and corruption** or **competitive behavior**. Corruption is a key discriminating factor as it leads to a lack of transparency, uncertainty and therefore volatility.

ENVIRONMENT	**GHG emissions** Carbon intensity (expressed in tons of CO2 equivalent/turnover) for Scope 1, Scope 2, Scope 3, and Scope 1+2+3 combined, with historical trends for each scope over the last five years Total emissions (direct & indirect scope 1,2,3) of CO2, methane, nitrous oxide, HFCs and other greenhouse gases, broken down by gas, scope and origin Greenhouse gas emissions for Scope 1 and Scope 2, and carbon intensity (expressed in tons of CO2 equivalent/turnover) for Scope 1 and Scope 2 (source: MSCI-ESG). Carbon intensity and carbon intensity trend scores (source Sustainalytics). **Reserves of GHG emissions** With respect to gross reserves and embedded emissions, quantitative data on the portfolio level and on all portfolio companies classified in the coal or oil and gas extraction sector.

Physical risks

The financial risks related to climate change and in particular the physical risks are taken into account by analysts in the main sectors impacted by climate change (energy, transport, real estate and materials, agriculture/food/forestry, etc.). The analysis of physical risks related to climate change was initially taken into account in the evaluation of companies with a growing share of hydropower in their turnover. This analysis is gradually being extended to other impacted sectors. TCFD assessment reports ("TCFD assessments") are produced by sector analysts with the assistance of members of the RICC (Responsible Investment Competence Center).

Transition risk

Transition risks and their financial materiality are also taken into account by analysts of the main transition sectors as designated by TCFD, i.e. energy, transport, construction and materials, agriculture/food/forestry.

SOCIAL

Respecting workers

- Employee's safety and protection policies
- Labour rights
- Diversity policies
- Human capital management
- …

Promoting end-user wellbeing

- Customer's satisfaction
- Products health and safety
- Data privacy
- …

Considering local communities

- Market manipulation
- Community involvement
- …

GOVERNANCE

Analysis of Corporate Governance using indicators from the ESG research of MSCI-ESG, Glass-Lewis, and to a lesser extent Sustainalytics, and according to the DPAM analysis grid (criteria of independence and competence of the supervisory board and its sub-committees, separation of CEO and chairman of the supervisory board, structure of auditors' remuneration, structure of executive remuneration and alignment with the long-term interests of the company, etc.);

2. ESG FACTORS INTEGRATION: INTEGRATION PRINCIPLES

The philosophy and approach are based on pragmatism and dialogue.

DPAM is convinced that today's global challenges are tomorrow's opportunities. It is not an easy task to integrate those global ESG challenges into an investment approach, in a rigorous and disciplined manner. Thanks to its twenty years of experience and expertise in Responsible Investments, DPAM is able to do it for the benefit of its clients.

It is DPAM's fiduciary responsibility, as a financial and research expert, to map business, financial and ESG risks and opportunities associated with any specific investment. The analysis of ESG factors is part of the process applied to identify the optimized investments that are most appropriate to reach the funds' and clients' objectives and guidelines.

ESG FACTORS INTEGRATION – INGRAINED IN DPAM'S DNA

1. **Risk return optimisation**
2. **Time horizon**
3. **Materiality of ESG criteria**
4. **Sector specific ESG factors**
5. **Engaged dialogue and promotion of Best Practices**
6. **Continuous improvement**
7. **Holistic and transversal approach**

2.1 Risk return optimization

On the **mid- and long-term**, ESG awareness pays back. Also, understanding its impact on its stakeholders is a pre-requisite for the sustainability of a company and therefore its profitability and ability to create shareholder value. ESG considerations are **increasingly integrated** into corporate strategies and are not an isolated process. ESG performance is part of a complex picture and anticipating ESG challenges can generate a competitive advantage for companies. Specifically, in the same way a financial business plan projects a company over a **3 to 5-years' time horizon** with a view to anticipate on key corporate developments and make appropriate provisions, ESG challenges should also be clearly identified so that they can be anticipated and provisioned as well.

2.2 Time horizon

The question of time horizon regarding ESG factors is a challenging one as it will dependent on other factors such as long-term objectives, instrument maturity, refinancing, cash flows, frequency, etc. In the cases of ESG factors, some issues may emerge gradually and become more and more relevant over time. Others will unexpectedly become evident. Long term risks may become short term whilst others may never materialize.

Furthermore, ESG factors tend to rely on static information, which leads to retro-active analyses rather than pro-active ones. **Forward looking data** enables these proactive analyses. This is why DPAM has focussed on **data monitoring** (evolution over time) and **developing scenario's** to also ascertain the plausibility of specific risks.

ESG factors are defined according to **structural trends**, which are by nature long term. Nevertheless environmental risks, and in particular climate ones, represent an urgency for the planet and make these relevant to include in the short term as well.

According to a survey published by MSCI in June 2020[9], governance factors seem to have more direct impact on valuation and reputation on short period than environmental or social ones which are more on medium term horizon.

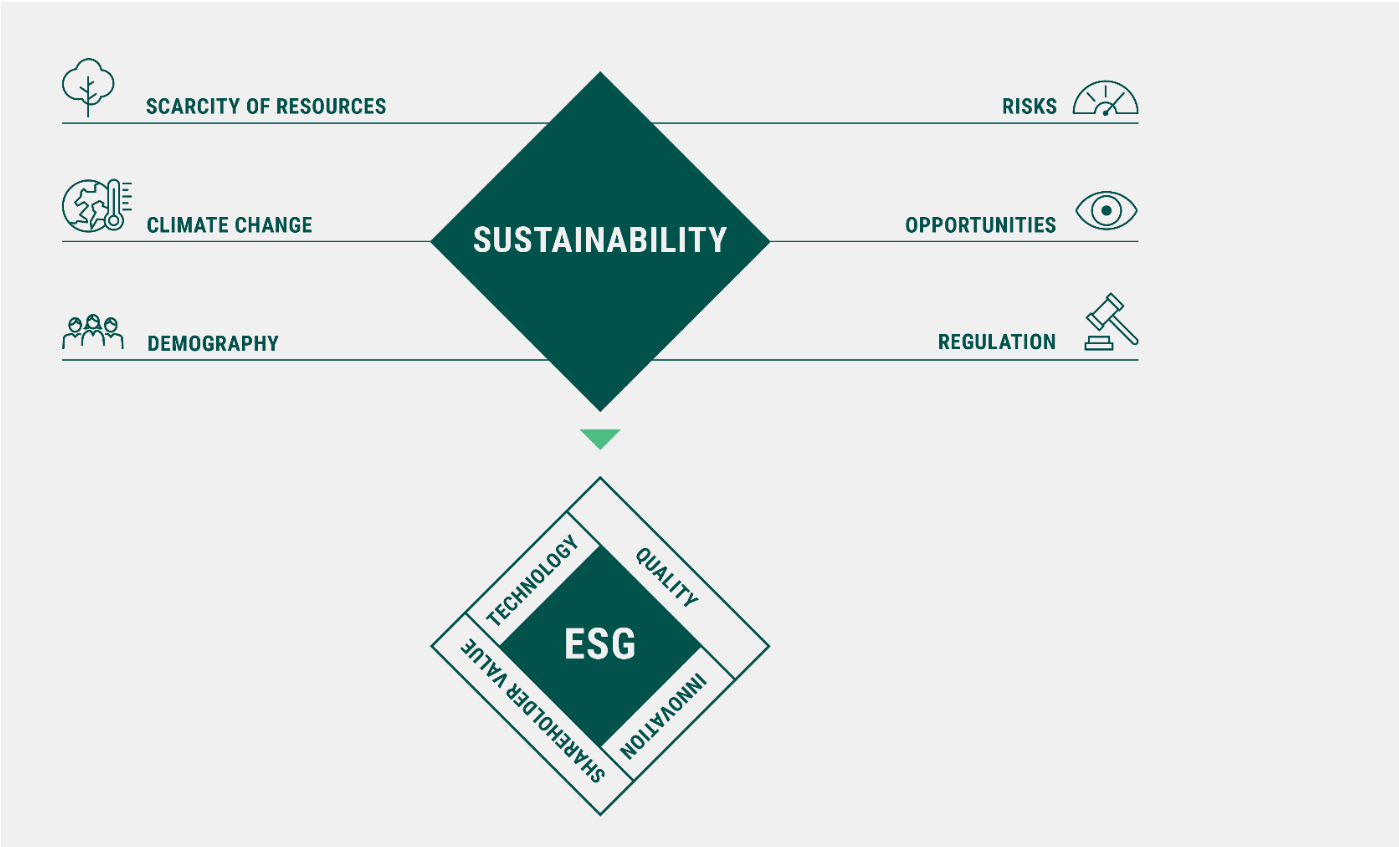
It will be therefore the responsibility of the research and portfolio management teams to define the ESG factors which are the most **relevant according to the time horizon of the investment decisions and circumstances of the portfolio's construction**.

2.3 Materiality of ESG criteria

DPAM focuses **on criteria that could affect the core drivers and most important financial metrics of the company**.

In a first step, we identify strategic challenges regarding ESG issues. These challenges are dependent on the contextualisation of a corporate's activities. Factors such as the specific sub-industry, geographical scope, defined activities, target group, or geo-political context all impact the identification of these challenges.

In a second step, the approach is focused on the materiality of these ESG issues i.e. identifying medium-term risks and opportunities and how the companies or countries are preparing for them. Whilst DPAM assesses a range of ESG criteria, its focus is on identifying issues which have a material impact on the sustainability of a company's activity and therefore its profitability and creation of shareholder value.



[9] Deconstructing ESG ratings performance, June 2020

2.4 Sector specific ESG factors

ESG covers a wide range of issues. To keep the analysis process efficient and to avoid a dilution of the most relevant ESG topics for each sector, DPAM has defined **key ESG issues for each particular industry**. Within each sector and sub-sector, a number of specific sectorial ESG criteria have been retained with a view to reflect sector-specific drivers and identify companies which are in a better position to face the identified challenges. The key ESG factors for each sector are reviewed regularly since ESG factors can become more or less relevant and more or less material over time and are at the discretion of the research teams according to the sectors' challenges.

2.5 Engaged Dialogue and promotion of Best Practices

Dialogue with the companies and other stakeholders is at the heart of our fundamental research and investment process. Engaging in a dialogue with a company, either through proxy voting or a direct dialogue is a means **to fine-tune fundamental research-driven investments decisions and to spread best practices and innovative solutions for ESG challenges**.

Company meetings are an opportunity to foster communication and are a way to assess the ESG involvement of companies in which DPAM is investing or may invest. During meetings with senior management, DPAM's investment professionals raise questions related to ESG issues and are able to engage with the company to promote ESG best practices.

It goes beyond existing investments as it also applies to investment opportunities and collaborative engagement initiatives on various ESG issues that DPAM supports without being necessarily shareholders of the engaged companies. In other words, engagement is used as a due diligence process, integrated in DPAM's commitment to be Active, Sustainable & Research-driven.

2.6 Continuous improvement

The integration of ESG factors in the investment process is **a long-term and permanent learning** process. ESG issues are medium-term in nature while valuations are driven by several different short-term and long-term factors. An investor open to ESG issues is therefore confronted with possible tensions between short- and long-term considerations. The challenge of sustainability integration is to reconcile the interests of all stakeholders while still creating value for shareholders. Whereas the analysis of tangible assets has existed for a long time, with mature standards and measures largely accepted and used worldwide, this is not the case for the valuation of intangible assets. Value of intangibles such as brand image or innovation is closely linked to ESG factors

The challenges involve aspects such as materiality, measurability, normalization of standards, comparability, etc.

Nevertheless, DPAM is convinced that a long-term view will pay off and that **considering ESG issues in the medium term can make it easier to anticipate certain signals of strength/weakness**, which could sooner or later be beneficial/harmful to valuation and stock performance. In fact, corporates attuned to their ESG responsibility are adapting their risk control and management practices and intensifying their innovation effort, which contributes positively to their competitiveness and stock-value in the long run.

Integrating ESG factors in portfolio management and research is a permanent process. DPAM adopts a dynamic and pro-active approach to improve its knowledge, research process and methodology through discussion, debate and interaction with external experts, sector analysts, macro analysts and all involved parties.

2.7 Holistic and transversal approach

The objective is to integrate ESG factors in the investment process, from the research phase to the final decision-making, by integrating key factors in all asset classes.

The **holistic approach** covers sectors which are inherently unsustainable and considered as ESG-unfriendly, such as metals and mining or oil and gas, but still vital in the transition.

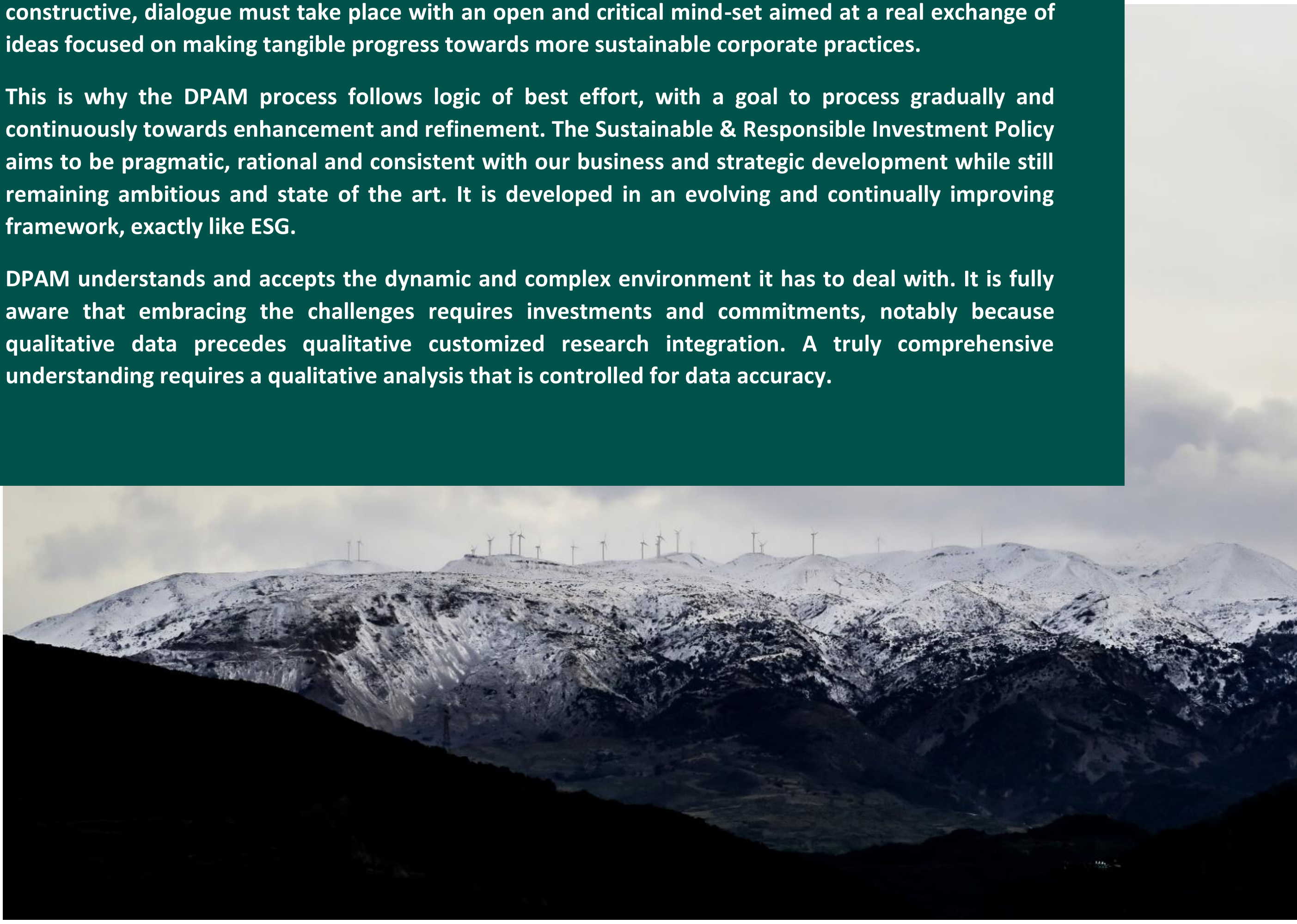
Up to now, oil, gas and mining played a necessary role in economic development. Rather than adopting a negative approach via exclusion of these sectors- which could lead to distortions in terms of sector underweighting and overweighting - DPAM prefers to apply a positive approach by selecting those on track with transition to low carbon economy and to identify the organizations promoting best practices within their economic and social spheres of influence. DPAM's Controversial Activities Policy details DPAM's vision and engagement on that topic. In relation thereto, DPAM is committed to a responsible approach towards the climate transition and is conscious about the leverage it has on its investee companies. This leverage can materialize in either engagements or our proxy voting. Additional information on these can be found in the respective policies.

