DPAM

DEGROOF PETERCAM ASSET MANAGEMENT

DECEMBER 2021

SUSTAINABLE AND **RESPONSIBLE** INVESTMENTS POLICY

CONTENTS

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 March 2021. It amends and restates the first version of the SRI Policy which was released in March 2016.

It is applied consistently to all 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. 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 deeply ingrained in its corporate DNA since 2001

COMPETITIVE ADVANTAGE

Sustainability is a prerequisite for the longevity of issuers.

BEST PRACTICES AND BEST EFFORTS

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

LONG-TERM VALUE GENERATION

Issuers who take into account secular sustainability challenges will be able to thrive financially and create sustainable added value in the long term.

INDEPENDENT ASSET MANAGER

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

II. DEGROOF PETERCAM ASSET MANAGEMENT **A RESPONSIBLE INVESTOR SINCE 2001**

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

Being a responsible investor first and foremost involves raising key questions about the consequences of DPAM's investment activity in a global context, i.e. looking beyond pure financial profit and taking into account all stakeholders whilst considering the consequences of an investment. Raising questions, utilizing experts, sharing information and engaging with a positive yet critical mind-set 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. Holding shares in a company offers the opportunity to express an opinion on the management of that company, and as a responsible asset manager, acting on behalf of the DPAM funds and clients; DPAM must make its voice heard. Adopting a voting policy and participating in general and extraordinary shareholders' meetings are also an integral part of a responsible asset manager's responsibilities. DPAM can speak up so that the companies in which it invests, on behalf of DPAM Funds or clients in scope of its Voting Policy, are managed according to best practices in terms of corporate responsibility. Engaging in dialogue with the company, either through proxy voting or direct dialogue during meetings with its representative, is a means to ensure that the rights of shareholder are respected, as well as those of other stakeholders. Responsibility is therefore also a tool that can be used to work towards a more sustainable financing and economic system at global level.

DPAM has a threefold commitment to sustainable investing

To uphold fundamental rights as per the UN Global Compact. Companies are assessed on the basis of the 10 Principles of the UN Global Compact, which are grouped into four major principles: human rights, labor rights, environment and anti-corruption efforts. Drawing on specialized and independent research, a company will be categorized as compliant, non-compliant or will be put on a watch list.

To avoid controversial activities that may affect reputation, long term growth and investments. A number of controversial sectors are excluded from the investment universe for our sustainable funds. Other controversial sectors or business activities are not specifically excluded since inception but are covered by our Controversial Activities Policy that can result in the exclusion of business activities. This policy has a broad scope to cover all assets managed by DPAM with different degrees of implementation according to the level of sustainability of the portfolios (promoting environment/social characteristics or sustainable objectives or not taking into account ESG factors)

To be a responsible stakeholder and to foster best practices and evolutions. In this context, DPAM is part of collaborative and dynamic global networks that guide/help it to gain a better understanding and knowledge of the challenges and opportunities associated with responsible investing.

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 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. Involvement in a controversial activity can be indirect, such as potential interaction with defense and armament sector for IT and technology companies developing security software.
- our **Engagement Policy** (**available here**): DPAM's vision of being a responsible investor is articulated into three pillars:
  - raising key questions about the consequences of its activities;
  - being a shareholder which engages in a constructive dialogue with companies and ensuring the rights of shareholders are fully exercised; and
  - being committed to long-term objectives and sustainable financing.

  To implement this, DPAM has set dialogue with the different stakeholders at the heart of the process and approach. This Policy describes the rationale for engaging with companies, 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. It lists the diverse commitments of DPAM as a sustainable actor (§1). It explains what DPAM stands for when it refers to Active, Sustainable and Research (§1) as its strategic pillars. 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 (§3 &4) and ESG impact by sustainable objectives (§5). Finally because any investment has an impact, we share our vision regarding impact intentionality and measurement (§5).

1. SCOPE OF THE POLICY

The Policy is applied to all 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. 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.

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 manner in which 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 integrating systematically the question of the **harmful impacts** any investment 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.

III. EXECUTIVE SUMMARY

DPAM is committed to sustainability and 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 and to foster best practices and evolutions.

This document is the first pillar of a set of four 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 as much as possible the negative impact of its investments on society.

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.

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**:

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> *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 the 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, notably 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 the 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 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.

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**:

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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.”*

2. SIGNATORY OF UN PRI SINCE 2011

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. 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.

3. 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).

4. SUPPORTER OF AMBITIOUS AND SUCCESSFUL INITIATIVES ON ENGAGEMENT

DPAM 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.

5. 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.

6. DPAM STEWARDSHIP - ACTIVE OWNERSHIP

6.1 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.

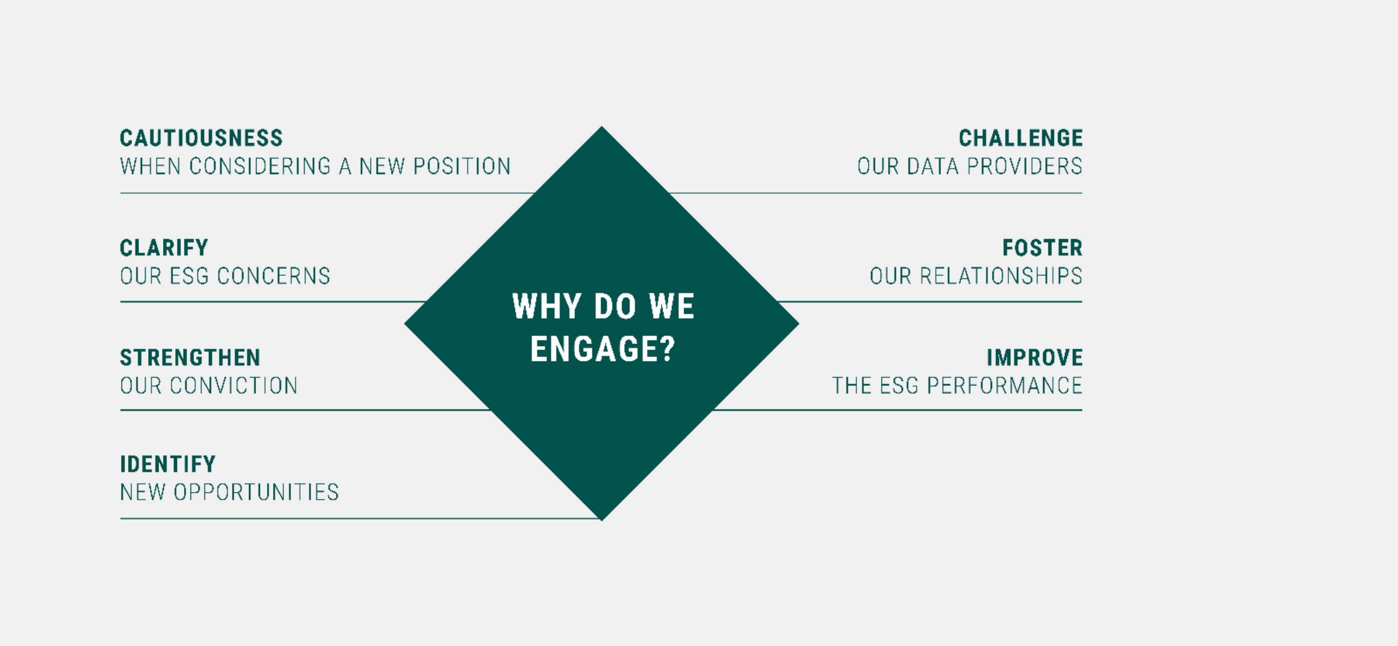
By means of its Voting Policy, DPAM makes sure that the rights of shareholders are respected, and therefore the rights of minority shareholders and other stakeholders notably trough proposals related to environmental or social topics. The Voting Policy fully discloses DPAM's vision on corporate governance 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.

6.2 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 the relevant companies. This collaborative process takes place both within DPAM and externally.



Engaging in dialogue with a company, either through proxy voting or direct dialogue, is a mean to fine tune fundamental research-driven investments decisions, including assessing the sustainability risks and to spread best practices and innovative solutions regarding ESG challenges.

First of all, ESG considerations are discussed internally among the responsible investment specialists and the investment professionals in order **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.

Secondly, external initiatives stimulate debate on complex ESG issues in a positive yet critical manner then paving the way for the implementation of new ESG approaches, while enriching DPAM's in-house ESG expertise

Engagement is used as a due diligence process, fully integrated in DPAM's commitment to be Active, Sustainable & Research-driven.

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. This engagement aims at:

- To better understand the sustainable profile of companies,
- To reduce negative impacts of DPAM's investments and
- To defend DPAM's values and convictions.

6.2.1 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 (see 0 below), 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)[1]'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.

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[1] 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.

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 based on five sustainability pillars to assess the ESG profile of the developed and developing countries. The sovereign bond portfolio construction relies also on in-depth research of a country's fundamentals implying several investors' trip to meet with supervisory authorities, central banks, government officials, or employers' associations and supranational entities such as the IMF, the World Bank or the OECD. This is the opportunity to increase awareness regarding sustainability approach in government bonds investments and to discuss and challenge these on a positive agenda regarding ESG challenges. DPAM sovereign bond portfolio managers can have extended conversations with issuers (national debt management agencies) about DPAM's sustainability model and what are the expectations from a sustainable country. In some cases they can discuss the national strengths and weaknesses identified in the proprietary model. It is interesting to see that, despite the relatively small size of DPAM's holding compared to the size of outstanding debt, national debt agencies are generally very tuned to agendas like DPAM's and this opens the door for relevant engagement, that would not really be possible in other circumstances.

7. 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.

8. POLICY AND GOVERNANCE

8.1 The four DPAM's foundation/reference policies

As a kind 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 this Sustainable and Responsible Investments Policy.

8.2 Governance and steering bodies

The various governance bodies, with the presence of external experts, have also fostered 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 the 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.

8.2.1 The Fixed Income Sustainability Advisory Board (FISAB)

The FISAB consists of seven voting members with a majority of external experts and meet twice 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.

8.2.2 The Voting Advisory Board (VAB)

It consists of ten voting members, three external and seven internal, who meet twice 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.

8.2.3 The TCFD Steering Group

In order 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 8 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 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.

8.2.4 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 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.

9. PEOPLE, RESOURCES AND CAPABILITIES

9.1 The Responsible Investment Competence Center

The **Responsible Investment Competence Center** ("RICC") is headed by the Responsible Investment Strategist 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 Responsible Investment Strategist 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 companies or sectors. The ESG specialists challenge the analysis of extra-financial research providers and engage with targeted companies for fact-checking and in order 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.

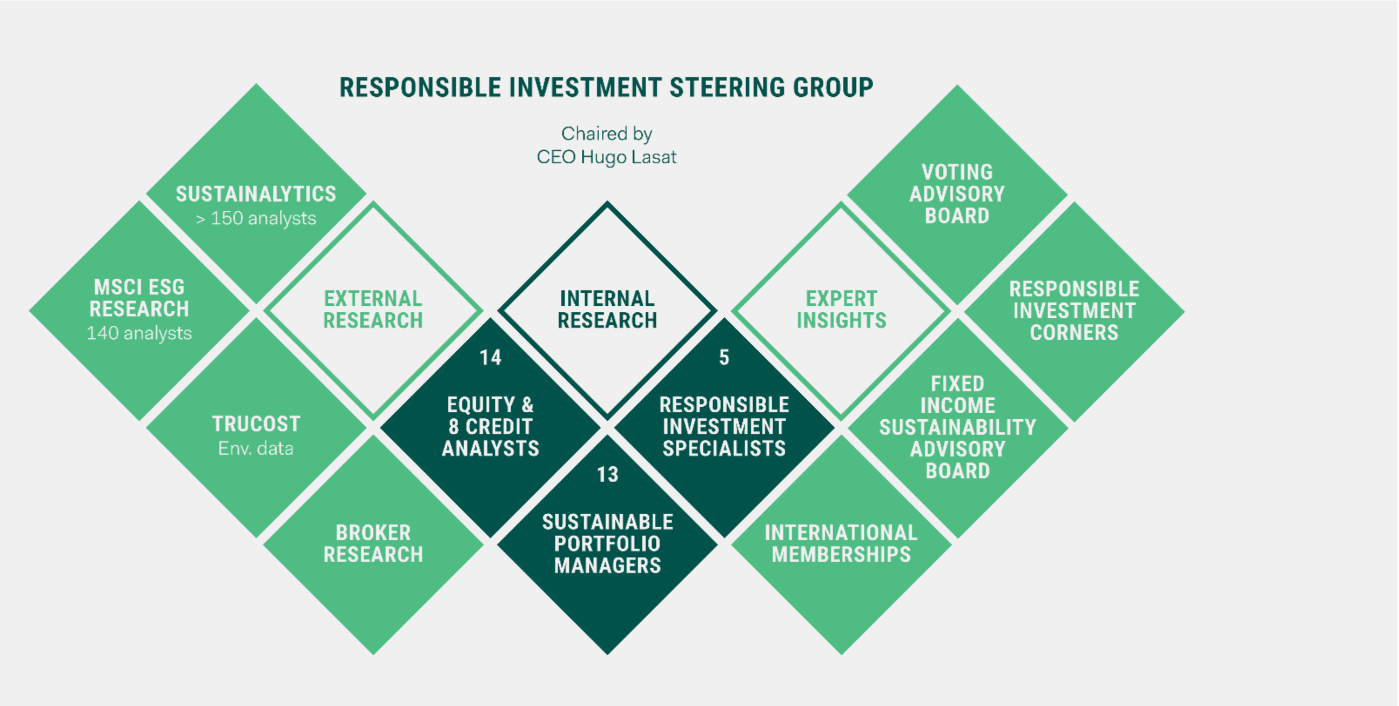
9.2 Integration into research and portfolio management teams

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 7 credit and 21 equity 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.

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.



9.3 External resources

DPAM external resources include extra-financial, company-specific and industry-wide research from the two leading extra-financial rating agencies **Sustainalytics and MSCI ESG Research**. Together, these agencies employ more than 400 experienced ESG analysts. The remuneration of extra-financial information agencies differs from that of financial rating agencies, avoiding conflict of interests[2]. The independence and objectivity of the provided information is therefore guaranteed. Nonetheless, 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.

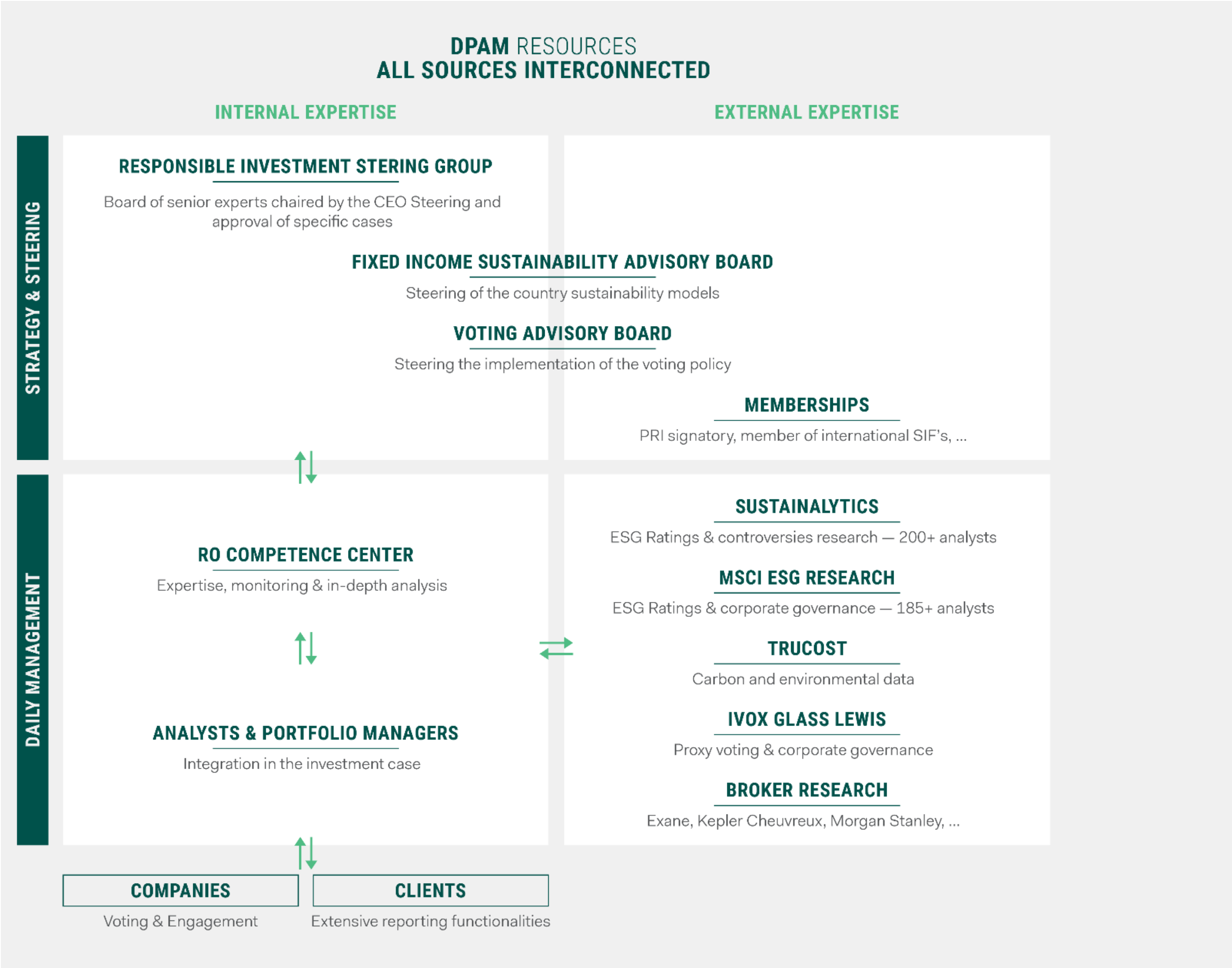
Supporter of the TCFD recommendations and committed to assess the environmental risks accurately, the data from the specialist in **environmental data Trucost** are also a key input.

The Util supplier is also used as an external source to objectivise the 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.

[2] As opposed to rating agencies, the extra financial rating agencies are not remunerated by the issuers they rate but by the users of their research like asset managers, asset owners, consultants, etc.