DPAM's sustainable investments strategies commit to invest in companies which are offering through their products and services solutions to the ESG challenges.

In short, DPAM's approach aims to be pro-active, dynamic and supportive of ESG best practices with limited exclusion of economic sectors and while dialoguing with companies and organizations. To be constructive, dialogue must take place with an open and critical mind-set aimed at a real exchange of ideas focused on making tangible progress towards more sustainable corporate practices.

This is why the DPAM process follows logic of best effort, with a goal to process gradually and continuously towards enhancement and refinement. The Sustainable & Responsible Investment Policy aims to be pragmatic, rational and consistent with our business and strategic development while still remaining ambitious and state of the art. It is developed in an evolving and continually improving framework, exactly like ESG.

DPAM understands and accepts the dynamic and complex environment it has to deal with. It is fully aware that embracing the challenges requires investments and commitments, notably because qualitative data precedes qualitative customized research integration. A truly comprehensive understanding requires a qualitative analysis that is controlled for data accuracy.



3. ESG FACTORS INTEGRATION: INTEGRATION BY ASSET CLASSES

We are convinced that investing in financial instruments issued by companies and states which integrate ESG considerations into their business models or do their best to ensure the long-term welfare of their citizens, exposes shareholders and bondholders to fewer "tail risks"[10].

Top-down

The ESG risks and opportunities are identified as top-down views to be integrated in asset allocation mainly through sector or sub-theme allocation.

Bottom-up

Thanks to internal and external data and the in-depth analysis of fundamental research, those risks and opportunities are integrated via a bottom-up approach by investing preferably in issuers who are anticipating these risks and opportunities and that consequently constitute sustainable franchises.

The objective of ESG integrated research is to map all the risks and opportunities of an investment as a whole. This is not to be seen as a filter reducing investment opportunities but rather as a way to focus on the best sustainable opportunities, which is the objective of the financial analysis.

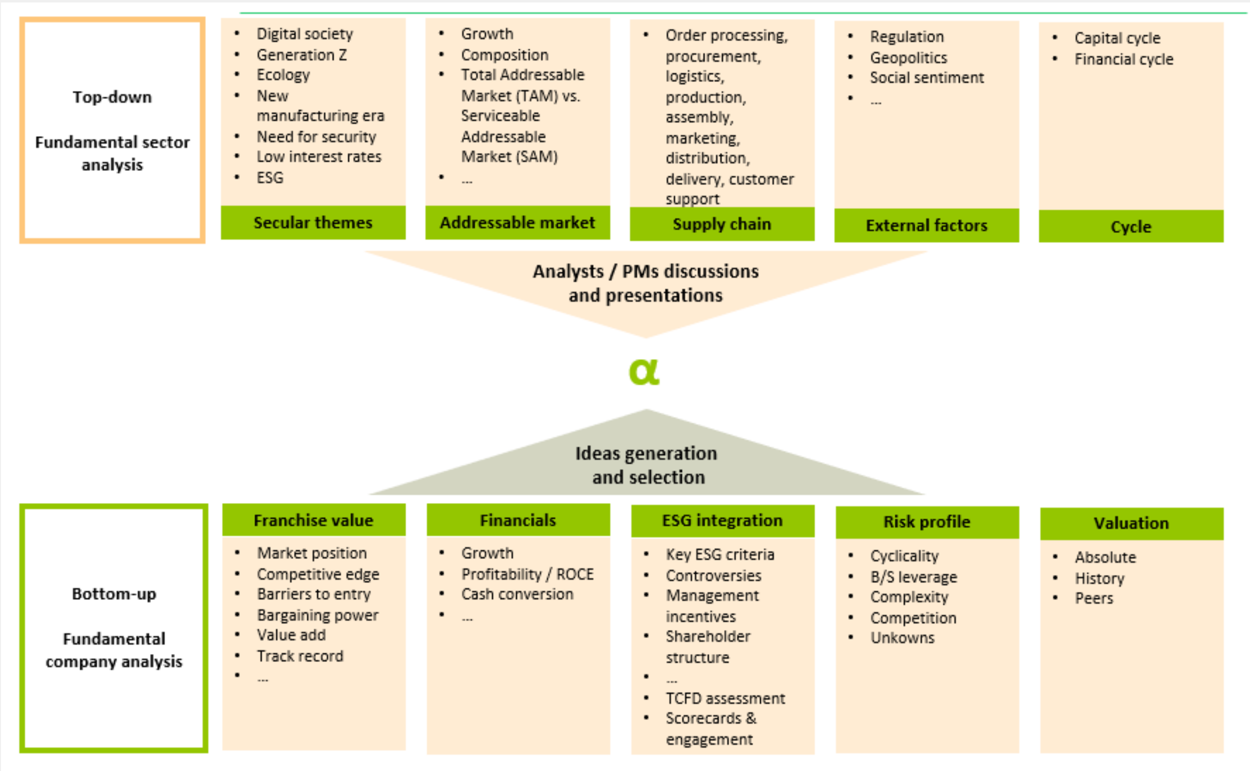
Everyone tends to agree that the current economic, social, environmental and governance models are no longer sustainable in the long term. The technological disruptions, the new paradigm in corporate governance models, etc. are changing our ecosystems which require adaptations from companies as well as states.

The way the sustainability risks are integrated in the investment decision making process can differ according to the asset classes and financial instruments.

It is best practice according to the UN PRI to make a distinction in the approach between the asset classes which are within DPAM's portfolio management and advisory expertise.

[10] Tail risk is a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution. Tail risks include events that have a small probability of occurring, and occur at both ends of a normal distribution curve

3.1 Integration in listed equities



ESG analysis is instilled throughout the fundamental equity research process (using a combination of qualitative and quantitative data) and ultimately influences the formal recommendations provided by analysts to their PM counterparts. ESG factors across the three dimensions of Environmental Stewardship, Social Responsibility, and Governance are considered from both the top-down angle (macro-, sector-, country-, and business model-specific factors) and the bottom-up angle (company-specific factors).

Equity research analysts, supported by the ESG team, consult various different data sources in conducting their ESG analysis. This may include, but is not limited to, third-party ESG data providers (e.g., MSCI ESG Research, Sustainalytics, Trucost, CDP, etc.), self-reported company data (e.g., annual reports, ESG reports, case studies, etc.), news outlets and press, broker research, other data aggregation providers (e.g., Glassdoor and LinkedIn for employee satisfaction), and direct interactions with company staff, investor relation managers and management teams. Drawing information from a variety of sources ensures that the analysis is as comprehensive and objective as possible. Ideally, such data is also collected across various points in time to assess the company's relative historical performance (i.e., has the company improved or deteriorated?) as well as its future potential. While the emphasis of the analysis is on the company risks pertaining to ESG factors, credence is also given to ESG-related opportunities.

Some of the key questions that the research analyst will strive to answer in her/his analysis are the following:

- Are we comfortable with the ESG profile of the company?
- What are the key sustainability challenges for the sector and its future development?
- How has the company integrated those sustainability challenges into its corporate strategy?
- How does the company contribute to sustainable economic development taking into account human health and welfare, social development and environmental outcomes?
- What are the main elements of the ESG analysis?
- How is the business managing its stakeholders?

While quantitative data plays a key role in the ESG analysis, the process ultimately relies on the expert critical judgement of the research analyst, supported by the ESG team.

3.2 Integration in Corporate Bonds

Credit analysts' recommendations are driven by fundamental analysis.

The analysis of a company's ESG strategy is embedded in the fundamental analysis performed by our credit research team, from the ongoing collaboration between the credit and ESG analysts.

Our fundamental credit analysis is based on several pillars, namely the assessment of a company's business risk profile, its ESG risk profile, and its financial risk profile. In addition to the analysis performed at the company level, our assessment is also done at the security/bond level to evaluate structural risk, the aggressiveness of documentation, relative value, etc. Through this process, we form a comprehensive, substantiated opinion on a company, and we are then able to provide a clear-cut outlook on the attractiveness of its bonds.

We approach our ESG analysis with a critical mindset using the information published or provided by the company itself, as well as the research, data, and scoring/rating issued by our external providers (i.e., Sustainalytics, MSCI ESG, Glass Lewis, CDP, TruCost, Bloomberg, Util, etc.). More importantly, to maintain a pragmatic perspective, we look beyond a company's past performance by also considering the underlying trends shown in their ESG strategy (i.e., efforts put in place towards achieving their targets and KPIs). This assessment allows us to forge an objective opinion on the company's ESG risk profile, and its potential impact on the other pillars of our analysis, such as business and financial risks.

3.2.1 DPAM Green, Social & Sustainability (GSS) Corporate Bond Policy

Labelled bonds for credit bonds portfolio

For all labelled bonds that are analyzed by a FI analyst, a double check will be conducted to ensure adherence to the Febelfin criteria "Use-of-proceeds instruments shall comply with an appropriate framework (e.g. ICMA/CBI/EU GBS/LMA) and be subject to independent external review."

Scope: All labelled bonds should have a slightly extended analysis by the FI analyst. Therefore following type of instruments should enjoy an extended analysis 1) green bonds, 2) social bonds, 3) sustainability bonds, 4) sustainability-linked bonds 5) transition bonds 6) blue bonds.

Analysis: In the document set up by FI analysts when analyzing an issuance, two additional pieces of text will be included.

The analyst mentions which second party opinion provider has drafted the second party opinion (e.g. Sustainalytics, ISS, Cicero, Vigeo Eiris, DNV). In case no second party opinion exists, this should be mentioned as well;

The analyst mentions what framework has been used as basis (ICMA, CBI, EU GBS). The framework that the bond adheres to is usually described in the intro text of the second party opinion and the investor presentation of the issuance. In case the second party opinion mentions another framework than ICMA, CBI, EU GBS, the framework is being checked by a member of the RICC and this member will revert back to the FI analyst;

The analyst attaches the second party opinion to the issuance analysis.

UOP bonds for controversial sectors for credit bond portfolios

Some labelled bonds issued by companies that need to be excluded from sustainable strategies due to their activity involvement, might still be eligible in case the proceeds contribute positively to the energy transition and/or to the mitigation of climate change risks. This is again aligned with Febelfin criteria and chapter 17 of DPAM's controversial activity policy.

Scope: Companies that pass all the necessary checks (global standards, controversies, BIC), but fail on the controversial activity check of thermal coal, unconventional oil and gas, oil and gas, generation of power/heat or nuclear power AND issue a green use of proceeds bond (green bond, transition bond or sustainability bond).

Analysis: It's the responsibility of the relevant PM's to ensure that green UoP bonds issued by companies active in these activity thresholds need a proceeds analysis by the RICC. Concretely, the RICC sets up an analysis following the Climate Trends scorecard to ensure that the proceeds of the bond contribute positively to the energy transition and/or to the mitigation of climate change risks. Only after receiving this positive analysis by the RICC, can the PM invest in this type of bond issued by an issuer that does not satisfy the activity thresholds set out in the controversy activity policy for thermal coal, unconventional oil and gas, oil and gas, generation of power/heat or nuclear power. The RICC will use the input of the fin analyst to set up the decision.

3.3 Integration in Sovereign Bonds

Looking at a country's commitment regarding social, environmental and governance responsibilities allows identifying the leaders in sustainable development, which will therefore continue to gain in importance and will have a positive effect on its creditworthiness. Indeed, this fundamental approach allows distinguishing countries able to avail themselves of bonds issues in terms of making interest payments and redeeming the principal, from the other countries.

By investing in education, promoting research and development to solve the key challenges of the future and by ensuring its citizens access to information and communication to exert their rights in full freedom, the state is building its foundation for a positive economic development but also for good living conditions for its citizens and for future development; the key for the future success. In sum, the strategy takes the conviction that decent sustainable governance at a country level has indirectly positive impacts on the financial performance of the country's government bond issuances.

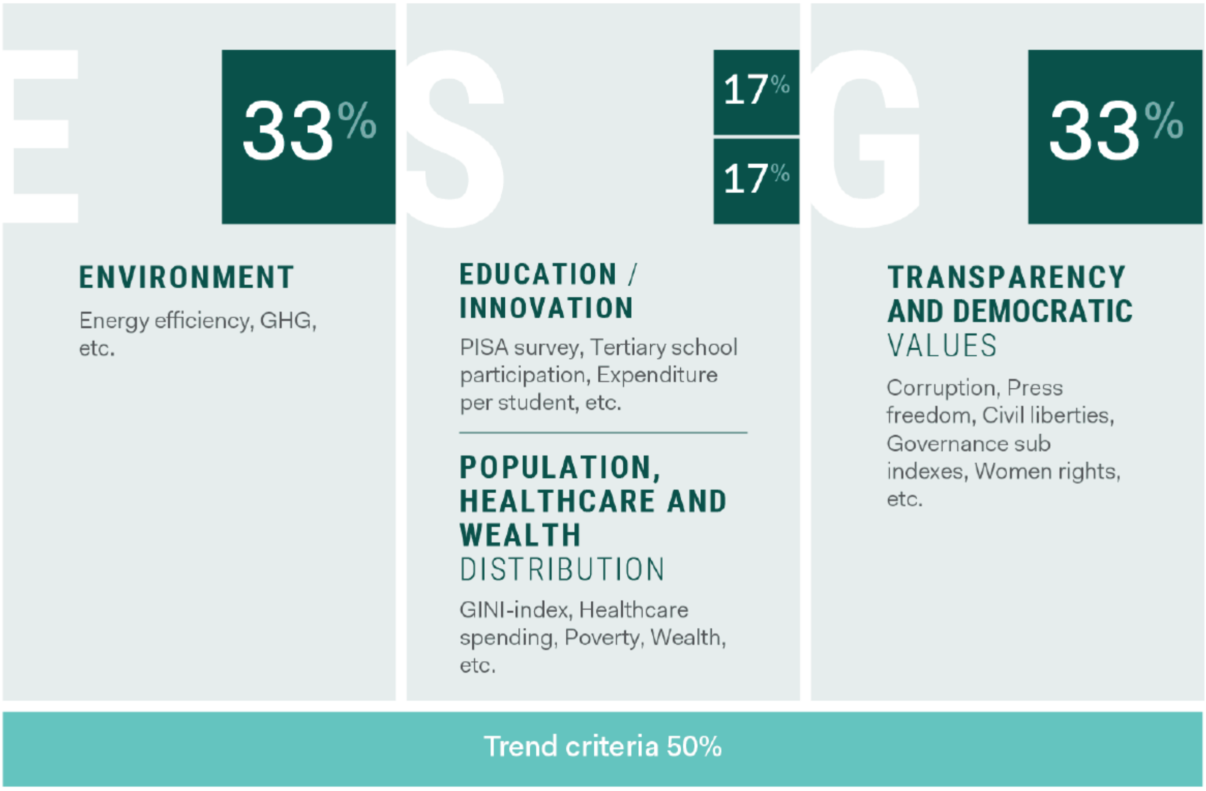
Our proprietary country model focuses on the Environmental, Social & Governance challenges at the level of a country, which results in four sustainable dimensions namely transparency and democratic values (1), environment (2), population, health and wealth distribution (3) and education and innovation (4)).

The model is based on key principles:

- Existence of an advisory board, consisting of external specialists providing input to the model (the FISAB as described above).
- Assessment of the commitment of the country to its sustainable development: variables on which the country can have influence through decisions.
- Comparability and objectivity: criteria are numeric data, available from reliable sources and comparable for all countries.
- Criteria which governments (government, regulatory authorities, laws and regulations) can utilise to influence their policies. Thus, it avoids data linked to the geography or population density of the country.

In brief, the model is quantitative and tracks the current performance of a country, with comparable real data.

Over the last years, we witnessed several disruptions and even contradictions regarding governance, social concern, or environmental issues. Therefore sustainability analysis at country level has been essential in an integrated model.