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.



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

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

DPAM is committed 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.

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

1. ESG: DPAM'S DEFINITION

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 – have to face important challenges and business paradigm change.

DPAM has committed over the last years to support the climate transition. It has supported the TCFD recommendations (as mentioned above in section 0 above) 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)**[3] of all managed investment funds.

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[3] 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

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.

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 regards energy, improved energy-efficiency is one the most cost-effective ways to ensure the security of the energy supply.

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 2° scenario** of the portfolios it is managing. Based on this, 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 on **scope 3 emissions** [4](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.

[4] 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

The social criteria assess a company/country's impact on the social systems and societies within which it operates. This could be referred to as the conceptual "**social license to operate**". Initiatives regarding **labor practices, human rights, society and product responsibility** help to improve a company's credibility, safeguard its license to operate, build corporate and product brands and increase its market penetration.

Labor practices and decent work are regulated by internationally recognized standards such as the ILO Conventions or the UN Conventions.

This is also the case for **human rights**. There is increasing awareness among corporate top-management that organizations have a duty to respect human rights at all levels, **notably among their sub-contractors and along their supply-chains.**

Violations of these fundamental rights expose organizations to potentially fines, but more importantly to a substantial deterioration of their reputation, which may harm their economic performance over years.

DPAM aims at a systematic analysis of the management practices put in place to face 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**.

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 behavior linked to monopolistic practices.

Finally, social factors takes into consideration **product responsibility** and the organization's duty to provide its clients with the accurate information on its products and services, notably with regard **to customer health and safety, product and service labeling, marketing and customer privacy**.

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	▪ Employee's safety and protection ▪ Labour rights ▪ Diversity policies ▪ Customer's satisfaction ▪ Products health and safety ▪ Data privacy ▪ Human capital management ▪ Etc.

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: A PHILOSOPHY AND APPROACH 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, but thanks to its twenty years of experience and expertise in the area of Responsible Investments, it 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 and from long term risk becomes short term one while others will never materialize.

Furthermore, ESG factors tend to rely on static information, which lead rather to reactive analysis than pro-active one. **Forward looking data** might be an alternative for anticipation and more proactive analysis. This is why DPAM is granted attention to the **monitoring of data** (evolution over time) and to **developing scenario's** to ascertain as well 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 on the short term as well.

According to a survey published by MSCI in June 2020[5], governance factors would be more significant 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**.

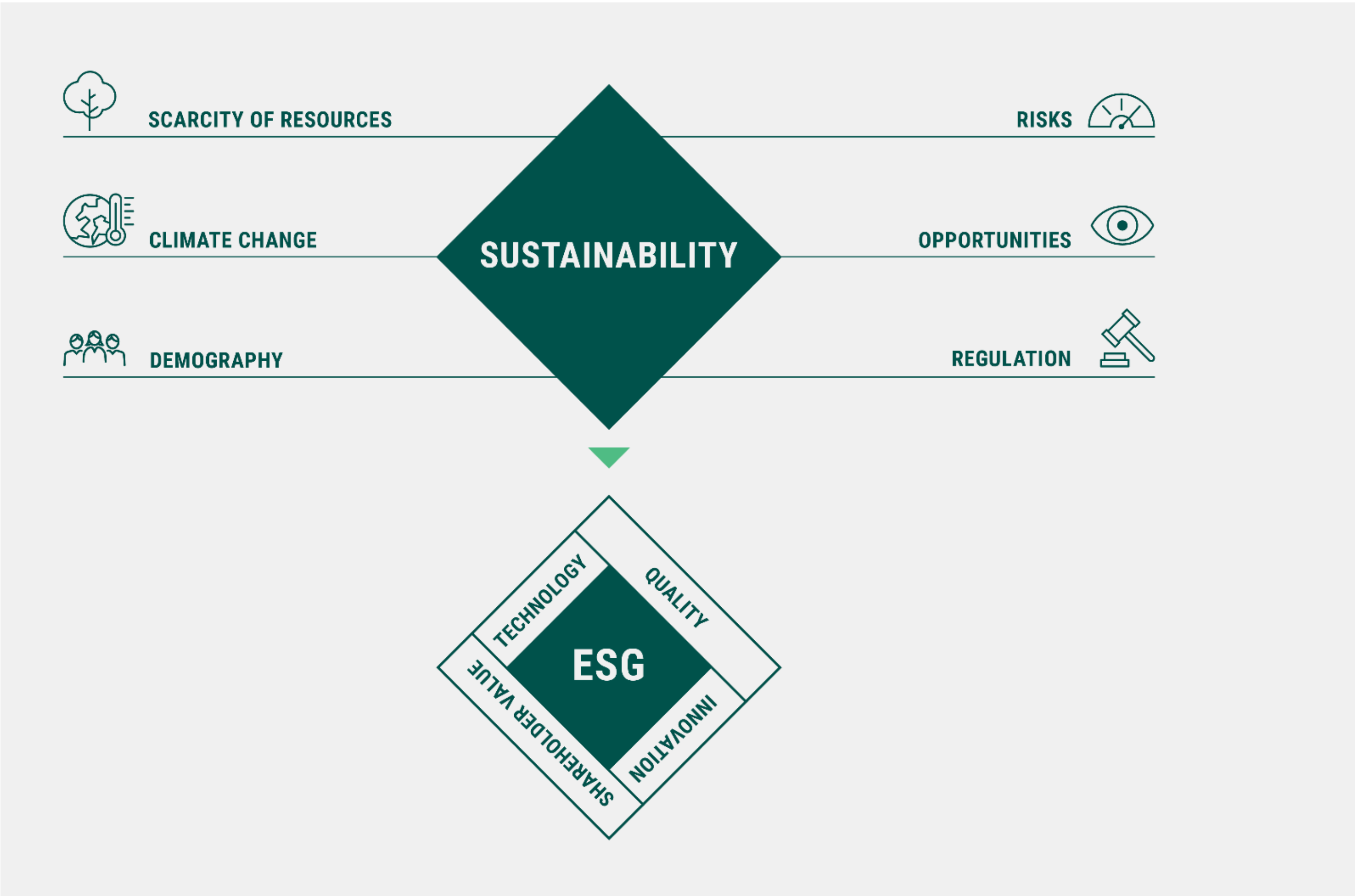
[5] Deconstructing ESG ratings performance, June 2020

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.

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.



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 challenges identified. 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 dialogue with a company, either through proxy voting or 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 now, 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 brands or innovation is closely linked with 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.

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 the leaders versus the laggards within each sector, 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.

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.

3. DPAM CONVICTION: ESG FACTORS TO BE INTEGRATED IN THE WHOLE INVESTMENT PROCESS – ASSET CLASSES APPROACH

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"[6].

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

Furthermore, 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 on 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.

Sustainability therefore refers to three dimensions: **the financial sustainability of the issuer, the sustainability of the social license to operate for the issuer and finally the sustainability of the business models**.

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.

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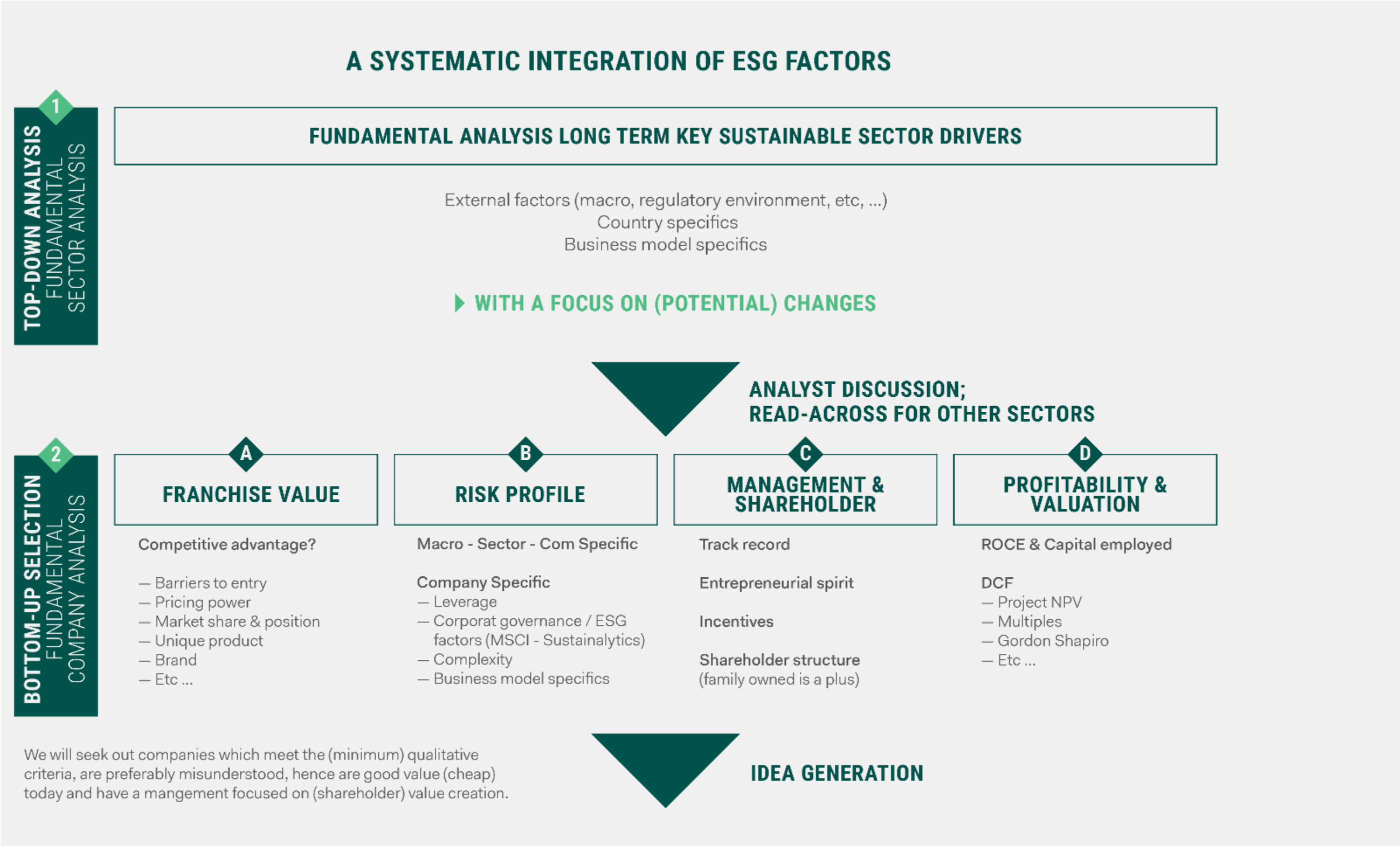
[6] Tail risk is a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution. Tail risks include events that have a small probability of occurring, and occur at both ends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

3.1 Integration in listed equities



Beyond ESG screenings, the equity research teams pro-actively incorporate ESG criteria in their analysis. The analysts will provide a qualitative assessment based on a review of ESG information and data provided by MSCI ESG Research and Sustainalytics. The analysts use other sources of information, and they notably gather information through their interaction with companies and their management teams.

In order to do this, they could raise the following questions for example:

- 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?

In this context, engaging with companies and voting at shareholder meetings is a priority.

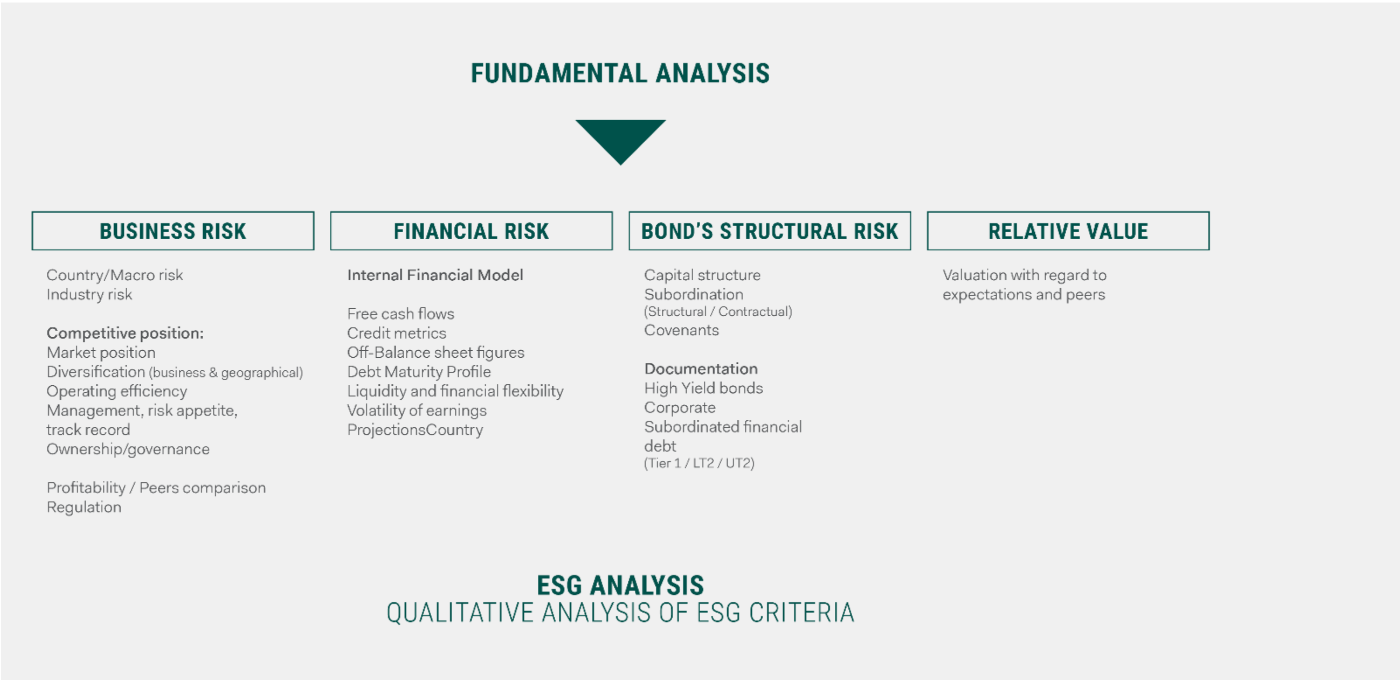
3.2 Integration in Corporate Bonds

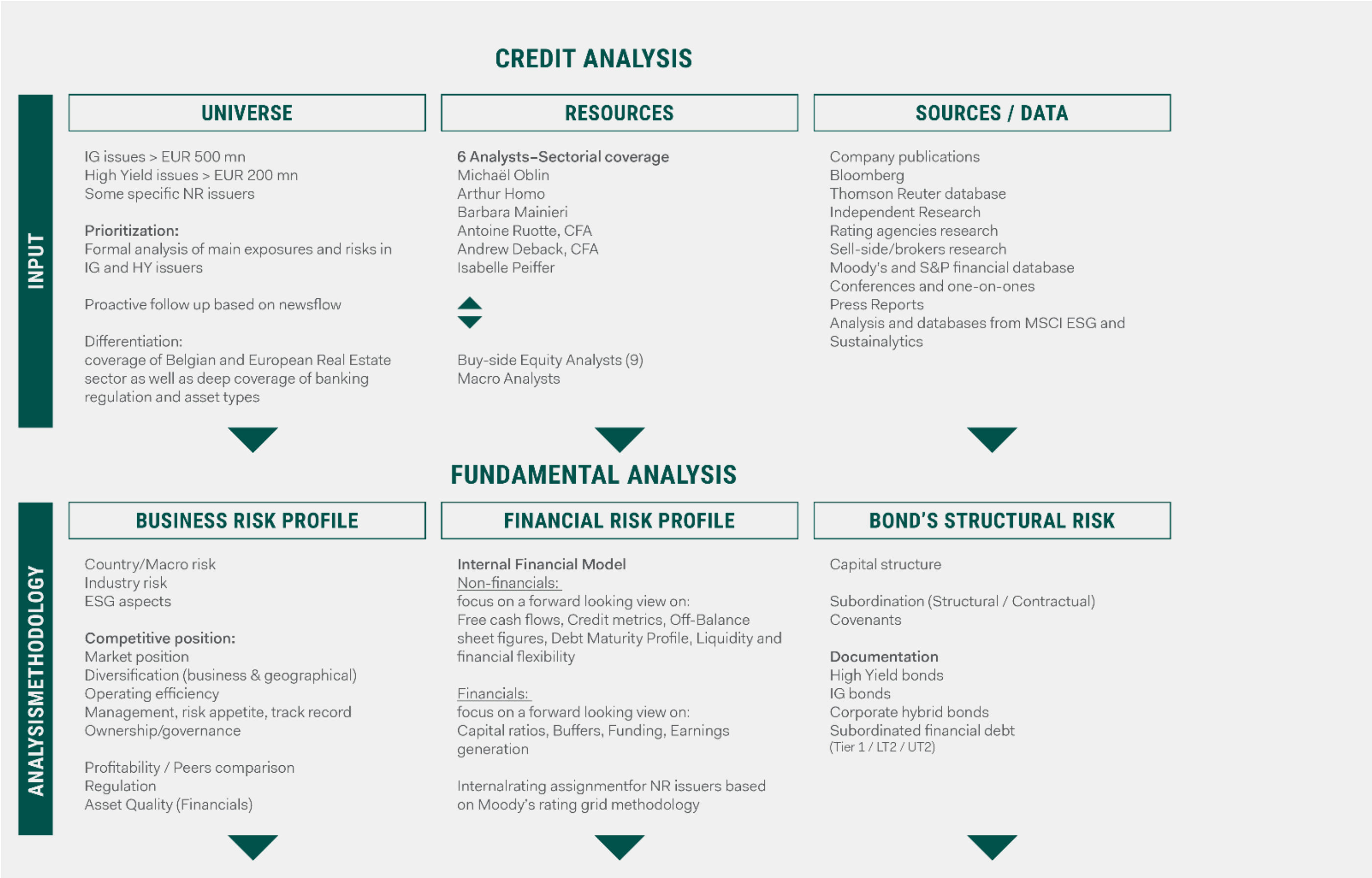
Credit analysts' recommendations are driven by fundamental analysis. The objective is to determine the capacity of the issuer to pay its coupon and fully and timely redeem the principal. The business profile (i.e. a qualitative analysis through the assessment of the business risk profile) and the financial profile (i.e. a quantitative analysis through our financial model; including a liquidity analysis) of the issuer are assessed. ESG aspects are integrated in the analysis, as part of the business sustainability and the financial sustainability.