The approach is dynamic as the selected criteria are reviewed twice per year, with the support and expertise of the Fixed Income Sustainability Advisory Board (FISAB), with the intention of selecting the most appropriate and relevant criteria for each domain. An indicator may be replaced and adapted or omitted after such review. New indicators can enter the model and the allocation of the weightings may also vary.

Next to the proprietary country model, DPAM has also defined a framework to assess use-of-proceed bonds issued by countries.

3.3.1 DPAM Green, Social & Sustainability (GSS) Government Bond Policy

Green bonds: from idea generation to regulatory frameworks

Driven by Scandinavian investor demand, and in an ambitious effort to connect financing from investors to climate projects, the World Bank issued the first ever green bond already back in 2008. Green bonds, in contrary to plain vanilla bonds, have so-called 'use of proceeds' which are dedicated to specific environmentally friendly activities. The concept rapidly gains popularity, as the instrument would allow companies and public bodies easily raise large-scale financing for climate and environmentally friendly investments, while simultaneously protecting investors from greenwashing.

The World Bank's first issuance turned out to be an history-making event, with total green bond issuance expecting to reach an astronomic amount of USD 400 billion by the end of this year (2021). The green bond success eventually set the trend for like-minded instruments such as social bonds, sustainability bonds and sustainability-linked bonds. Moreover, earlier this year the European Commission has issued the world's largest green bond to date, amounting to EUR 12 billion. The issuance took place in the context of the NextGenerationEU green bond program of up to EUR 250 billion.

With popularity rising, the need for standardization grew. As a result, in its search for a credible green financial instrument, the International Capital Markets Association (ICMA) eventually developed the Green Bond Principles. The principles, which are built upon the pillars of the first green bond issuance, offer a framework for broader green bond issuance, where disclosures on the use of proceeds, the process for project evaluation and selection (including second party opinions), the management of proceeds and finally reporting are highlighted. With new issuances in a variety of industries rapidly gaining ground, the need for an international classification system was triggered to ensure that the use of proceeds contribute to environmental objectives such as: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. Eventually, the Climate Bonds Initiative[11] developed a (voluntary) taxonomy for green activities. Following the publication, green bond issuers increasingly start to align their use of proceeds with the Climate Bonds Initiative's taxonomy for green activities.

However, without a regulatory framework in place, the green bond market continued to receive scrutiny from stakeholders. Green 'junks' bonds, as they are sometimes called, can have either unclear proceeds' allocation, are not aligned with climate science (targets), have no (or questionable) third-party verification or state limited reporting ambitions. Hence, with its ambitious sustainable finance action plan launched back in 2018, as part of the EU Green Deal, the European Commission eventually launched the European Green Bond Standard around mid-2021. The voluntary standard, built upon the Green Bond Principles, links the use of proceeds to the EU Taxonomy for Sustainable Activities (built around 6 environmental objectives). The latter is a classification system for sustainable economic activities developed in collaboration with scientific and corporate communities, and hence serves as the common language and a clear definition of what is truly 'sustainable'. Interestingly, the Commission also added the external review (i.e. second party opinion) to the list of mandatory actions when issuing a green bond under its new framework[12].

By developing the standard, the Commission increases the stringency for green bond issuance, with the aim of meeting sustainability requirements and protect investors against corporate greenwashing. Quality assurance and green credentials have therefore a central role within the standard.

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[11] *Climate Bonds Initiative is an international, investor-focused not-for-profit who developed a Climate Bonds Standard and Certification Scheme and is involved in Policy Engagement and Market Intelligence work.*

[12] Note that the regulation provides supervision of the reviewers by the European Securities Markets Authority (ESMA). According to the Commission, *'External reviewers providing services to issuers of European green bonds must be registered with and supervised by the ESMA. This will ensure the quality of their services and the reliability of their reviews to protect investors and ensure market integrity'*.

Looking at sovereign green bond issuance, a pragmatic approach should prevail

At the end of the first quarter of 2021, there were 24 nations with green bond listings, equalling approximately USD 111 billion of debt (compared to USD 24 trillion of vanilla sovereign debt). However, with the rise of several green bond frameworks, standards and taxonomies, not all issued bonds might meet the goal of credible climate and environmentally friendly investments with reasonable quality assurance. The same applies to social or sustainability bonds. Furthermore, these bonds are often linked to existing or already-planned projects, therefore excluding the much needed 'additionality' by including a long look-back period for the bond's proceeds. Finally, apart from questioning the credentials of the green, social or sustainability bond, one should also consider the issuer's credibility to ensure a seamless link between the issuance and the sovereign's plans and targets towards environmental objectives.

With the sovereign green bond market still in its infancy, but regulation stepping in and the social bond market being developed, DPAM is anticipating on the issues highlighted above in order to avoid controversies currently facing the green, social and sustainability bond market. Hence, DPAM developed a sovereign Green, Social & Sustainability ("**GSS**") bonds policy which aims to provide insights in DPAM's approach to assess, prioritize and eventually finance sovereign green bonds.

The below section further outlines our view of the role of Green, Social & Sustainability ("**GSS**") bonds in government bond portfolios (developed and emerging) and the framework for allocating these bonds in portfolios.

DPAM's approach

1. Role of GSS bonds in government bond portfolios

Over the past couple of years, several European and Emerging market countries (e.g. Chile, France) have issued increasing numbers of GSS bonds. DPAM encourages this trend for several reasons:

a. It advances the agenda for green, social & sustainability investments;
b. Issuance of such government bonds creates liquidity in the segment and can break barriers for other smaller issuers to follow, including regional governments, supra, sub-sovereign and agencies (SSAs) and corporates.

As discussed, not all GSS government bonds are developed according to the same frameworks, standards and taxonomies. Hence, we need to ensure the GSS bonds are aligned with the purpose of the financial instrument, i.e. green financing, and in particular consider:

- The additionality;
- The credibility between the issuance and the sovereign's policy around environmental objectives or lacking transparency on the use of proceeds;
- The varying standards of GSS government bonds, especially the 'use of proceeds' framework.

We therefore need to ensure sufficiently high standards before considering a bond to be a qualitative Green, Social or Sustainability bond. These criteria are defined in the next section.

2. GSS criteria

For portfolio construction purposes of our SFDR-classified **Article 8** and **Article 9 investment funds**, a bond is only considered an eligible GSS bond if both the issuer and the GSS bond are internally validated (hereafter 'DPAM-validated').

a. On the former, the issuer, that means **green bonds** are only considered 'DPAM-validated' if the issuer scores within the best 80% of the 'climate policy' section of the Climate Change Performance Index[13], since we believe policies are the starting point to tackle global warming. Inconsistency between policies and financing should trigger investor concern. Hence, the policy section focuses on national and international climate policy and covers amongst others concrete policies on the promotion of renewable energies or a reduction in deforestation and forest degradation. Green bonds issued by countries failing to meet the criteria are not counted as 'DPAM-validated' under the portfolio construction criteria, see further in section 3 (note that issuing countries who do not comply with the Government Bonds Exclusion policy are excluded by default).
   For **social bonds**, issuers must not be subject to a decline on the Social Progress Index[14] over the last 5 years if they are considered 'DPAM-validated'.
   When an issuer is not covered by the Climate Change Performance Index or Social Progress Index, an internal assessment in line with the index methodology will be carried out by the Responsible Investment Competence Center. The assessment results in a binary decision for DPAM validation (Yes or No).
b. On the latter, that means validation of the GSS Bond (or GSS bond framework).
   A GSS **bond** is only considered eligible if an internationally recognized framework built upon climate-science or other sustainability standards is applied by the sovereign issuer, once validated internally. To facilitate this process, DPAM defined an order of preferences for the evaluation and selection of these bonds.

GSS bond framework hierarchy:

1. EU Taxonomy aligned bonds15;
2. Green bonds aligned with the Climate Bonds Initiative (CBI) framework and taxonomy16;
3. Bond issuance aligned with the ICMA Green or Social Bond Principles17;
4. Green bonds issued according to the framework developed by the multilateral development banks (MDBs) and the International Development Finance Club (IDFC)18;
5. Other GSS bonds developed according to internationally recognized frameworks, built upon climate-science or other sustainability standards.

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[13] The annual Climate Change Performance Index (CCPI), published since 2005, is an independent monitoring tool for tracking the climate protection performance of 60 countries and the EU. The CCPI aims to enhance transparency in international climate politics and it enables comparison of individual countries' climate protection efforts and progress. https://ccpi.org/ranking/

[14] The Social Progress Index is based on the definition of social progress as the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential. It is based on 53 social and environmental indicators to create a clearer picture of what life is really like for everyday people. The index doesn't measure people's happiness or life satisfaction, focusing instead on actual life outcomes in areas from shelter and nutrition to rights and education. This exclusive focus on measurable outcomes makes the index a useful policy tool that tracks changes in society over time. https://www.socialprogress.org/

[15] More information on the EU Green Bond Standard can be found here. Note that currently, the EC only developed a taxonomy for sustainable, green activities. However, the Commission is in the process of developing a social taxonomy.

[16] More information on the CBI framework and taxonomy can be found here.

[17] More information on the Green Bond Principles can be found here. More information on the Social Bond Principles can be found here.

[18] https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf

Note that DPAM validation will be more straightforward for the higher-ranked frameworks (i.e. frameworks 1-3), due to the stringent science-based criteria and reporting & verification requirements and the binary alignment possibilities. For the remaining, alternative GSS frameworks, the internal assessment gains significant importance and requires comparison with the higher ranked frameworks, mainly focusing on scientific-alignment, reporting objectives and external verification commitments. GSS bond frameworks passing the validation are considered 'DPAM-validated GSS bonds'. GSS missing any framework are not considered GSS bond. The validation of these additional frameworks will be carried out by the Responsible Investment Competence Center, which works independently from the PM's for the assessments.

3. Portfolio implementation

Based on the above general observations, and the following market-technical observations:

- Limited number of bonds outstanding
- Reduced free-float and liquidity
- Premium versus traditional bonds
- Concentration in longer maturity buckets

We consider it – at the moment – unwise to enforce *significant* holdings of these bonds as this might have a disproportioned impact on portfolio construction and on the return of the portfolios.

As we want to support the market for green and social bonds, for **developed markets government bond portfolios** (SFDR Article 8 and 9 investment funds) we commit to **holding a higher percentage of DPAM-validated GSS bonds in portfolio than the benchmark or similar reference universe**.

For **emerging market government bond focused investment strategies**, given the issuance pattern is even more heterogeneous, DPAM-validated GSS bonds **are ceteris paribus favored over regular bonds with similar characteristics**.

3.4 Integration in third-party funds

For reasons of diversification, the management teams may select investment funds managed by third parties.
As with any investment, the teams will pay attention to various sustainability criteria when making the selection, including the quality and track record of the third-party fund manager, its commitment to sustainable investments, notably its policies and rules regarding sustainability factors and risks and compliance with the do not significantly harm principle. The different policies regarding ESG integration, climate risk and engagement of the third-part fund's manager are reviewed to get a good understanding of whether and how it integrate systematically sustainability risks. Finally, at the product level, the SFDR classification and the linked methodology are also used as key information to assess the sustainability risks globally and at the product level in particular.

3.5 Integration in impact investing in private equity

Management teams may select private equity linked to impact investing or projects. Due to the nature of such assets, DPAM postulates that the integration of ESG factors is intrinsic to the securities.

4. SUSTAINABILITY RISKS INTEGRATION

4.1 Sustainability risks covered by the DPAM Risk Committee

The DPAM Risk Committee meets at least every quarter, one week before the Board of Directors of DPAM and is chaired by one of the four independent directors.

Every quarter, three types of dashboards are presented to the Risk Committee for control and monitoring: risks dashboards i.e. risk management for an asset manager; compliance risks and ESG risks.

The ESG risk dashboards focus on the sustainable investments and their ESG profile assessment (1) and on the ESG risks (2).

4.1.1 ESG profile assessment

To assess the sustainability quality of DPAM investments, DPAM refers to a proprietary classification model, which synthesizes into one single metric the results of the different ESG filters and analyses namely:

1. compliance with the Global Standards, notably the ten principles of the UN Global Compact,
2. involvement in ESG controversies (from non-existing to the most severe ones)
3. the ESG risk rating (management score)

As a result, five company profiles are identified: laggard, subpar, follower, explorer and champion, as defined in the table below

LAGGARDS	Laggards are companies that are not respecting the minimum fundamental values. They refer to companies that are classified as non-compliant with the Global Standards or that have been found to be implicated in the most severe ESG controversies (level 5 on a scale of 1 to 5). These profiles are strictly forbidden in Article 8 and Article 9 products.
SUBPARS	Subpars are companies that have an ESG risk management score that is situated in the fourth (worst) quartile of their industry or that are facing serious allegations of controversial behaviour (level 4 on a scale of 1 to 5). Both classifications are treated equally as severe controversies reveal information about the effectiveness of a company's potentially high ESG score and the linked policies and programs.
FOLLOWERS	Followers are companies with a below average ESG risk management score (situated in the third quartile of their industry) but that do not face serious allegations of controversial behaviour (maximum level 3 on a scale of 1 to 5).
EXPLORERS	Explorers are either: companies with a good ESG profile (ESG risk management score between the 50th and 75th percentile of their category –) that do not face any severe allegations of controversial behaviour (level lower than 4 on a scale of 1 to 5), or companies with a superior ESG profile (ESG risk management score between the 75th and 100th percentile of their category) but which face moderate allegations of controversial behaviour (level 3 on a scale of 1 to 5).
CHAMPIONS	Champions are companies with a superior ESG profile (ESG risk management score between the 75th and 100th percentile of their category) and which do not face any moderate or severe allegations of controversial behaviour either (below level 3 on a scale of 1 to 5).

4.1.2 ESG risks analysis

Focus on sustainability risks – environment & climate risk

Based on the work done in the TCFD group, the dashboard is developed to assess the risks in terms of

- fossil fuels and related stranded asset risks
- physical climate risks
- climate transition risks

In terms of **social and governance risks,** the regulation is still vague and lacks of standards and metrics. The social taxonomy is drafted but the framework still leaves room for interpretation.

The social principal adverse sustainability indicators, even if computed quantitatively, rely mainly on qualitative assessment and makes a monitoring and management of the social risks still challenging.

As of today, the social and governance risks at DPAM investments are assessed and monitored through the in-depth analysis of controversies linked to social and governance namely

- social: supply chain, society & community, customer & employee
- governance: public policy, governance & business ethics.

The evolution of the exposure of severe controversies is monitored and discussed within the DPAM Risk Committee on a quarterly basis.

4.2 Sustainability risks integration through the value chain of investment process

A **sustainability risk** means an **environmental, social or governance event or condition** that, if it occurs, could cause **a negative material impact** on the value of the investment, as specified in sectoral legislation, in Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/65/EU, (EU) 2016/97, (EU) 2016/2341, or delegated acts and regulatory technical standards adopted pursuant to them.

These are **closely interconnected with the ESG factors** DPAM has defined and are integrated at the asset level as explained above (**see 0.1 above**).

For DPAM, the sustainability risks go beyond the SFDR defined principal adverse impact indicators (PAI) and are integrated at each step at inception of the investment process within the research teams.

Indeed, the different supporting screening tools[19], as we describe later in details in the section "Methodology", assist on integrating sustainability risks in investment decisions and risk management.

DPAM uses ESG data provided by extra-financial rating agencies (MSCI-ESG, Sustainalytics, Trucost, etc.) and complements them with any other external sources deemed relevant as well as DPAM's internal ESG research.

[19] Norms screening, controversies screenings, best in class, etc.

4.2.1 The in-depth fundamental research, articulated around the principal adverse impact indicators (PAI)

a) Environmental risk in-depth fundamental research

Regarding environmental criteria that might have a negative material impact on the value of the investment, DPAM research and portfolio management teams pay particular attention to the **recommendations of TCFD**. The financial risks related to climate change (such as carbon price risks or physical risks related to drought) are taken into account by financial analysts in charge of the main sectors impacted by the transition (energy, transport, real estate and materials, agriculture/food/forestry...), with the support of the Responsible Investment Competence Center.

DPAM also increasingly integrates physical risks (risks to corporate assets resulting from the multiplication of natural disasters and climate change), thanks to emerging data availability and our own internal research.

Climate risks are also taken into account on a sectoral basis. DPAM analyses these risks in the main transition sectors as designated by the TCFD, i.e. energy, transport, building materials, agriculture/food/forestry, etc.

DPAM is committed to integrating climate change risks into its investments through a two-pronged approach:

- Measuring the impact of our investments on climate change (e.g. NZAM reducing the carbon footprint of its investment funds[20] to align with a 1.5 degrees scenario);
- Measuring the impact of climate change on its investments (e.g. TCFD integrating the consequences of droughts on a utility's hydropower production into its assessment).

The template we developed regarding the TCFD follows the structure recommended by the TCFD group.

[20] DPAM commits to the NZAM in March 2022 and include all its investment funds article 8 and 9 SFDR in its commitment. DPAM is committed to convince its clients to join the initiative for the portfolios it is managing on their behalf.

The issuers which are top contributing to carbon intensity of DPAM's investment funds' are systematically assessed through the template developed in close cooperation between the RICC and the analysts and portfolio managers. This analysis is at disposal of the portfolio managers of mandates, which are generally invested in same issuers as the investment funds.

This template systematically includes the following themes of the environmental principal adverse indicators: data regarding GHG emissions and carbon emissions (scope 1, 2 and 3 if relevant) as well as water data.

Next to the quantitative data, the analysts have also defined the key material risks for each sector.

An example of material risks identified for three sectors by analysts and portfolio managers is depicted below.

	MATERIAL RISK 1	MATERIAL RISK 2	MATERIAL RISK 3
Semiconductors	Carbon pricing (mainly F-gases)	Physical risks	Resource scarcity (minerals, water, gas (neon))
Automobiles	Carbon pricing/fines	Affordability + consumer backlash	Technology (availability + substitution)
Utilities (non-power)	Changing customer behavior	Extreme weather	Stranded Assets

b) *Social risk in-depth analysis*

It is important to note that DPAM is subject to the so-called Mahoux law regarding the direct and indirect financing of controversial weapons in Belgium. Following its positioning as a Sustainable Actor and Investor, DPAM does not finance this type of weapons, including its indexing strategies. The PAI regarding exposure to controversial weapons is an indicator filtering all assets of DPAM at inception of the process.

The social risk is systematically analysed at different steps of the process:

- The **normative screening** based on the Global Standards will result in identification of issuers which are not compliant with fundamental principles.
- The **controversies screening** will on one hand identify the companies facing the most severe controversies related to social issues namely supply chain, society & community, customer & employee. On the other hand, the in-depth analysis of controversies of lower severity, will also enable to identify the issuers which, if they are not yet facing the most severe level, could be assimilated to such important controversies. Indeed, each time an issuer is facing a controversy of level 3 or 4 on a scale from 1 to 5, this will be in-depth analysed regarding the controversy itself but also other potential controversies, the ESG average quality profile and the key material risks for its sector and how it is positioned regarding this.

Through these first two filters, DPAM is already able to distinguish the issuers on key principal adverse indicators such as violations of UN Global Compact principles and organisation for economic cooperation and development (OECD) guidelines for multinational enterprises and indicators related to health, security and safety of employees including their accident prevention policies.

Next to this, the fundamental research but also our active voting instructions enable DPAM to focus on another social PAI, which is key through all our research: board diversity including board gender diversity but also board experiences and expertise on diversity and adequacy.

Finally, the question of gender pay gap is also part of the fundamental analysis when it is relevant. It can be included at two different levels namely:

- In the ESG score of the company which can be used to rank the issuers in terms of best practices
- In the proprietary scorecards we develop internally for specific strategies and asset classes to assess the main sustainability risks **. i.e. the most relevant ESG themes with the highest financial materiality**, which are identified taking into account the nature of the company's business and the geographical footprint of its operations. For each of these ESG themes, DPAM selects one or more quantitative ESG indicators, which are then used to rate the company's performance on these ESG themes.

The ESG aspect is taken into account in the portfolio's construction process, in the preparation of the investment advice and/or in the funds selection.

c) The specific case of government bonds – environmental and social risks in depth fundamental analysis of countries

The principal adverse impact indicators (PAI's) are intrinsically linked to DPAM's commitment to reduce the negative impact of its investments by avoiding activities or behaviours that may significantly undermine sustainable and inclusive growth. This commitment is embedded throughout the research and investment process from its inception.

The first PAI relevant for government bonds (and countries as issuers) is related to environmental issues and focuses on the greenhouse gas emission intensity of the countries invested in (RTS table 1 PAI 15). The indicator is an integral part of the country sustainability model developed by DPAM for its sovereign bond investments (see section 3.3 on page 38). It is therefore included in the country sustainability score and can influence the country sustainability score positively or negatively depending on its level and evolution relative to other issuing countries. The results of the country sustainability scores are eventually discussed with the countries concerned according to DPAM's Engagement Policy available on www.dpamfunds.com

The second PAI relevant for government bonds (and countries as issuers) is related to social violations (RTS Table 1 PAI 16). Our country sustainability model looks at several indicators on this issue such as respect for civil liberties and political rights, respect for human rights and the level of violence within the country, commitment to major labour conventions, the issue of equal opportunities and distribution of wealth, etc. These different indicators are included in the country's sustainability score and can influence it positively or negatively depending on its level and evolution in relation to other emitting countries. The results of the country sustainability scores are eventually discussed with the countries concerned according to DPAM's Engagement Policy available on www.dpamfunds.com

4.3 Statement on the priorities to integrate the Principal Adverse Impact indicators (PAI)

PRINCIPLE ADVERSE INDICATORS – PRIORITIES - ENVIRONMENT	
GHG EMISSIONS	The 6 mandatory PAI are systematically integrated in the TCFD analysis of the most contributing issuers to portfolio's carbon intensity. Based on the qualitative and quantitative analysis, the PAI levels could lead to engaged dialogues, engagements or negative investment recommendations[21].
WATER	The water consumption is also part of the TCFD analysis and depending on the assessment, could lead to engaged dialogues, engagements or negative investment recommendations.
WASTE	The hazardous waste ratio is included in the ESG fundamental research and will lead to engaged dialogues with the issuers when the indicator is material for the activity
BIODIVERSITY	Indicators measuring the biodiversity are still missing. The theme is included in the ESG fundamental research from a more qualitative approach and will lead to an engaged dialogue with the issuers when the indicator is material for the activity. The assessment of the contribution to the Sustainable Development Goals include the SDG 14 and 15 which are related to biodiversity and ensures a systematic integration of this theme in the impact assessment of our portfolio's.
PRINCIPLE ADVERSE INDICATORS – PRIORITIES	
Exposure to controversial weapons	The so-called Mahoux law forbids in Belgium the direct and indirect financing of controversial weapons. This is legally forbidden.
Violation of UN Global Compact principles and OECD Guidelines for multinational enterprises	The norms screening, as a first step of all our investment processes, is based on the 10 principles of the Global Compact. The in-depth assessment of the controversies related to social, employee, respect for human rights, anti corruption and anti bribery matters is also articulated around those key fundamental rights
Board gender diversity	The adequacy of the board is a key point of our voting policy and includes the gender, culture, experience and expertise diversity. We systematically vote against any proposal which is against this principle and we engage systematically with the issuers on the importance of the board independency.
Unadjusted gender pay gap	The criterion is included in the ESG fundamental research and will lead to engaged dialogue with the issuers when the indicator is material for the activity.

[21] Please refer to our engagement policy for the escalation process according to engaged dialogues (improvement of research) and engagements (formal engagements with escalation process).

The specific case of government bonds

PRINCIPLE ADVERSE INDICATORS – PRIORITIES – ENVIRONMENT	
GHG EMISSIONS	The PAI is integrated in the proprietary country model developed by DPAM and has an impact on the country's score.
PRINCIPLE ADVERSE INDICATORS – PRIORITIES - SOCIAL	
Social violations	The countries which do not meet minimum democratic requirements are excluded. The respect for civil liberties and political rights, the respect for human rights, the level of violence within the country, the commitment to major labour conventions, the issue of equal opportunities and distribution of wealth are all indicators which could be related to social violations and are integrated in the proprietary model. These can therefore have an impact on the country's score.

4.4 Sustainability risks and potential impact on financial performance of products

The above-described approach is applied by DPAM in the management of the funds for which it acts as designated management company and the discretionary portfolio management mandates. For these financial products, SFDR requires DPAM to assess the likely impact of sustainability risks on the returns of the financial product. This results in the below assessment:

CLASSIFICATION OF THE PRODUCT AS PER SFDR	LIKELY IMPACT OF SUSTAINABILITY RISK ON THE RETURNS OF THE FINANCIAL PRODUCT	RATIONALE
Financial products which do not qualify as either as “article 8 product” or “article 9 product” (so-called “Other products”)	High	Sustainability risk is considered material, as sustainability aspects are not systematically part of the fund's or managed portfolio’s investment selection process, with the exception of investments in companies with exposure to controversial activities such as tobacco, the manufacture, use or possession of antipersonnel mines, cluster munitions, and depleted uranium ammunition and armour which are automatically excluded. The impact of adverse sustainability events may lead to material sustainability risks which could have negative effects on the performance of the product.
Financial products which promote, among other characteristics, environmental and/or social characteristics in accordance with article 8 SFDR (“Article 8 products”)	Moderate	The sustainability aspect is taken into account in the investment selection and screening process of the fund or managed portfolio, with environmental and/or social aspects being highlighted. The sustainability risk remains, however, as the integration of compliance with these rules is strongly advised but not binding for investment decisions, with the exception of the normative screening on the Global Standards and the negative screening on the severity of controversies that issuers may face. The impact of adverse sustainability events may lead to material sustainability risks which could have negative effects on the performance of the product.

Financial products with sustainable investment as their objective in accordance with article 9 SFDR ("Article 9 products") and financial products which promote, among other characteristics, environmental and/or social characteristics and invest partially in sustainable investments ("Article 8+ products")	Low	Sustainability considerations are an inherent part of the fund's or managed portfolio's investment process, with the product emphasizing (partially) a sustainable objective. Potential sustainability risks are therefore mitigated by the sustainability screening and exclusion filters that are applied to the investment universe of the product.

Regarding third-party funds, DPAM will rely on the SFDR classification of the fund to assess the likely impact of the sustainability risks on its return, according to the following table:

CLASSIFICATION OF THE THIRD-PARTY FUND AS PER SFDR	LIKELY IMPACT OF SUSTAINABILITY RISK ON THE RETURNS OF THE THIRD-PARTY FUND	RATIONALE
Other products	High	Sustainability risk is considered material, as sustainability aspects are not systematically part of the fund's investment selection process, as per the fund's documents. The potential ESG related research and integration does not present a binding element on the portfolio construction and the fund does not seem subject to specific exclusions except those legally binding. The impact of adverse sustainability events is likely to lead to material sustainability risks which could have negative effects on the performance of the fund.
Article 8 products	Moderate	The sustainability aspect is taken into account in the investment selection and screening process of the fund, as per the fund's documents, with environmental and/or social aspects being highlighted. The portfolio construction is subject at least to an ESG integration completed by exclusions and/or ESG-related investment guidelines, which helps to reduce partially the sustainability risks. These risks remain however as investments guidelines do not necessarily go further in terms of ESG analysis. The impact of adverse sustainability events is likely to lead to material sustainability risks which could have negative effects on the performance of the fund.
Article 8+ products and Article 9 products	Low	Sustainability considerations are an inherent part of the fund's investment process, with the fund emphasizing (partially) on a sustainable objective. Potential sustainability risks are therefore mitigated by the sustainability screening and/or constraints and/or exclusion filters that are applied to the investment universe of the fund.

SECTIONS APPLIED SPECIFICALLY TO **INVESTMENT FUNDS**

5. DPAM'S METHODOLOGY AND INVESTMENT PROCESS FOR INVESTMENT FUNDS

Over the last 20 years, DPAM has developed a methodology and an investment process regarding sustainable and responsible investments, which go through different steps and which is aligned with its three-fold objectives to sustainable investing i.e.

a) Defend basic and fundamental rights
b) Do not finance activities and behaviour which might affect reputation of medium and long term investments
c) Promote best ESG practices and efforts and bring solutions to ESG challenges

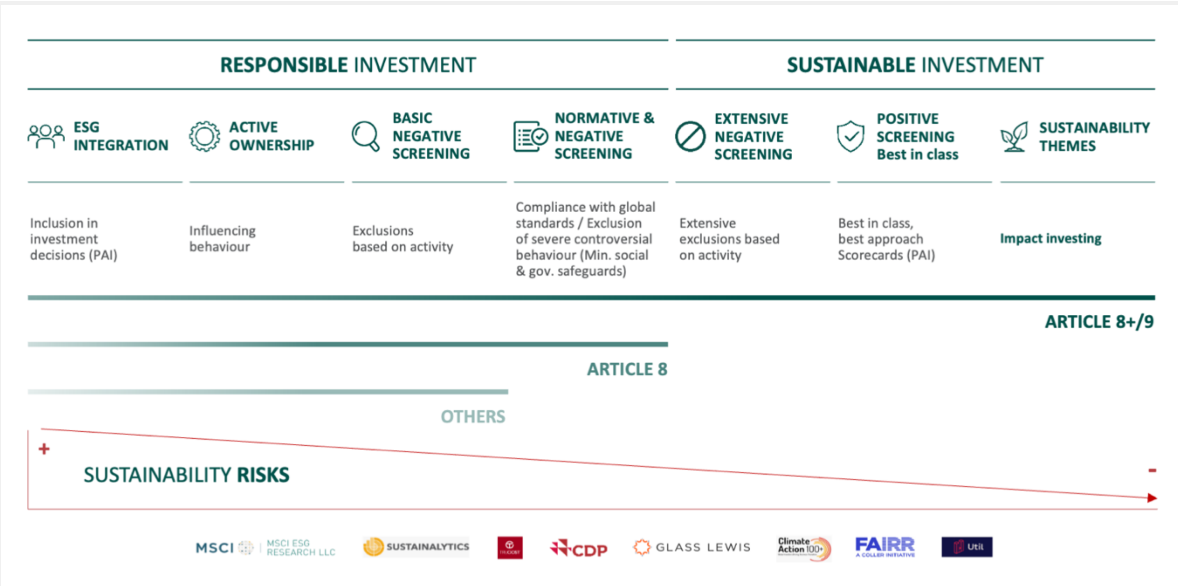
The first two objectives are aligned with our willingness to reduce the negative externalities of all our investments, in line with the philosophy of the Do Not Significantly Harm Principle of the SFDR regulation.

The third objective is aligned with the strategies pursuing a (partial) sustainable objective and seeking for ESG impact.

The three-fold objectives are implemented through a disciplined investment process, which is schematised here below and which each step is described in depth in the next chapter.

This implies a strict and rigorous process to be adopted through the whole investment process and combining different ESG approaches such as norms screening, negative screening, positive screening, best-in-class, engagement and sustainability themes. This disciplined process ensures that:

- the minimum social and governance safeguards can be systematically ensured;
- the principal adverse indicators through a rigorous fundamental analysis can be taken into account;
- the do not significantly harm principle is applied to sustainable instruments and portfolios;
- and finally the seek for impact through sustainable objectives, environmental and/or social, is captured.



5.1 The starting framework: PRI signatory and Net Zero commitment i.e. ESG integration, active ownership and GHG emissions commitment are a commodity for DPAM

As a signatory to the **UN's Principles for Responsible Investing** since 2011, our investment philosophy and approach put responsible investment with ESG integration and stewardship principles at the heart of the whole investment decision-making process.

Being a signatory of PRI since 2011 has implied investment approaches applied to all our investments following the first two principles out of the six. Indeed, by signing the PRI, DPAM has committed to (1) integrate ESG factors through all investment processes (**ESG integration step 1**) and to (2) be a responsible shareholder who expresses its voice for all assets it can express it (**Active ownership step 2**). Voting and engagement are therefore in the heart of investment approach of DPAM, which systematically engages a dialogue on key governance principles but also on climate related topics such as "Say on Climate". DPAM strongly supports ESG proposals and encourages issuers for better transparency on those challenges.

Furthermore, committing to the **Net Zero Asset Management Initiative** has also consequences on all investments managed by DPAM to achieve the targets and intermediary milestones. The firm commitment to net zero induces decarbonisation of our portfolios and substantial engagement process with issuers to adopt Sciences-Based Targets and to commit to the global effort of carbon reduction.

These two crucial initiatives are key for the positioning of DPAM as a Sustainable Actor and Sustainable Investor and forms the basis of DPAM's entire investment approach.

Following this, there are some activities that DPAM does not finance for any actively managed financial product (**Basic negative screening step 3**).