Afterwards, the structure of each bond is analyzed (subordination, covenants, etc.). This analysis results in an internal opinion on the credit profile of an issuer (improvement or deterioration over time). Important to note is that the analysts adhere to a common approach in terms of fundamental analysis, be it investment grade credits or high yield.

The method for analyzing an issuer differs if it is a corporate issuer or a financial issuer.

The graph below summarizes the credit analyst research:





Understanding the company's business allows analysts to establish a view of the issuer. Non-financial risks, such as management issues, changes to a company's competitive position or a cyclical downturn in an industry are often the leading causes for credit deterioration. Analysts put the emphasis on criteria such as: the industry, the competitive position, senior management, company ownership.

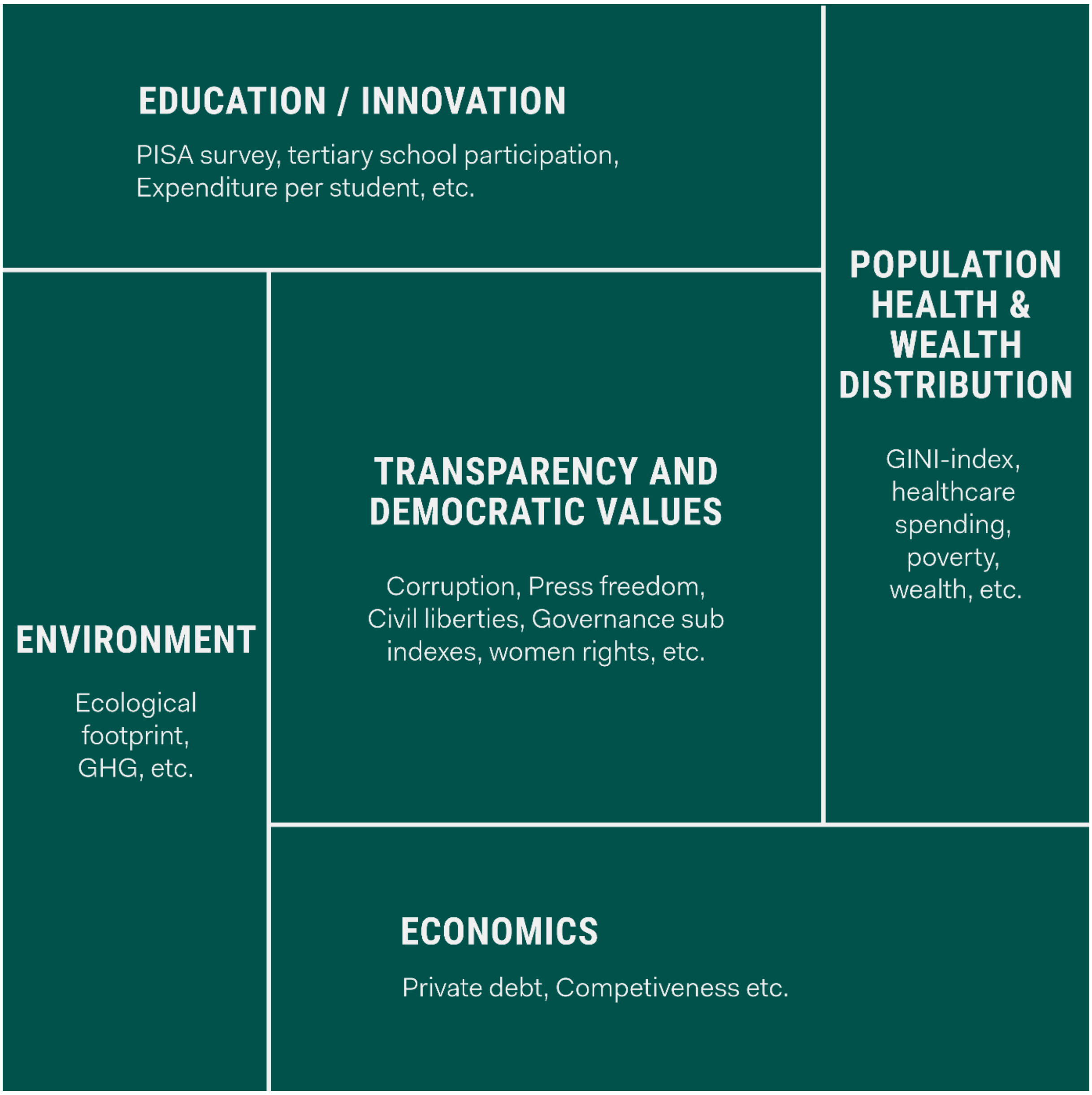
3.3 Integration in Sovereign Bonds

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 success key for the future. In sum, the strategy takes the conviction decent sustainable governance at a country level has indirectly positive impacts on the financial performance of the country's government bond issuances.

Our sustainability country model relies on five dimensions namely transparency and democratic values (1), environment (2), population, health and wealth distribution (3), education and innovation (4) and economics (5). This does not hide the high interconnectivity between these five closely correlated dimensions.

Over the last years, we witnessed several disruptions and even contradictions regarding governance, social concern or environmental issues. This is why sustainability analysis at country level has been essential in an integrated model. For more information, please refer to our country sustainability report.



The country model is reviewed every six months with the support and expertise of the Fixed Income Sustainability Advisory Board (FISAB). It is described in details in the publicly available reports.

Next to the 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[7] 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[8].

[7] *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.*

[8] 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'*.

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.

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, equaling 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 portfolio's**, a bond is only considered an eligible GSS bond if both the issuer and the GSS bond are internally validated (hereafter 'DPAM-validated').

1. 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[9], 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[10] 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).

2. 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.

<u>GSS bond framework hierarchy:</u>

1. EU Taxonomy aligned bonds[11];
2. Green bonds aligned with the Climate Bonds Initiative (CBI) framework and taxonomy[12];
3. Bond issuance aligned with the ICMA Green or Social Bond Principles[13];

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[9] 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/

[10] 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/

[11] 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.

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

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

4. Green bonds issued according to the framework developed by the multilateral development banks (MDBs) and the International Development Finance Club (IDFC)[14];

5. Other GSS bonds developed according to internationally recognized frameworks, built upon climate-science or other sustainability standards.

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 portfolios) 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**.

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

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 equities

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

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 particular 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.

Beyond data on the principal advisory indicators (PAI), DPAM relies on a broad suite of ESG data, research and services to assess sustainability risks, sustainable corporate governance and climate risks in particular.

The ESG research on sustainability risks with supporting screening tools, as described in our methodologies, assist on integrating sustainability risks in investment advice, 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.

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), as data becomes available, but also through 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 initially analysed climate risks in the oil and gas and community services sectors. To do this we use data on energy mix, transition strategy, coal exposure, exposure to unconventional supply activities and carbon emissions. DPAM has then extended this work to the other sectors mentioned above.

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. reducing the carbon footprint of its portfolios to align with a 2 degrees scenario);
- Measuring the impact of climate change on its investments (e.g. integrating the consequences of droughts on a utility's hydropower production into its assessment).

For specific strategies, ESG scorecards are developed 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 ("ESG KPIs"), 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. However, ESG risk remains present because the impact of adverse ESG events can indeed lead to material ESG risks that could affect the performance of the portfolio.

The above-described approach is applied by DPAM in the management of its own funds and the discretionary portfolio management mandates. For these financial products, SFDR requires DPAM to assess the likely impact of sustainability risk 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. Subfund
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 10 principles of the UN Global Compact 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) on 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.

5. DPAM IS COMMITTED TO REDUCE NEGATIVE IMPACT OF ITS INVESTMENT DECISIONS OR RECOMMENDATIONS – PRINCIPAL ADVERSE IMPACTS

5.1 Pragmatism and dialogue in controversial activity screening

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, fueling a debate, with exchanges of arguments between several parties;
- There is a discussion taking place among the parties over a period of time;
- 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 here 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 portfolios exposure. When deciding whether to exclude or not a controversial activity from its portfolios or making an investment recommendation, DPAM follows an approach based on dialogue, in-depth expertise and consistency. DPAM sees **exclusion as a last recourse**. Our group's approach is to advocate best sustainability practices within each economic sector.

DPAM has **a dedicated policy for controversial activities**, which details the activities which are by nature controversial and on which DPAM has expressed its view.

In its Controversial Activities Policy, DPAM aims to communicate transparently over which business activities and sectors it excludes from its investment strategies. Moreover, DPAM applies an ESG integration approach onto several controversial activities. In such case, there is no "hard exclusion" forcing portfolio managers to fully divest or not to make any investment recommendation in relation to that product, but the RICC sensitizes portfolio managers over the sustainability risks associated with some sectors. This leads portfolio managers to reduce their portfolio exposure to (or not to recommend) these contentious sectors (underweight positions) and sometimes to fully divest from these sectors. The sectors and activities subject to DPAM's ESG integration approach are also listed in this Controversial Activities Policy.

Importantly, DPAM excludes some of these controversial activities not only from its sustainable strategies but also from its mainstream strategies.

Please consult our **controversial activity policy** for detailed information.

5.2 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.

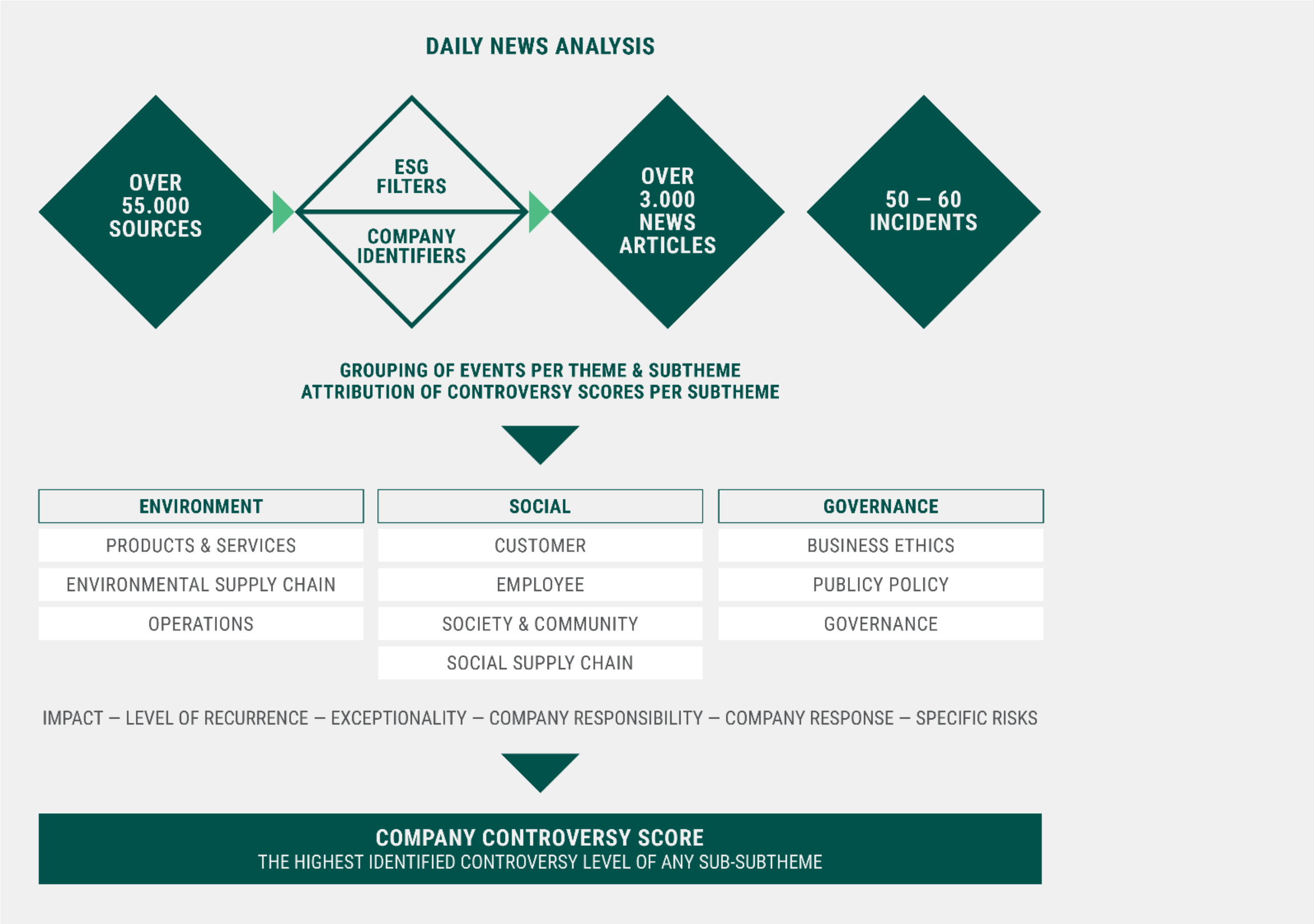
5.2.1 Defending fundamental rights through a systematic normative screening

Companies are assessed on the basis of the 10 Principles of the UN Global Compact. On a quarterly and ad hoc basis, non-financial rating agencies carry out a compliance screening to detect which companies are facing severe controversies and incidents falling into the scope of the four domains of the UN Global Compact. The severity of the allegations is assessed based on national and international law, but it also takes into account internationally-accepted ESG standards. Following the assessment, companies are classified as compliant, non-compliant or are placed on a watch list. The names placed on watch status are monitored over a longer period to determine whether structural progress is being made in risk management or performance, or whether the impact of the controversy is less than initially thought.

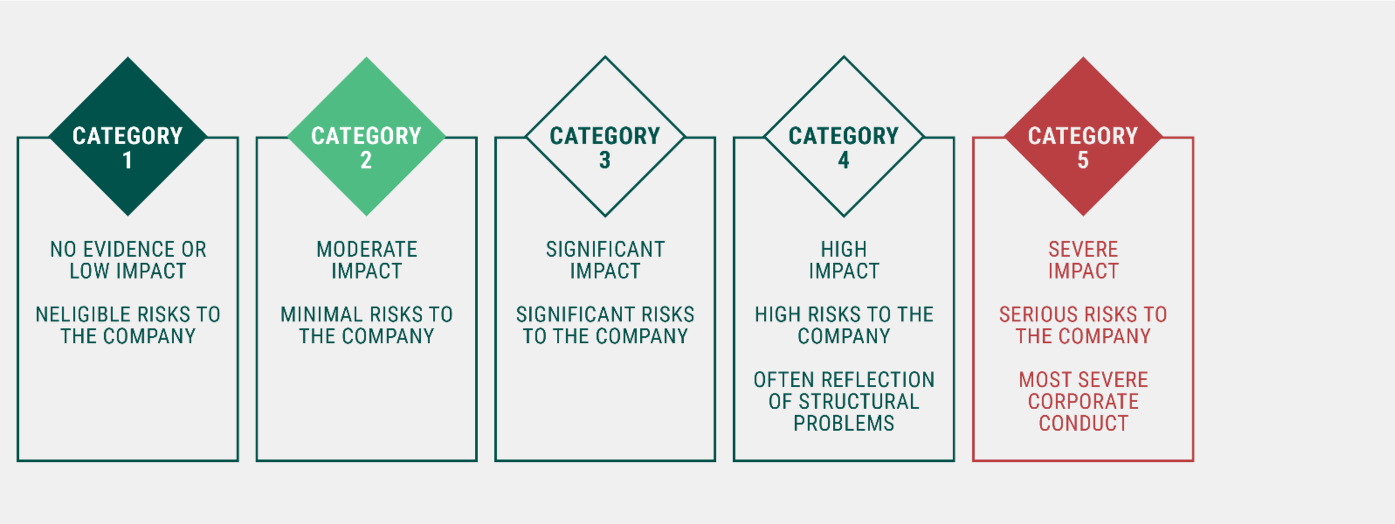
Each portfolio managed by DPAM is assessed through this normative screening i.e. the quarterly ESG factsheet stipulates the breakdown of the portfolio between non-compliant, watch-list and compliant issuers in which the portfolio is invested.

5.2.2 Controversies and exclusions

DPAM assesses companies on the basis of the allegations they (might) face in relation to ESG controversies because controversies serve as an important indicator of the effectiveness of ESG-related policies and programs. The assessment of controversies starts from the controversy ratings that are delivered by our extra-financial research provider Sustainalytics. This latter applies ESG filters and company identifiers on more than 55.000 daily news sources in order 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).