As stated in the controversial activities policy, these are:

- anti-personnel landmines, cluster munitions and depleted uranium munitions and armours
- biological and/or chemical weapons
- nuclear weapons
- tobacco
- thermal coal
- electricity generation from fossil fuels & non renewable energy sources
- unconventional oil & gas: shale gas, shale oil, oil sands and Arctic drilling
- minimum democratic requirements for sovereign bonds

Please refer to the Controversial Activities Policy for the thresholds and rules on exclusion.

5.2 DPAM is committed to reduce the negative impact of its investment decisions – promotion of E/S characteristic in investment funds – investments in equities and corporate bonds

5.2.1 Defending fundamental rights and ensuring the minimum social and governance safeguards

Through a **systematic normative screening (step 4)**, companies are assessed on the basis of the recognized Global Standards i.e. UN Global Compact, ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs and Underlying Conventions and Treaties. The Global Standards aims to uphold four fundamental principles: defend human rights, defend labour rights, prevent corruption and protect the environment. Based on specific criteria stemming from the 10 principles of the Global Compact, ESG rating agencies assess the companies' compliance with these 10 principles. The analysis identifies companies which face incidents and severe controversies resulting in violations of these fundamental rights principles. The severity of the controversies and incidents is evaluated based on national and international legislation, but also considers international ESG standards, such as the recommendations of the OECD for multinational companies, the conventions of the International Labour organization, the Universal Declaration of Human Rights, etc. The assessment's result can be compliant, watch list or non-compliant. Article 8 and article 9 investment funds cannot invest in Global Standards non-compliant issuers

The Global Standards cover social and governance themes and ensure that the minimum social and governance requirements, as stipulated in SFDR, are guaranteed.

Furthermore, it broadly covers the environmental theme. This first initial norms screening also contributes to the objective of the DNSH principle, defended by SFDR and Taxonomy as issuers, through their behaviour or activities, could already be highlighted – and likely excluded – when these are seriously damaging environment.

5.2.2 Pragmatism and dialogue in controversial activity screening – Do Not Significantly Harm Principle (DNSH principle)

A controversial activity refers to a business activity that stirs-up debate among various parties and that is contentious. For DPAM, three key elements are common to all controversial activities:

- There are diverging opinions on a particular topic or question, fuelling a debate, with exchanges of arguments between several parties;
- The debate lasts over time as it can't be resolved easily. This illustrates the complexity of the topic or issue which is discussed and the difficulty of settling diverging opinions.

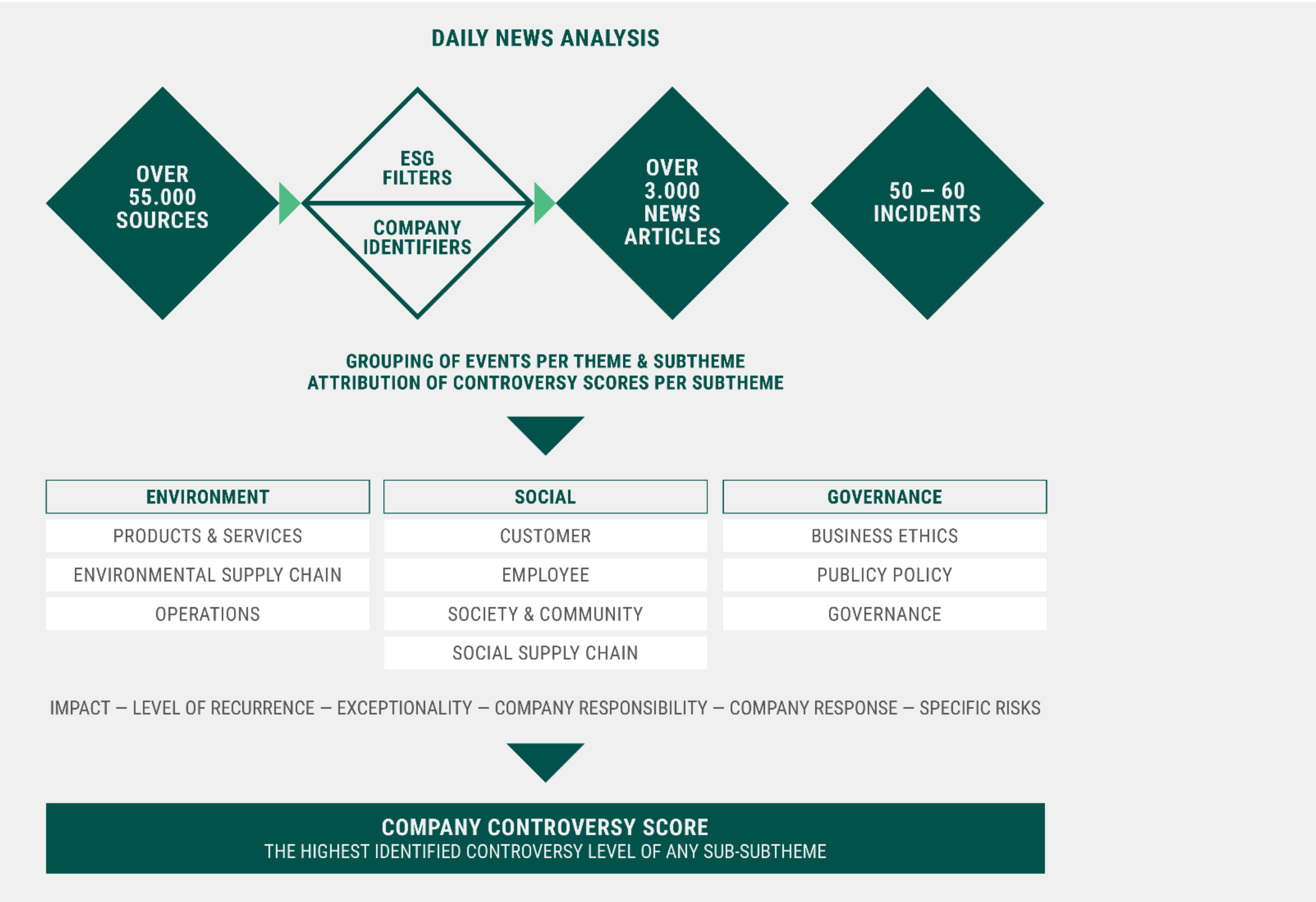
In the context of sustainable finance, the key stake is to define the position of DPAM on each of these controversial activities, and to eventually decide whether to fully divest from the companies involved in controversial activities, or to only recommend a reduction of the investment funds' exposure. When deciding whether to exclude a controversial activity from its portfolios or making an investment recommendation, DPAM follows an approach based on dialogue, in-depth expertise and consistency. Our group's approach is to advocate best sustainability practices within each economic sector.

DPAM has **a dedicated policy for controversial activities** (**Negative screening based on activity step 5**), which details the activities which are by nature controversial and on which DPAM has expressed its view.

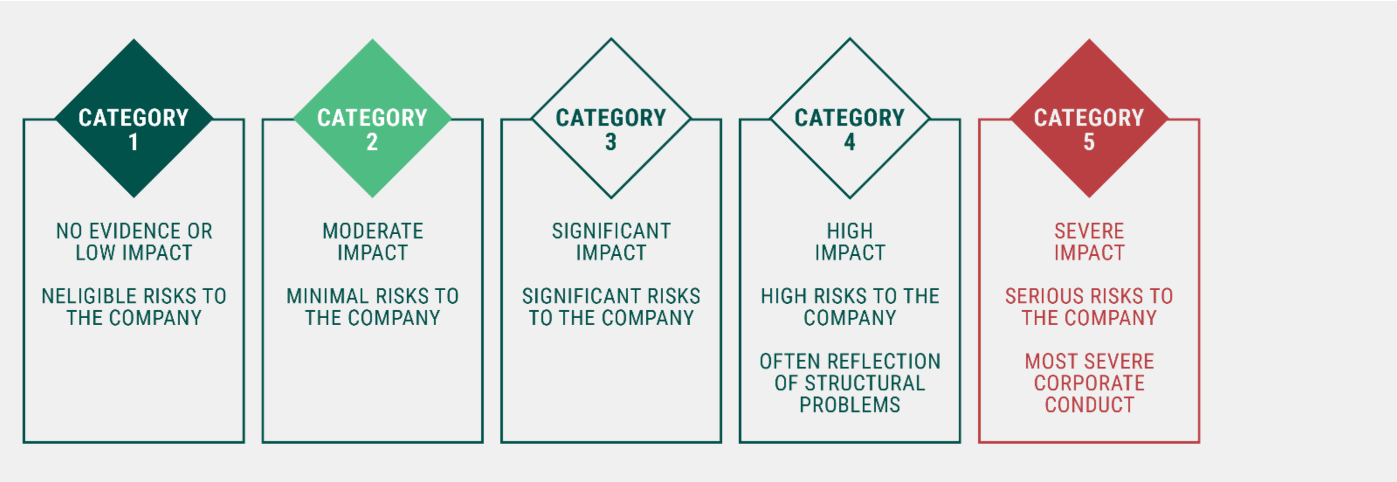
5.2.3 Rigor, in-depth analysis and dialogue in controversial behavior screening – Do Not Significantly Harm Principle (DNSH principle)

The reputation of DPAM's investments might be affected by the type of economic activities it could invest in but also by the **behavior of the investee companies**. DPAM is committed to defend the fundamental rights i.e. human rights, labour rights, fight against corruption and protection of the environment. Furthermore, DPAM is committed to reduce its negative impact by avoiding activities or behavior which can significantly harm a sustainable and inclusive growth as promoted by the EC 2030-2050 Program and endanger DPAM's commitment to Net Zero Asset Management initiative.

DPAM assesses companies on the basis of 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 (**Negative screening based on behaviour Step 5**). The assessment of controversies starts from the controversy ratings that are delivered by our extra-financial research provider Sustainalytics. The latter applies ESG filters and company identifiers on more than 55.000 daily news sources to be able to track any relevant ESG controversy.

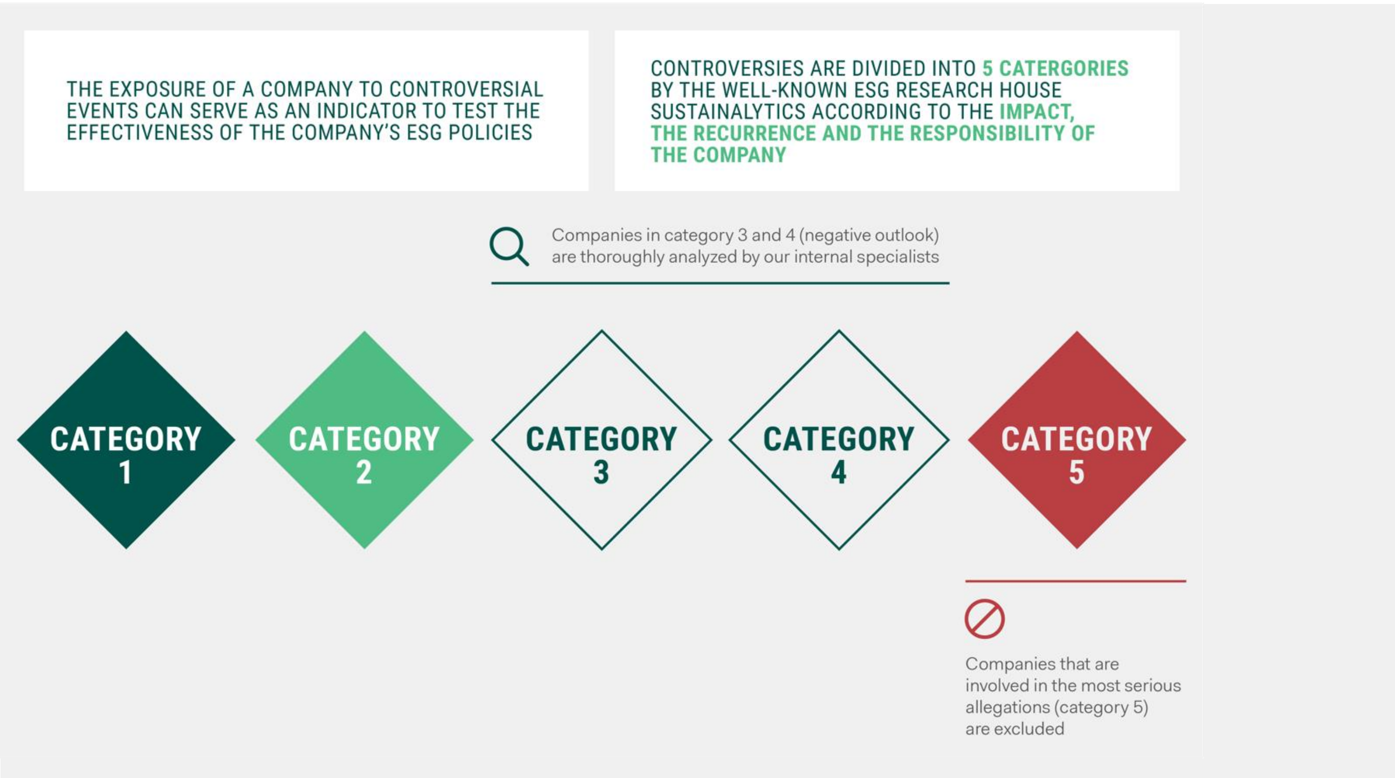


Once a company is linked to a potential controversy, it will be sorted into the relevant controversy category (see figure below). For each category of controversies, Sustainalytics will assess information and relevant data and will attribute a severity score. The severity of an allegation or how controversial the activity of the company is, is determined based upon the impact, nature, scope, recurrence of the incident, the response of the company, the responsibility of the management and the overall CSR policies and practices that are in place within the company. Depending on the degree of severity, the controversy category is ranked from none or category 1 (minor controversies) to category 5 (the highest level). This scoring is reviewed every two weeks.

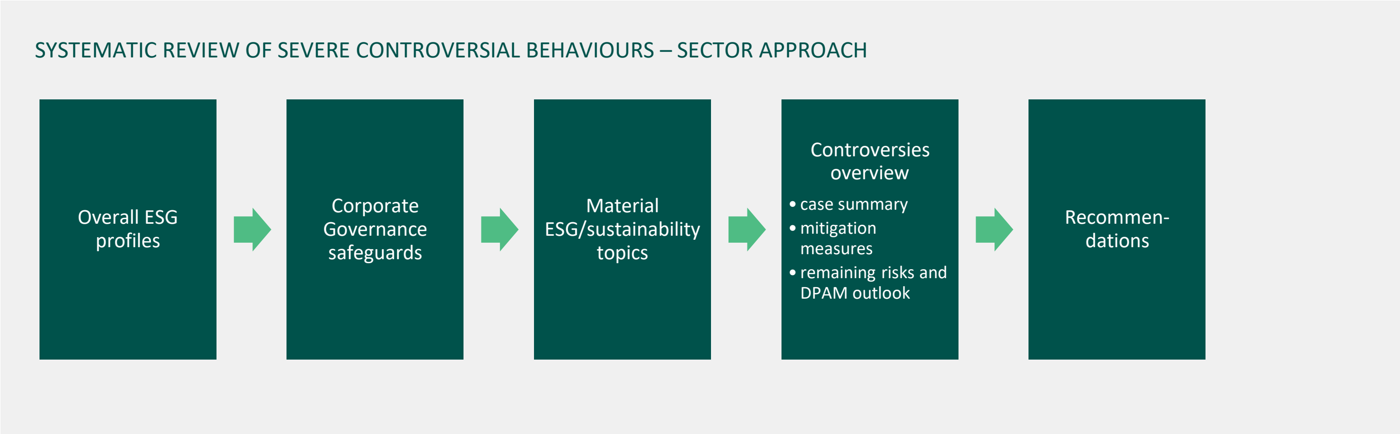


As “Actively, Sustainable, Research-driven”, DPAM, through the RICC and with the assistance of the research and portfolio management teams, performs an analysis of the controversies level 4 and 3 with negative outlook as generally speaking the material risk could be higher. It is essential to understand 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 available on the companies i.e. MSCI ESG Research, Sustainalytics, brokers, etc. Based on this information and discussion with the company and the research providers, the case will be submitted to the relevant governance body – namely the Responsible Investment Steering Group (RISG).

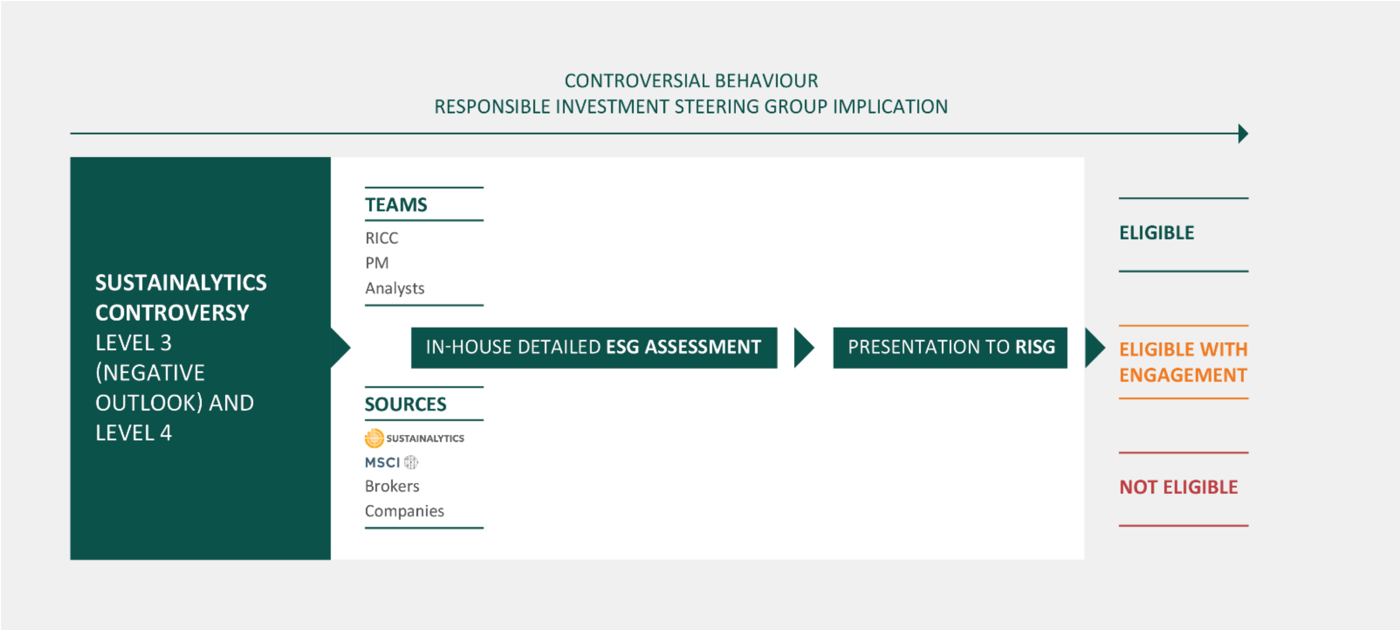
Systematic review of controversial behavior of companies – Universe: 15.000 issuers



Through this regular review of the cases of companies involved in severe controversies DPAM ensures that an additional check of the "**do not significantly harm**" principles, is actively monitored beyond initial negative screenings based on external information only. It can therefore decide to engage and/or divest, and by doing so to reduce its total negative impact. The RISG systematically reviews companies exposed to severe controversies, sector by sector, with a view to proactively defend sustainable and responsible investments.



Process of severe controversies review – sector approach



The **DPAM's Engagement Policy** carefully describes the process, means and escalation process for cases where engagement has been required.

5.3 DPAM is committed to increase the positive impact of its investment decisions or recommendations – promotion of E/S objectives in investment funds - investments in equities and corporate bonds

5.3.1 Promotion of E/S best practices to encourage best in class and best efforts

When promoting best ESG practices (**Positive screening step 5**) in its investment funds, DPAM can apply either a quantitative screening or the development of so-called proprietary scorecards.

With respect to the **quantitative screening** (of companies, DPAM relies on the ESG-scores as calculated by our extra-financial research providers, which has developed specific scoring models for each relevant peer group of companies (i.e. sub-sectors). For each peer group, there is an assessment of the key risks associated to the business activity (exposure) and the management of these risks by the issuer (management). Each issuer receives a score between 0 and 100 that can be compared with other companies within each peer group. The highest the score, the better the ESG profile of the issuers.

When the biases in ESG score can affect certain investment funds or sectors like specific thematic strategies, smaller market capitalizations or issuers from regions where ESG information is still limited and less regulated, DPAM relies on its long experienced in fundamental and sustainable research and portfolio management expertise. By using a **qualitative screening** through the developing **proprietary scorecards**, the research and portfolio management teams can better assess the material sustainability factors independently of a weakness in terms of coverage, disclosure or relevance.

The rationale for developing these scorecards is twofold. Firstly, the investment universe of thematic strategies usually involves both large cap companies and companies with a smaller market capitalization. These last companies are often not (or poorly) covered by ESG research providers. If these are covered, they often lose a substantial amount of scoring, since the scale of the organization doesn't require or enable to have a large set of internal policies or detailed public reporting on sustainability. Secondly, most trending themes often target a very specific set of activities. While ESG research providers develop distinct scoring models to capture the specificities of different sectors, these models are often not granular enough to capture the essential ESG risks and/or opportunities of these themes. This approach enables to focus on the most relevant and material issues on which every company should work instead of including too many indicators that dilute the impact of these key issues on the overall score.

When it comes to the qualitative ESG approach, bespoke thresholds are also put in place (next to the thresholds on the normative screen, controversial activities, and the controversial behaviour).

Scorecards methodologies for thematic investment funds:

DPAM works with two types of scorecard.

The first approach is articulated mainly around ESG questions

The dedicated scorecards aim at reviewing ESG risks and opportunities detected via a checklist (developed internally) which specifically integrates several ESG questions.

The ESG risks scorecards are therefore based on a set of sustainable KPIs that are tailored to each company, depending on the nature of its activities, and systematically including a Corporate Governance analysis. This approach makes it possible to focus on the most relevant and material ESG issues on which every company should work instead of including too many indicators that dilute the impact of these key issues on the overall score. Thus, each ESG risks scorecard analyses and scores a company based on the 3 to 6 key ESG themes that are the most relevant and the most material to its activity, as well as on an analysis of the firm's Corporate Governance. This results in an overall ESG Risk score for each company taking into account both the ESG risks the company is exposed to and its effective management of those ESG risks (scale from 0 (very poor) to 5 (very good)).

The second approach will also include ESG criteria and corporate governance. Indeed, it includes three dimensions: sustainable impact, governance and key ESG risks. The sustainable impact dimension refers to the contribution of a company's products or services to any sustainable development themes such as energy efficiency, education, or health. Moreover, the sustainable impact section has a two-dimensional approach where the impact performance of a company is compared to its subindustry and how its products and services generate a positive impact. The governance dimension refers to a standardized grid that assesses the company on key corporate governance criteria such as board composition, shareholder rights, and business ethics incidents. The key ESG risks dimension finally assesses the company on its key ESG risk themes and the linked KPIs. This could be quality of care for health care companies, data privacy and security for software platforms that use personal data, human capital management for highly innovative tech companies, and so on. Each dimension is analysed in detail according to the relevant KPIs after which each dimension is aggregated in a comprehensive scorecard which enables to assess the company ESG criteria. The KPIs result from collaboration between ESG specialists, portfolio managers and research teams and are reviewed on an annual basis. Based on the public documents available, the teams will aggregate the issuer's ESG profile vis-à-vis the financial criteria.

If a company scores in the bottom 20th percentile for at least 3 of the identified ESG risks or corporate governance compared to its subindustry peers, an official company engagement takes place. The alignment of the analyst with the relative subindustry performance is naturally also considered. In case the engagement is deemed a success, the company can become eligible for the portfolio. In case the engagement fails, the company is not eligible for investment. We deem engagement to be a success in case the company has set-up a clear action plan with short term targets to remedy its lacking management practices on a certain ESG risk or corporate governance or in case the company can provide us with additional information on how it tackles certain ESG risks. In essence, the engagement is considered a success in case the company can provide tangible proof that it will be alleviated from the bottom 20% of its subindustry peers in a reasonable timeframe.

If the scorecards result in having 1 or 2 of the identified ESG risks or corporate governance fall in the bottom 20% compared to its subindustry peers, an engagement is encouraged. This signifies that in a next company meeting the identified pain points will be put on the table and tangible action from the company requested. This softer type of engagement enables the mitigation of the main ESG risks, while supporting companies in their journey towards an increased sustainability profile.

5.3.2 Identification of sustainable instrument through a revenue-aligned approach

A sustainable financial investment pursues an environmental and/or social objective. This materializes through an alignment with the Taxonomy and therefore pursuing an environmental objective linked to climate change mitigation or climate change adaptation as long as the other 4 objectives are not fully defined by a final Taxonomy text. But this could also be pursued by contributing to one or another sustainable development objectives, as defined by the UN Sustainable Development Goals, which have become a reference framework for the whole industry and even beyond for all economic actors with a worldwide adoption.

To define a sustainable instrument, DPAM will assess the compliance with one of the four options:

- **Use-of-proceeds** instrument aligned with the reference standards: a "use of proceeds" instrument is recognised as such and therefore as a sustainable instrument provided it is fully aligned with the ICMA principles and DPAM monitoring methodology
- **Taxonomy aligned** instrument: the taxonomy alignment is calculated based on the technical screening criteria as defined by the EU Taxonomy for the eligible activities of the issuer and the alignment to Taxonomy must be above 10% to be considered as an instrument aligned with Taxonomy.
- **Environmental objective** as defined by the framework of UN SDG's: several SDG's can be regrouped together as explicitly linked to Environment: 6,7,9,11,12,13,14,15. The issuer must have a net positive contribution to the environmental objectives in average to be considered as an instrument with an environmental objective.
- **Social objective** as defined by the framework of UN SDG's: several SDG's can be regrouped together as explicitly linked to social: 1,2,3,4,5,8,10,16,17. The issuer must have a net positive contribution to the social objectives in average to be considered as an instrument with an environmental objective.

This will enable DPAM to identify whether the investment can be considered sustainable. It is important to note that this identification screening comes at the end of the investment process i.e. all minimum social/governance safeguards, principle adverse indicators, sustainability risks and DNSH principles have already been implemented and as a result already reduced the universe.

As of today, there is an unanimity on the market to recognise the challenge of data regarding ESG disclosure, including impact measurement and SDG's contribution.

The main challenges are availability, coverage, quality, relevancy/materiality, accuracy but also backward looking data. DPAM has developed over the last 2 decades several tools and methodologies and knowledge & expertise to correct those different biases through an in-depth fundamental qualitative research. Forward looking metrics should gain traction to lead to a shift in focus from pure green companies to transition stories. Reporting in terms of CAPEX alignment rather than revenue alignment would be an alternative for this challenge. To correct the persisting biases in ESG research and to adopt a transition approach, DPAM grants particular attention to qualitative fundamental approach combined with strong engagement with issuers. This enables to include in the eligible universe the issuers which are not in front line of ESG challenges but enable the front-line issuers to achieve their positive impact. That's why DPAM is convinced that stewardship and engaged dialogue with issuers are also an important part of this step of identification sustainable instruments.

5.3.3 Impact measurement and assessment – sustainability outcomes

All investment decisions shape positive and negative outcomes in the world. The Sustainable Development Goals can act as a guide to the global answer to accompany the transition to an SDG-aligned world.

The sustainable portfolios can demonstrate a positive impact on the real economy in alignment with DPAM's third commitment, namely promoting issuers which propose solutions to ESG challenges.

The identification of these ESG opportunities is done through the whole investment process. Firstly by identifying the value chain of the sustainability theme DPAM wants to promote. For example when identifying the sustainable trend of electrification of mobility, DPAM will analyze the whole value chain and identify where to position for a sustainable investment (long term and profitable). Secondly, by focusing on the sustainable impact each actor in the identified sub-theme can generate.

The SDG's are used as a reference framework to assess the positive impact of the portfolio's to finance the real economy and the ESG challenges and opportunities.

Because DPAM's aim is increasing its positive net impact, the exercise includes both sides: the positive impact and the negative effect products and services from one company might have.

For this reason, the methodology is looking at:

- Revenue-impact alignment i.e. percentage positive revenue aligned to each SDG/sustainability theme as positive and negative contribution;
- Product impact intensity namely whether the impact is very positive, positive, neutral, negative or very negative.

Furthermore, the SDG's are used when identifying the major challenges companies must face and when performing fundamental analysis on actors in specific challenging sectors.

For example, on the thematic of non-palm oil plantations, which are in the heart of several SDG's (SDG 2: Zero Hunger – non palm oil plantations provide key food ingredients such as tea, almonds etc.; SDG 1: No Poverty – reducing poverty in rural and remote areas.; SDG 8: Decent Work and Economic Growth – the industry has and continues to create millions of jobs; SDG 15: Life on Land - agricultural intensification and indirectly protecting biodiversity and SDG 15: Life on Land - agricultural intensification and indirectly protecting biodiversity), it is worth raising key questions regarding traceability of the supply chain, health and safety procedures of the employees, water scarcity, etc.

Based on artificial intelligence, the world's academic knowledge is mining to map and quantify the impact of companies on the UN Sustainable Development Goals as well as on thousands of sustainability concepts.

The Sustainable Development Goals are playing a role for the responsible investment industry as a whole, as they contribute to raising awareness over sustainability issues, and help establishing a common language among businesses and responsible investors. Because they are broadly defined, more businesses and investors can use them to report on the contribution of a company or of an investment portfolio, to sustainability objectives.

Beyond ESG reporting, the SDGs can also help companies and investors reflecting over the positioning of their business and investments with respect to long-term sustainability trends.

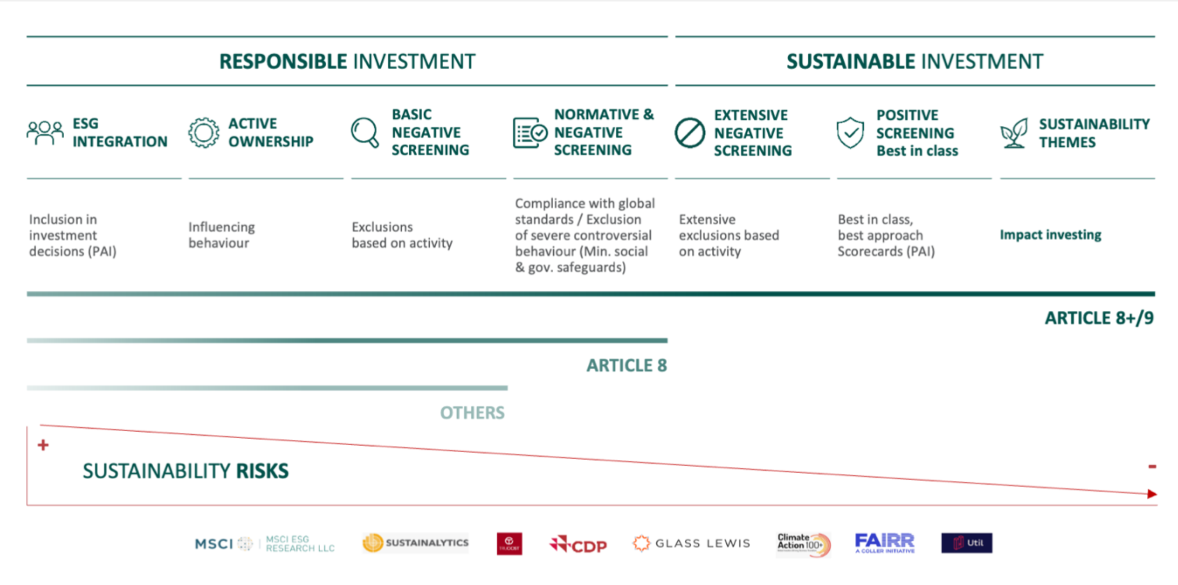
In summary, the sustainable instruments are identified through the whole investment process since inception to ensure that minimum social safeguards and DNSH principle are applied to all steps. Then, the company is assessed in terms of its sustainable objective, being environmental – aligned or not with the Taxonomy – or social through the sustainability themes approach DPAM has developed through its forward looking fundamental research and through the net positive contribution it can have towards environmental and/or social sustainable development goals. All the process is described above in the sustainable instrument section.

6. DPAM IS TRANSPARENT ON THE AIM OF ITS INVESTMENT FUNDS – SFDR CLASSIFICATION

Depending on the SFDR classification, DPAM investment funds will apply the different screening steps as described above and summarized in the following chart.