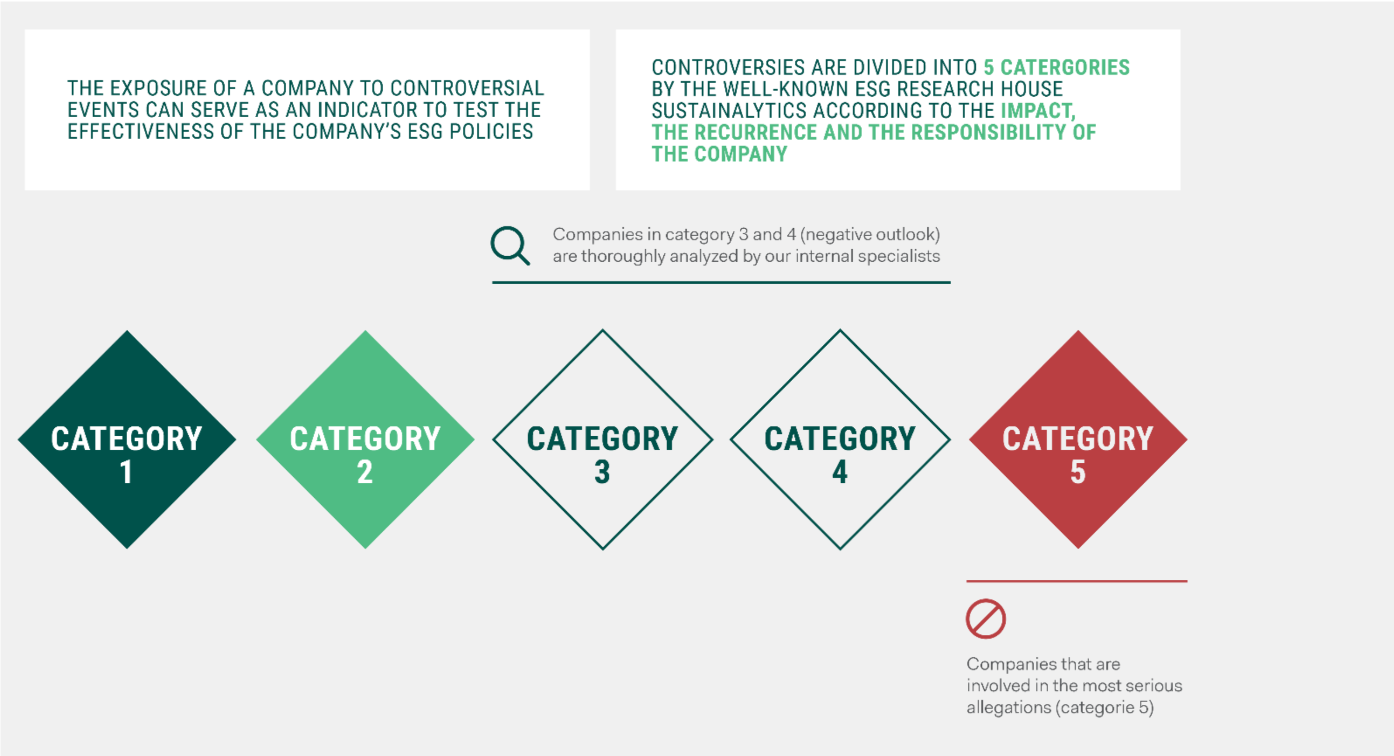


For each category of controversies, Sustainalytics will assess information and relevant data and will attribute a severity score. The severity of an allegation or how controversial the activity of the company is, is determined based upon the impact, nature, scope, recurrence of the incident, the response 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).

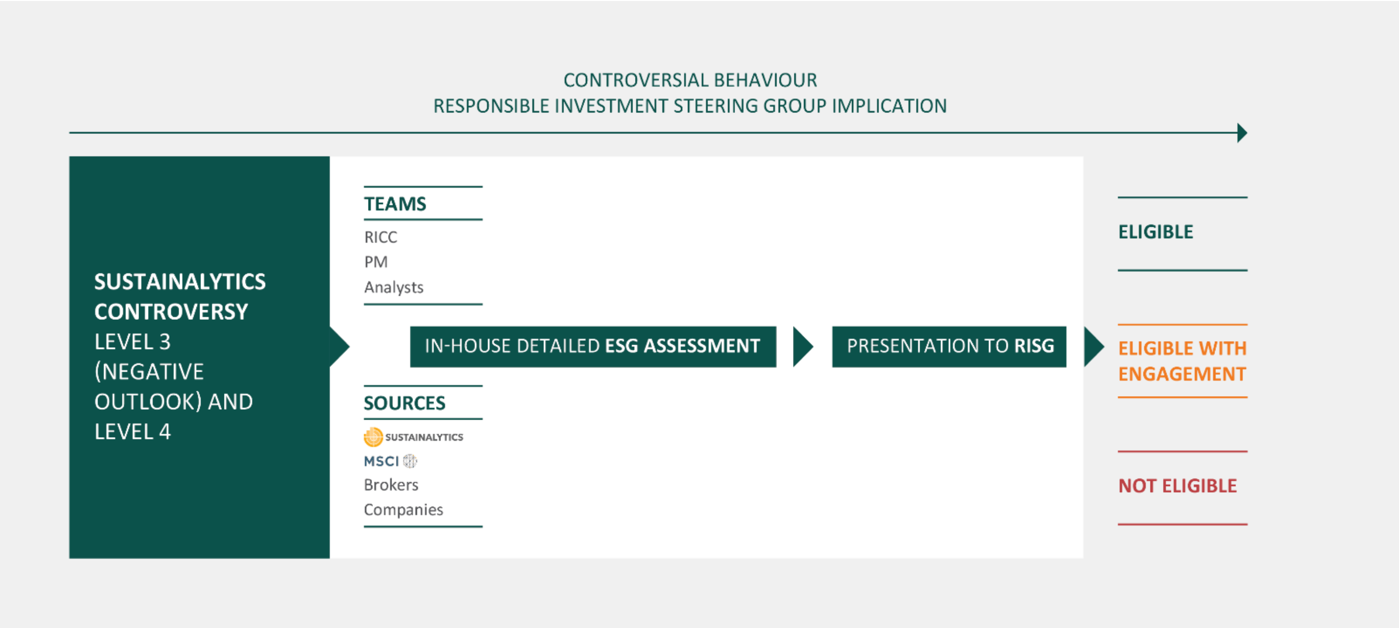
Systematic review of controversial behavior of companies – Universe: 15.000 issuers



The **"do not harm" principle** has emerged from several regulatory frameworks in terms of sustainable investments in Europe (for example, the Article 173 of the French law on a low carbon transition, EU Taxonomy and EU SFDR). Aligned with this principle, DPAM is committed to identify any controversy an invested issuer could face and to engage with the issuer to improve the situation.

Through regular review of the cases of companies involved in severe controversies DPAM can take the decision to engage and/or divest, and by doing so to reduce its total negative impact. The RISG systematically reviews companies exposed to severe controversies, sector by sector, with a view to proactively defend sustainable and responsible investments.

Process of severe controversies review – sector approach



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

6. DPAM IS TRANSPARENT ON THE AIM OF ITS INVESTMENT FUNDS AND STRATEGIES

6.1 Promoting environmental and social characteristics

DPAM's mission in promoting **environmental and social characteristics** in its portfolios is aligned with the three main principles of sustainable investments:

- **To defend the fundamental rights** pertaining to the respect for human rights, labor, anti-corruption and environmental protection;
- **To assess the seriousness of controversies** that issuers may face; to divest or avoid financing companies that are seriously and / or repeatedly involved in controversies, notably when they may affect corporate reputation, long term growth and investments;
- **To promote best practices** and encourage on-going efforts towards sustainability.

6.1.1 Rigorous and disciplined selection process

To **promote environmental and social characteristics**, the portfolio construction is based on a multidimensional approach combining normative screening, negative screening and ESG profile assessment.

a) Defending the fundamental rights as articulated in the UN Global Compact

Companies are assessed on the basis of the 10 Principles of the UN Global Compact On a quarterly and ad hoc basis, non-financial rating agencies carry out a compliance screening to detect which companies are facing severe controversies and incidents falling into the scope of the four domains of the Global Compact. The severity of the allegations is assessed based on national and international law, but it also takes into account internationally-accepted ESG standards. Following the assessment, companies are classified as compliant, non-compliant or are placed on a watch list. Companies that do not comply with the UN Global Compact are not eligible to the portfolios. In case of downgrade of an issuer to non-compliance status, an engagement is carried out according to the timeline aligned with our engagement policy and an in-depth analysis is carried out to identify all the responsibilities of the issuer in this downgrade.

b) Controversies and exclusions

The portfolios promoting environmental and social characteristics apply as a minimum the exclusions stipulated for active mainstream funds in DPAM's Controversial Activities Policy i.e.

ANTI-PERSONNEL LANDMINES (APL), CLUSTER MUNITIONS (CM), and DEPLETED URANIUM MUNITIONS & ARMOURS (DPU)

- Nuclear Weapons:
  - Directly-Involved companies: from a 10% revenue exposure;
  - Indirectly-Involved companies from 50% equity stake / credit stake.
- Tobacco
  - Producers: Revenue exposure ≥ 5% → exclusion
  - Suppliers, distributors and retailers: Revenue exposure ≥ 15% → exclusion
- White-Phosphorus weapons (WP): any direct exposure leads to exclusion
- Adult entertainment
- Thermal coal: Companies deriving more than >10% revenues from thermal coal extraction would be excluded.
- Power generation from fossil fuels: >=30% revenues from coal power generation = exclusion
- Unconventional oil & gas: Exclusion of companies with a share of unconventional Oil & Gas in total Oil & Gas production >20%
- Biological & Chemical Weapons

Other controversial sectors or business activities were not specifically excluded since the inception of our funds but they are still covered by the Controversial Activities Policy. DPAM refrain from applying broad sector exclusions on sectors that are playing a necessary role supporting the foundations of our economy. Instead, DPAM favor a positive approach, selecting these companies that are well-positioned, that are advancing and that are leading their sector with respect to sustainability best practices.

DPAM also assesses companies on the basis of the allegations they (might) face in relation to ESG controversies because controversies serve as an important indicator of the effectiveness of ESG-related policies and programs. The assessment of controversies starts from the controversy ratings that are delivered by our extra-financial research provider Sustainalytics.

Please refer to principal adverse impact and the monitoring of the controversial behavior of issuers.

The companies facing controversies of **the most severe level (5) are excluded from the eligible universe**. In case of downgrade of a controversy to level 5, an engagement is carried out according to the timeline aligned with our engagement policy and an in-depth analysis is carried out to identify all the responsibilities of the issuer in this downgrade.