Indeed, the closer you go to article 9 dark green products, the more the sustainability risks are integrated and the higher the sustainable impact of investments.

Our 20 yrs SRI experience allows for structured, credible SFDR alignment



Indeed, through its disciplined 7-steps process, DPAM enables to integrate in its investment funds all requirements from SFDR i.e. minimum social and governance safeguards, principal adverse impacts inclusion, do not significantly harm principle and sustainable instrument.

6.1 Promoting environmental and social characteristics

This promotion takes place using different methodologies:

- The norms-based screenings (step 4);
- The controversies and exclusions methodology (steps 4&5);

6.2 Sustainable investment as a contribution to environmental and/or social objectives

The contribution so to environmental and/or social objectives follows different methodologies to materialize.:

- The norms-based screenings (step 4);
- The controversies and exclusions methodology (steps 4 &5).
- The positive screening through either quantitative best in class or proprietary scorecards screening (step 6)
- These investments also seek an impact through sustainable themes (step 7)

6.3 In brief, how are Principal Adverse Impact indicators taken into account in the investment process of investment funds?

The principal adverse impacts (PAI's) are defined as negative, material or potentially material effects on sustainability factors that result from, worsen, or are directly related to investment choices or advice performed by DPAM.

These are intrinsically linked to our willingness to reduce the negative impact of our investments, which is ingrained in the whole research and investment process at its inception.

First, the environmental PAI's, and more particularly those related to greenhouse gas emissions and energy performance are analysed and monitored at the issuer level[22] and at the portfolio level.

Second, the social PAI's are systematically screened through the three-steps of the disciplined research and investment process i.e.

1. global standards compliance filter: the global standards compliance filter is articulated around human rights, labour rights and prevention of the corruption. Furthermore, the filter for companies involved in major ESG controversies screening includes the controversies related to social matters namely society & community, customer and employee and the controversies related to governance matters such as business ethics including corruption and bribery
2. exclusion filter for companies involved in controversial activities and
3. exclusion filter for companies involved in major ESG controversies screening.

The integration of PAI's into the investment process is done with a primary focus **on understanding the materiality** of the indicators in terms of **risk and time horizon**. The objective is to balance these risks, their evolution and expectations in terms of risk and ESG profiles of the products.

The prioritization of PAI's depends on several elements: the availability of data, its quality and coverage and its materiality in terms of sustainability risks.

For this reason, the integration of the topics covered by the PAIs includes, on the one hand, **public quantitative** data from the company and/or specialized companies and, on the other hand, **qualitative assessments** by analysts specialized in the sector, particularly on the basis of their dialogues with the companies they cover.

Once the PAI's have been calculated, beyond their absolute level, the most important thing is to understand their origin and to take the necessary actions to influence them in the right direction. Thus, dialogue, engagement and voting can be important levers for change.

Environmental PAI's such as carbon emissions, greenhouse gas emissions, waste or water consumption, are among the topics for engagement, whether in the framework of Climate Action 100+, CDP or FAIR or in the framework of individual engagement arising from RISG decisions on controversies.

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[22] through notably all our research set up in the framework of the TCFD recommendations

The same applies to social PAIs such as human rights and employee rights via collaborative initiatives (e.g. through the Investors Alliance for Human Rights initiatives or the Facial Recognition collaborative initiative) or via individual initiatives.

These topics remain in the minority on the agenda of shareholder meetings on which we as shareholders can vote. However, we do not hesitate to use this lever to also put pressure on companies by voting against certain agenda items, to generally support ESG resolutions or to express our dissatisfaction with the board of directors as an overall result. Our voting policy outlines the approach taken on ESG resolutions and shareholder resolutions.

Following the different rules clearly defined in the policies for each step of the investment process (normative screening, controversy exclusion, controversy analysis and possible engagement, voting policy, engagement policy), an escalation and decision process exists and may ultimately lead to disinvestment in the issuer.

When it comes to the priority principle adverse indicators, we refer to the definitions provided in chapter 1.1 and 1.2 detailing the definitions considered by DPAM.

It is important to underline the challenge that the accessibility and quality of the requested PAI's represent today. It is unanimously recognized that not all companies report on these indicators; that the measures may be non-standardized and/or at the discretion of the company as to their materiality and methodology. Therefore it remains essential in the eyes of DPAM that metrics disclosed on a best-effort basis, are complemented by a qualitative analysis, capable of putting the figures into perspective and the same is valid for the conclusions drawn in terms of investment decisions. We are a strong believer in engagement and dialogues to enable all stakeholders to improve this situation in order to achieve the objectives of the EU regulation i.e. reorienting the financial flows towards the inclusive and sustainable growth and fighting against short termism and greenwashing.

6.4 In brief, how is the Do Not Significantly Harm (DNSH) principle guaranteed for investment funds?

The "do not significantly harm" principle is carried out through all steps of the investment decision process.

Indeed, this principle can be ensured through other tools than negative screenings. The positive screening, based on best -in-class approach and/or ESG scorecards, is also a way to include this DNSH as the best practices and best efforts regarding ESG sustainability risks are promoted and encouraged.

Our objective is twofold: firstly mitigate the tail risks by excluding the companies with the lowest ESG profiles, and secondly, encouraging not only the ESG leaders but also the companies that are improving their ESG profiles and are making significant progresses. The worst performers per sector (the threshold depends on the strategy) are excluded from the investment universe.

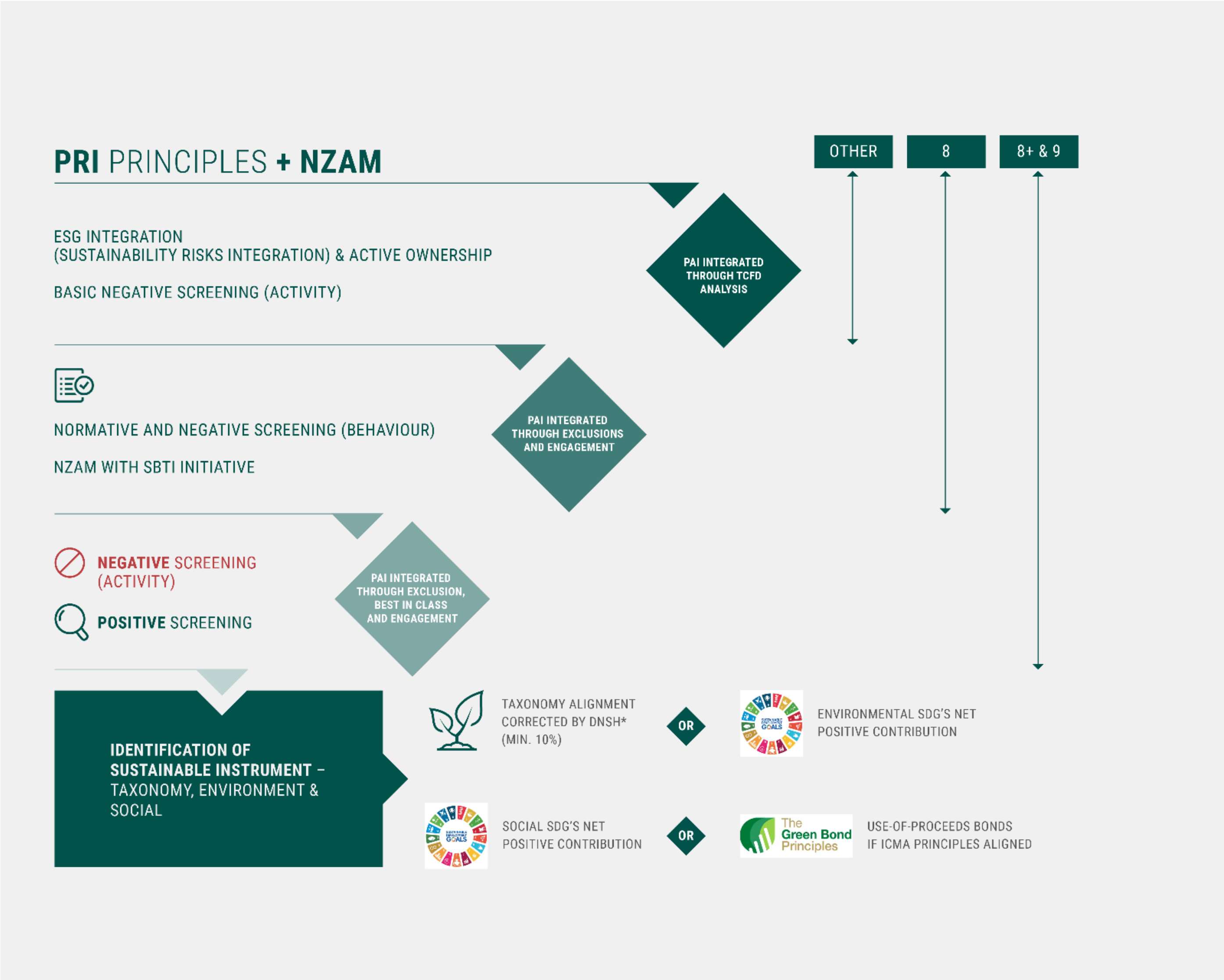
Through the whole process, DPAM aims at the highest level of sustainability risks and opportunities integration.

The weaknesses and margins for improvement regarding ESG data, approaches & methodologies are well known.

Nevertheless, this is not an excuse not to aim at the highest level of impact and opportunity to finance the ESG challenges of today.

DPAM is therefore applying a DNSH principle at level of its sustainable investment funds namely:

- The sustainable investment funds which promote E/S characteristics with a minimum of sustainable investment must comply with a minimum of 20% of issuers in portfolio contributing positively to all the 17 SDG's (net contribution), unless otherwise provided in the prospectus.
- The sustainable investment funds which promote E/S objectives must comply with a minimum of 50% of issuers in portfolio contributing positively to all the 17 SDG's (net contribution) and with a net positive contribution at aggregate level of the portfolio.



7. DPAM IS TRANSPARENT ON THE AIM OF ITS INVESTMENT FUNDS – SFDR CLASSIFICATION – THE SPECIFIC CASE OF GOVERNMENT BONDS INVESTMENTS

7.1 DPAM is committed to reduce the negative impact of its investment decisions – promotion of E/S characteristic

In the specific case of government bonds issued by countries, the promotion of environmental and social characteristic is done in the Article 8 investment funds by:

- excluding countries that do not meet minimum democratic requirements according to a methodology which is mainly based on the classifications of the International NGO Freedom House ("not free") and The Economist Intelligence Unit ("authoritarian regime").
- investing in impact bonds/use of proceeds

Good governance criteria such as the electoral process, civil liberties, national and local democratic governance are included in the model used by the International NGO Freedom House and the Economist Intelligence Unit.

7.2 DPAM is committed to increase the positive impact of its investment decisions or recommendations – promotion of E/S objectives

In the specific case of government bonds issued by countries, the promotion of environmental and social objectives in article 8 investment funds with a partial sustainable objective and article 9 investment funds, relies on a combination of 4 commitments:

- the exclusion of countries that do not meet minimum democratic requirements according to a methodology which is mainly based on the classifications of the International NGO Freedom House ("not free") and The Economist Intelligence Unit ("authoritarian regime").
- the best-in class ESG screening based on the proprietary country sustainability model to demonstrate the greatest commitment to sustainable development on governance, environmental and social issues;
- the systematic engaged dialogue with the issuers in which the portfolio is invested; and
- priority given to impact instruments such as green and sustainable emissions as described above when possible (see 3.3.1 above).

Therefore, the sustainable objective aims for :

- a higher democratic profile of the portfolio than the portfolio's reference universe[23]- a lower greenhouse gas (GHG) emissions intensity of the portfolio than the portfolio's reference universe [24].

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[23] The democratic profile is measured by a weighted average democratic score of the invested countries compared to the weighted average democratic score of the portfolio's reference universe

[24] The GHG emissions intensity is measured according to the PAI described in the SFDR RTS i.e. the GHG emissions of he invested countries compared with the GHG emissions intensity of the portfolio's reference universe as defined by regulatory technical standards.

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current value of all investments}\ (€M)} \times \frac{\textit{The country's Scope } 1, 2 \textit{ and } 3 \textit{ GHG emissions}_i}{\textit{Gross Domestic Product}_i\ (€M)}\right)$$

7.2.1 Methodology to identify the environmental and social objective of government bonds

A country is deemed to satisfy the Sustainable Investment Objective if it either satisfies to Environmental Investment Objective or the Social Investment Objective.

The starting point for this analysis is the DPAM proprietary country model, which

can be split in E, S and G components (please refer to the details on the model in section 3.3 above:

- Environment: Environment component of the model
- Social: Population, Healthcare & Wealth Distribution, and the Education & Innovation components of the model
- Governance: Transparency & Democratic Values component of the model

Using the scores for the E and S components, separate sub-rankings can be made for these components.

The analysis for the Environmental Investment Objectives carves out the scores from the Environment component from the DPAM proprietary country model. The countries are then ranked from best to worst using this Environment component score. A country is deemed to satisfy the Environmental Objective if it does not belong to the bottom quartile of the Environmental ranking (rounding up the number of eligible countries).

The analysis for the Social Investment Objectives carves out the scores from the Social component from the DPAM proprietary country model. The countries are then ranked from best to worst using this Social component score. A country is deemed to satisfy the Social Objective if it does not belong to the bottom quartile of the Social ranking (rounding up the number of eligible countries).

7.3 In brief, how are Principal Adverse Impact indicators taken into account in the investment process?

The principal adverse impact indicators (PAI’s) are intrinsically linked to DPAM's commitment to reduce the negative impact of its investments by avoiding activities or behaviours that may significantly undermine sustainable and inclusive growth. This commitment is embedded throughout the research and investment process from its inception.

The first PAI relevant for government bonds (and countries as issuers) is related to environmental issues and focuses on the greenhouse gas emission intensity of the countries invested in. The indicator is an integral part of the country sustainability model developed by DPAM for its sovereign bond investments. It is therefore included in the country sustainability score and can influence the country sustainability score positively or negatively depending on its level and evolution relative to other issuing countries. The results of the country sustainability scores are eventually discussed with the countries concerned according to DPAM's Engagement Policy available on www.dpamfunds.com

The second PAI relevant for government bonds (and countries as issuers) is related to social issues and focuses on issues of social violations. Our country sustainability model looks at several indicators on this issue such as respect for civil liberties and political rights, respect for human rights and the level of violence within the country, commitment to major labour conventions, the issue of equal opportunities and distribution of wealth, etc. These different indicators are included in the score for the country. These different indicators are included in the country's sustainability score and can influence it positively or negatively depending on its level and evolution in relation to other emitting countries. The results of the country sustainability scores are eventually discussed with the countries concerned according to DPAM's Engagement Policy available on www.dpamfunds.com

7.4 In brief, how is the Do Not Significantly Harm (DNSH) principle guaranteed?

The portfolios invested in government bonds issued by countries considers the principal negative environmental and social impacts (hereafter "PAIs") listed in Table 1 of Annex I of the Delegated Regulation (EU) 2022/1288 that are applicable to investments in sovereign or supranational issuers.

Please refer to the explanation just above in the point 7.3.

Government bonds issued by countries are not in the scope of the EU Taxonomy. Therefore, these instruments do not have to comply with the DNSH principle as stated in this regulation.

SECTIONS APPLIED SPECIFICALLY TO **MANDATES**

8. DPAM IS TRANSPARENT REGARDING SUSTAINABILITY – RELATES ASPECTS TOWARDS MIFID CLIENTS

8.1 DPAM is committed to offer investment methodologies meeting the suitability-related expectations of its clients

According to MIFID II, DPAM must collect the sustainability preference of its clients. Such preferences for sustainable instruments can be expressed by:

- Min. alignment with the EU taxonomy
- Min. sustainable investments as defined by SFDR
- The consideration of Principal Adverse Impact indicators.

DPAM builds the portfolio according to the specified requirements stipulated by the client in its MiFID profile. DPAM applies the sustainability preferences of the client at portfolio level. Clients may refer to DPAM's MiFID II Information Brochure freely available on **https://www.dpamfunds.com/sites/degroofpetercam/regulatory-disclosures.html**, and more specifically to section 5.2.2., for more information on how DPAM will determine the portfolios' classification under SFDR based on the sustainability preferences expressed by the clients.

The investment methodologies applied by DPAM to build the portfolio depend on whether the portfolio is invested in funds and/or in direct lines.

When the portfolio is invested in investment funds managed by DPAM, please refer to section 6 and 7, which explain in detail the methodologies applied by DPAM to its own funds, for both corporate and government bonds strategies. To the extent the portfolio also invests in funds managed by third party providers, DPAM relies on the pre-contractual disclosures made in the prospectus of the fund regarding its commitments on taxonomy alignment and sustainable investments to meet the client's requirements.

When the portfolio invests in direct lines, in order to determine whether an investment in equities and/or corporate bonds is eligible to meet the client's minimum proportion of sustainable investments, DPAM assesses whether the instrument complies with one of the four criteria below:

- **Use-of-proceeds** instrument aligned with the reference standards: a "use of proceeds" instrument is recognised as such and therefore as a sustainable instrument provided it is fully aligned with the ICMA principles and DPAM monitoring methodology
- **Taxonomy aligned** instrument: the taxonomy alignment is calculated based on the technical screening criteria as defined by the EU Taxonomy for the eligible activities of the issuer and the alignment to Taxonomy must be above 10% to be considered as an instrument aligned with Taxonomy.
- **Environmental objective** as defined by the framework of UN SDG's: several SDG's can be regrouped together as explicitly linked to Environment: 6,7,9,11,12,13,14,15. The issuer must have a net positive contribution to the environmental objectives in average to be considered as an instrument with an environmental objective.
- **Social objective** as defined by the framework of UN SDG's: several SDG's can be regrouped together as explicitly linked to social: 1,2,3,4,5,8,10,16,17. The issuer must have a net positive contribution to the social objectives in average to be considered as an instrument with an environmental objective.

The second criterium explains how DPAM determines whether a corporate instrument is aligned with the EU taxonomy and therefore whether it is eligible to meet the minimum proportion of taxonomy-aligned investments requested by the client.

Regarding government bond strategies, DPAM meets the proportion of sustainable investments requested by the client by investing in DPAM funds qualifying as article 8 and/or 9 under SFDR. As at the date of this policy, the EU taxonomy does not apply to government bonds as the EU has not yet defined a methodology to calculate the taxonomy-alignment of government activities. Therefore, such instruments are not eligible to meet the minimum proportion of taxonomy-alignment requested by the client.

8.2 In brief, how are Principal Adverse Impact indicators taken into account in the investment process of mandates

For investments in direct lines or investment funds managed by DPAM, please refer to the sections 6.3 and 7.3. For investments in investment funds managed by DPAM, PAI are taken into account at the level of the DPAM funds.

In case of investments in Third Party investment funds, the PAI will be those formally approved by the relevant regulatory authorities as stipulated in the pre-agreement disclosure.

8.3 In brief, how is the Do Not Significantly Harm (DNSH) principle guaranteed?

For investments in direct lines or investment funds managed by DPAM, please refer to the sections 6.4 and 7.4

For investments in investment funds managed by DPAM, compliance with the DNSH principle is ensured at the level of the DPAM funds, you may refer to the same sections.

DPAM IS A **COMMITTED SUSTAINABLE PARTNER**

VI. **DPAM IS A COMMITTED SUSTAINABLE PARTNER** REPORTING, DISCLOSURE AND TRANSPARENCY

1. TRANSPARENCY AND CONFIDENCE-BUILDING MEASURES

DPAM is committed to transparency and disclosure in light of its commitment to sustainable investments.

In addition to reporting on its sustainability approaches and methodologies, DPAM puts a point of honor in providing relevant and accurate information and ensuring that all sustainable constraints and requirements are respected.

The compliance of the investments with the ESG company ranking is audited internally and externally. An external audit report is available in the annual report of the relevant investment fund, which is publicly available at the following address:

https://funds.degroofpetercam.com/cms/sites/degroofpetercam/home.html.

Eligible universes and blacklists of issuers of sustainable universes are centralised by the RICC. The support and administration team is in charge of the pre-trade control of investments and eligible universes while the risk team is in charge of post-trade control. Both pre-trade controls and post-trade controls are continuously operated by way of dedicated IT applications that are integrated with our trading instruments.

2. COMMITTED TO TRANSPARENCY – DPAM'S EXTRA FINANCIAL REPORT

DPAM's roadmap to high expertise in sustainable and responsible investments, initiated in 2001, has enabled it to acquire maturity and expertise to experience a smooth evolution from sustainable strategies designer and provider to **sustainability committed company**. Through its non-financial reporting, DPAM assesses how sustainability is reflected, visible and tangible within DPAM's own organization.

DPAM largest and most significant impact is generated through its investments. Naturally, we are also conscious about the direct impact we have on society, our clients, our employees, and other stakeholders. The picture below depicts the double impact that we generate, both as an actor and investor. It also shows the key elements that are mentioned in the subsequent chapters of our extra financial report, publicly available, which gives a clear view on the E/S/G dimensions implemented at DPAM as a Sustainable Actor and a Sustainable Investor.

BOARD OVERSIGHT

RI OVERVIEW
SUSTAINABLE AND RESPONSIBLE INVESTMENTS
CONTROVERSIAL POLICY BROADENING
VOTING REPORTING
ENGAGEMENT REPORTING

	INVESTOR	ACTOR
ENVIRONMENTAL	• Highlight of TCFD report • Expansion of our exclusion policy with e.g. thermal coal	• Offset our current emissions = carbon neutral scope 1 & 2 • Establish a plan to diminish main direct emissions drivers
SOCIAL	• Overview of controversies on social topics • Extension of collaborative engagement initiatives • Broadening of normative screening	• Training programme overview • Gender pay parity exercise
GOVERNANCE	• Overview of controversies on governance topics • Overview of main governance bodies on ESG	• Elaboration of an ESG-variable remuneration policy; • Introduction of the Sustainability Awareness Training

3. TRANSPARENCY OF ESG METHODOLOGIES

The policies describing DPAM's methodologies are publicly available on the websites: **www.dpamfunds.com** in the dedicated section "sustainable investments" and degroofpetercam.com.

DPAM reports on the implementation of these policies on a yearly basis. The annual activities reports are also publicly available on the same section of the website.

4. CONTENT AND FREQUENCY OF REPORTING

DPAM produces comprehensive monthly and quarterly ESG-focused factsheets that are used to inform our institutional clients about the ESG-exposure of the DPAM Funds' strategies. The factsheets are also produced for the DPAM Funds that don't specifically follow an ESG strategy, with a view to improve consistency. The factsheets show the exposure of the portfolio to various ESG metrics as well as the fund's performance and the portfolio composition. There is also a commentary from the portfolio manager including the reasoning behind possible changes in the portfolio.

Besides factsheets, DPAM produces a quarterly sustainability report for each of its sustainable funds with comments on the ESG profile and sustainability of the portfolio and of its individual positions. These sustainability reports focus closely on topical ESG discussions in general and may provide an analysis of particular stocks and industries included in the portfolio, as well as a summary in case DPAM has engaged with companies or have challenged extra-financial third-party research.

Clients and prospects can also contact the RICC via the following email: sustainable@degroofpetercam.com.

Finally, investors can consult the website http://funds.degroofpetercam.com to access the prospectuses, (semi) annual reports and Voting Policy.

5. DISCLOSURE REQUIREMENT

DPAM recognizes that every country has different disclosure requirements as regulatory frameworks vary. Nevertheless, DPAM expects companies to publish a comprehensive annual report with fully audited financial statements. DPAM also expects companies to provide a complete sustainability report which is preferably in line with the Global Reporting Initiative standards, and that covers all relevant sustainability issues for the company and its stakeholders, and that emphasizes the sustainability issues that are the most material to the company.

VII. LEXICON AND ABBREVIATIONS

Carbon intensity of a company	The weighted average of the carbon intensity (in tCO2e/$M revenue) measures the portfolio's exposure to high-carbon issuers on the 1 and 2 scopes. These data do not take into account the total amount of emissions generated by the company, in particular those produced downstream by the use of the commercialized products and services, or upstream by suppliers (scope 3 emissions).
Carbon footprint of a portfolio	The carbon footprint of the portfolio is meant to assess the portfolio's carbon risk in the framework of the transition to a low carbon economy. In order to do so, the carbon emissions of the various issuers are calculated and reported based on their total revenue. The calculation method is based on the acknowledged methodology of the Global Greenhouse Protocol and takes into account the scope 1 emissions (direct emissions resulting from sources which are the property of or are controlled by the reporting issuer) and scope 2 emissions (direct emissions relating to the energy use (electricity, heat, steam) required to be able to produce the product on offer).
Companies	Corporate, as opposed to countries, which can issue listed equities or corporate bonds.
Compliance with the UN Global Standards	Compliance with the recognized Global Standards i.e. UN Global Compact, ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs and Underlying Conventions and Treaties. The Global Standards aims to uphold four fundamental principles: defend human rights, defend labour rights, prevent corruption and protect the environment. Based on specific criteria stemming from the 10 principles of the Global Compact, ESG rating agencies assess the companies' compliance with these 10 principles. The analysis identifies companies which face incidents and severe controversies resulting in violations of these fundamental rights principles. The severity of the controversies and incidents is evaluated based on national and international legislation, but also taking into account international ESG standards, such as the recommendations of the OECD for multinational companies, the conventions of the International Labour organization, the Universal Declaration of Human Rights, etc. The assessment result can be compliant, watch list or non-compliant.
DNSH	Do Not Significantly Harm principle
ESG factors	Environmental, Social, Governance factors ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual

ESG impact	The ESG impact is the assessment of the contribution of the portfolio invested positions to ESG challenges. Based on the 17 Sustainable Development Goals (SDGs), adopted in 2015 by the United Nations, DPAM classifies investments into companies which objectively offer solutions to sustainability challenges by means of their products and/or services in four major impact themes, namely climate change and stability, natural capital, fundamental needs and empowerment.
ESG risk score of a portfolio	The ESG risk score of the portfolio is the weighted average ESG risk score of the companies in the portfolio. It is calculated by taking into account all positions in the portfolio that are covered by ESG research from Sustainalytics and their respective weights. The ESG risk score reflects the remaining material ESG risk that has not been managed by the company in an absolute manner (unmanaged risk). It includes two types of risk: management gap risks, i.e. risks that could be managed by the company through suitable initiatives but which are not yet managed by the company; unmanageable risks, i.e. risks that are inherent to a company's activities which cannot be addressed by suitable initiatives. The ESG risk scores can be classified in 5 categories: negligible risk (0-10), low risk (10-20), medium risk (20-30), high risk (30-40) and severe risk (above 40).
FISAB	Fixed Income Sustainability Advisory Board
Net positive contribution	Regarding contribution to the Sustainable Development Goals, the assessment will look at the positive and the negative contribution. The net positive contribution is the difference between the negative and the positive contribution, assuming that this has to be at least positive.
NZAM	Net Zero Asset Management Initiative
PAI	The principal adverse impacts (PAI's) are defined as negative, material or potentially material effects on sustainability factors that result from, worsen, or are directly related to investment choices or advice performed by DPAM.
Portfolios	Refer to investment funds and/or mandates managed by DPAM
RICC	Responsible Investment Competence Center

RISG	Responsible Investment Steering Group
Severity of controversy exposure	A controversy is defined as incidents or scandals to which a company is exposed. These may be pertaining to environmental, social or governance issues. The impact and risks of these controversies are assessed based on various criteria, such as the gravity, responsibility and exceptional character of the impact, as well as the reputational and image risk. The assessment results in a categorization that groups a company into 5 different controversy categories, according to their gravity, on a scale from 1 (not very serious) to 5 (extremely serious). The gravity is assessed by ESG rating agencies, based on their impact and frequency, the transparency of the information provided by the company and its preventive and corrective measures.
SFDR Regulation	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
SDG's	The Sustainable Development Goals are the 17 goals defined by the United Nations in the heart of the 2030 Agenda for Sustainable Development. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality and spur economic growth – all while tackling climate change and working to preserve our oceans and forests
Sustainability risks	Environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment
TCFD	Taskforce for Climate-Financial related Disclosure
UN PRI	United Nations backed Principles for Responsible Investment: is a United Nations-supported international network of investors working together to implement its six aspirational principles, often referenced as "the Principles".[1] Its goal is to understand the implications of sustainability for investors and support signatories to facilitate incorporating these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system
VAB	Voting Advisory Board

VIII. **SUMMARY** OF RESPONSIBILITIES

TOPIC	ESG FACTORS INTEGRATION	SUSTAINABILITY RISKS MANAGEMENT
OBJECTIVES	Integrate ESG factors in the whole process of portfolio construction from research to final decision making process by identifying the material ESG indicators which could have positive and/or negative impact on the valuation of the investments	To systematically monitor and manage environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment
MEANS	▪ External resources through screenings, data, issuer and sectoral reports ▪ Internal resources through fundamental in-depth research including ESG KPI's ▪ Engaged dialogues to clarify ESG factors and to get more informed decision making process ▪ TCFD's assessments ▪ ESG KPI's scorecards ▪ Etc.	▪ External resources through screenings, data, issuer and sectoral reports ▪ Internal resources through fundamental in-depth research including ESG KPI's ▪ Engaged dialogues to clarify ESG factors and to get more informed decision making process ▪ TCFD's assessments ▪ ESG KPI's scorecards ▪ Systematic review of the controversies severities ▪ Systematic monitoring of the compliance status with the Principles of the Global Compact ▪ Etc.
RESPONSIBILITIES	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC)	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC) ▪ RISG ▪ TCFD Steering Group
CONTROL	▪ RISG ▪ TCFD Steering Group ▪ Portfolio management teams	▪ RISG ▪ TCFD Steering Group ▪ Portfolio management teams ▪ Risk management

TOPIC	PROMOTING ENVIRONMENTAL AND SOCIAL CHARACTERISTICS	PROMOTING ENVIRONMENTAL AND SOCIAL OBJECTIVES
OBJECTIVES	To promote environmental and social characteristics in the portfolio by defending the fundamental rights, by not investing in activities and/or behavior of companies which might affect the reputation on long-term of the investments and by integrating and promoting ESG factors and best practices	To promote environmental and social objectives in the portfolio by defending the fundamental rights, by not investing in activities and/or behavior of companies which might affect the reputation on long-term of the investments and by optimizing the positive net impact to the Society as a whole
MEANS	▪ External resources through screenings, data, issuer and sectoral reports including eligible universe based on Global Compact norm screening and controversies severity negative screening ▪ Internal resources through fundamental in-depth research including ESG KPI's ▪ Engaged dialogues to clarify ESG factors and to get more informed decision making process ▪ TCFD's assessments ▪ Systematic review of the controversies severities ▪ Systematic monitoring of the compliance status with the Principles of the Global Compact ▪ Etc.	▪ External resources through screenings, data, issuer and sectoral reports including eligible universe based on Global Compact norm screening and controversies severity negative screening ▪ Internal resources through fundamental in-depth research based on preliminary screening based on ESG scores or ESG KPI's through scorecards ▪ Systematic review of the controversies severities ▪ Systematic monitoring of the compliance status with the Principles of the Global Compact ▪ Assessment and measurement of the positive and negative impact to the 17 sustainable objectives of the United Nations ▪ Engaged dialogue to clarify ESG concern and to highlight the ESG impact of products and services ▪ Individual and collaborative engagement to promote best practices and to optimize the net positive impact to the Society and all stakeholders ▪ Etc.
RESPONSIBILITIES	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC) ▪ RISG ▪ TCFD Steering Group	▪ Portfolio managers ▪ Fundamental buy-side analysts ▪ Responsible Investment Competence Center (RICC) ▪ RISG ▪ TCFD Steering Group
CONTROL	▪ RISG ▪ TCFD Steering Group ▪ Portfolio management teams ▪ Risk management ▪ VAB ▪ FISAB ▪ Management Board	▪ RISG ▪ TCFD Steering Group ▪ Portfolio management teams ▪ Risk management ▪ VAB ▪ FISAB ▪ Management Board

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This document is also not an invitation to buy or sell any funds managed and/or offered by DPAM. Decisions to invest in any fund managed and/or offered by DPAM, can only be validly made on the basis of the Key Investor Information Document (KIID), the prospectus and the latest available annual and semi-annual reports. These documents can be obtained free of charge at our dedicated website (https://funds.degroofpetercam.com) and we strongly advise any investor to carefully read these documents before executing a transaction.

Important information for investors in Hongkong

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