6.1.2 Qualitative ESG approach

As explained in the ESG integration section beyond the ESG screenings, the research teams incorporate ESG criteria in their analysis. The analysts provide a qualitative assessment based on a critical review of ESG information and data provided by MSCI ESG Research and Sustainalytics. The analysts also use other sources of information, and they notably gather information through their interaction with companies and their management teams.

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

6.2.1 Seeking an impact

Regulation, civil society and impact investing have pushed the boundaries of sustainable investments, which must demonstrate their contribution to the real economy. It is no longer satisfactory to justify that you do not invest in the worst companies of their sector; the sustainable investments must contribute to solutions and positive impact for the economy.

The **Sustainable Development Goals** (SDG)'s help to understand those impacts of long-term economic, political and social trends on regions and sectors. Indeed, they provide a framework for approaching investing for impact in the public equity markets. The products and services developed by specific companies are sources of capital to be allocated to one of the seventeen sustainable development goals supported by the United Nations. The advantages provided by the SDGs as a common responsible investment language are:

- their clarity and ease of reading and understanding;
- their flexibility and adaptability which means that they "fit" many companies' reporting; and
- their growing popularity among businesses, which in-turns helps convincing an increasing number of companies to report on them (a snowballing effect).

DPAM believes a number of SDGs can be translated to actionable investment opportunities linked to innovative businesses. These can reflect real investment opportunities, mainly in sectors where they entail a product realignment or business model transformation like in utilities, pharmaceutical, consumer and capital goods. DPAM, , makes a distinction between these companies whose outcomes are related to SDG's (i.e. their products and or services are directly linked to specific SDG's) and the companies whose operations are aligned with SDG's (for example ensuring decent working conditions or guaranteeing gender equality). In other words, the approach might not map the SDG 8, 16 and 17 as these are related to the operations of the company (how they do the business) rather than their products.

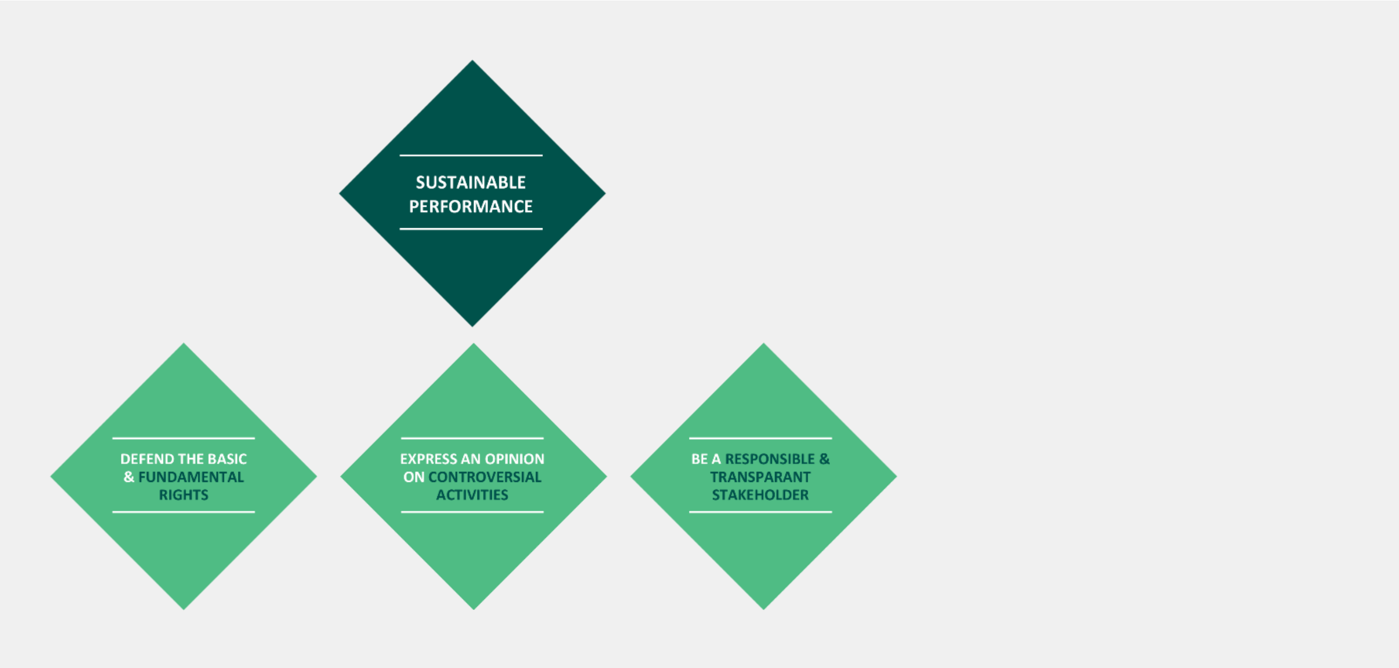
The SDG 8 aims at promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Decent working conditions are part of our ESG profile analysis of the issuers in which the funds may invest. In parallel, the SDG's 16 (peace, justice and strong institutions) and 17 (partnerships for the goals) are also challenging to translate in real investment opportunities. DPAM is member of several international networks to foster and promote sustainable finance. It believes in partnerships and collaboration to pave the way notably in its engagement activities. Nevertheless, investing in companies with SDG's outcome related to these two specific goals is unlikely realistic.

The measurement of contribution to SDG's is based on the services and products from the issuer, independently of its behavior (see 5 below).

6.2.2 Rigorous and disciplined selection process

DPAM's approach towards sustainable investments (i.e. investments in economic activities contributing to environmental and/or social objectives) in its portfolios is based on three main principles:

- **To defend the fundamental rights** pertaining to the respect for human rights, labor, anti-corruption and environmental protection;
- **To assess the seriousness of controversies** that issuers may face; to divest or avoid financing companies that are seriously and / or repeatedly involved in controversies, notably when they may affect corporate reputation, long term growth and investments;
- **To promote best practices** and encourage on-going efforts towards sustainability.



To build the investment universe for equities and corporate bonds, DPAM relies on norms-based screening, assessments of controversies, exclusions of certain sectors and quantitative screenings.

6.3 Normative ESG screening

Companies are assessed on the basis of the 10 Principles of the UN Global Compact. On a quarterly and ad hoc basis, non-financial rating agencies carry out a compliance screening to detect which companies are facing severe controversies and incidents falling into the scope of the four domains of the Global Compact. The severity of the allegations is assessed based on national and international law, but it also takes into account internationally-accepted ESG standards, Following the assessment, companies are classified as compliant, non-compliant or are placed on a watch list. Companies that do not comply with the UN Global Compact are not eligible to be part of our investment universe. The names placed on watch status are monitored over a longer period so that to determine whether structural progress is being made in risk management or performance, or whether the impact of the controversy is less than initially thought. Any downgrade of an issuer to non-compliant status is a passive investment breach and leads to a forced selling of the position.

6.4 Controversies and exclusions

To commit to the DNSH principle, the eligible universes at inception are screened based on controversial sectors/activities and based on severity of the controversial behaviors of the companies.

Regarding activities and sectors, the eligible universes for investment are subject to the most severe implementation of DPAM Controversial activities Policy. The following sectors are therefore excluded at inception of the investment process: anti-personnel landmines, cluster munitions and depleted uranium munitions & armors; white-phosphorus weapons; nuclear weapons; other armaments, tobacco, gambling; adult entertainment/pornography; alcohol; thermal coal extraction; unconventional oil & gas extraction (Shale gas, Shale oil, Oil sands and Arctic drilling); conventional oil & gas extraction; electricity generation from fossil fuels; nuclear energy. Please refer to the stipulated thresholds and methodologies in DPAM Controversial Activities Policy.

DPAM assesses companies on the basis of the allegations they (might) face in relation to ESG controversies because controversies serve as an important indicator of the effectiveness of ESG-related policies and programs. The assessment of controversies starts from the controversy ratings that are delivered by our extra-financial research provider Sustainalytics.

The controversies of severity 5 and assimilated () are strictly forbidden at inception of the portfolio construction. Any downgrade of a controversy to level 5 () is a passive investment breach and leads to a forced selling of the position in the stipulated rules of the portfolio.

6.5 Quantitative ESG screening

Our 20 years of experience in quantitative ESG scores and screening has highlighted a number of issues such as ESG scores being excessively influenced by the length of ESG reports, a bias to large caps, companies from emerging markets lagging behind developed markets companies in terms of sustainability practices, etc. 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 progress. The worst performers per sector (the threshold depends on the strategy) are therefore excluded from the investment universe.

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 lowest the score is the best it is for the issuer.

When the biases in ESG score can affect certain strategies 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 developing **proprietary scorecards**, the research and portfolio management teams are able to 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 they are covered, they often lose a substantial amount of points since the scale of their organization doesn't require or enable them 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. The scorecard will be built on a set of sustainable KPIs that are assessed in conjunction with the financial criteria and that are tailored to the different subthemes. 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. For this reason, when Sustainalytics coverage is available for all companies of the subtheme, it can be included as one of the KPIs, but it will not serve as a determining decision-making factor.

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.

Each scorecard includes both fundamental and ESG criteria. The ESG section of the scorecard will always include 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. 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 analyzed in detail according to the relevant KPIs after which each dimension is aggregated in a comprehensive scorecard which enables to assess the company both on ESG criteria and fundamental criteria at the same time.

6.6 Qualitative ESG approach

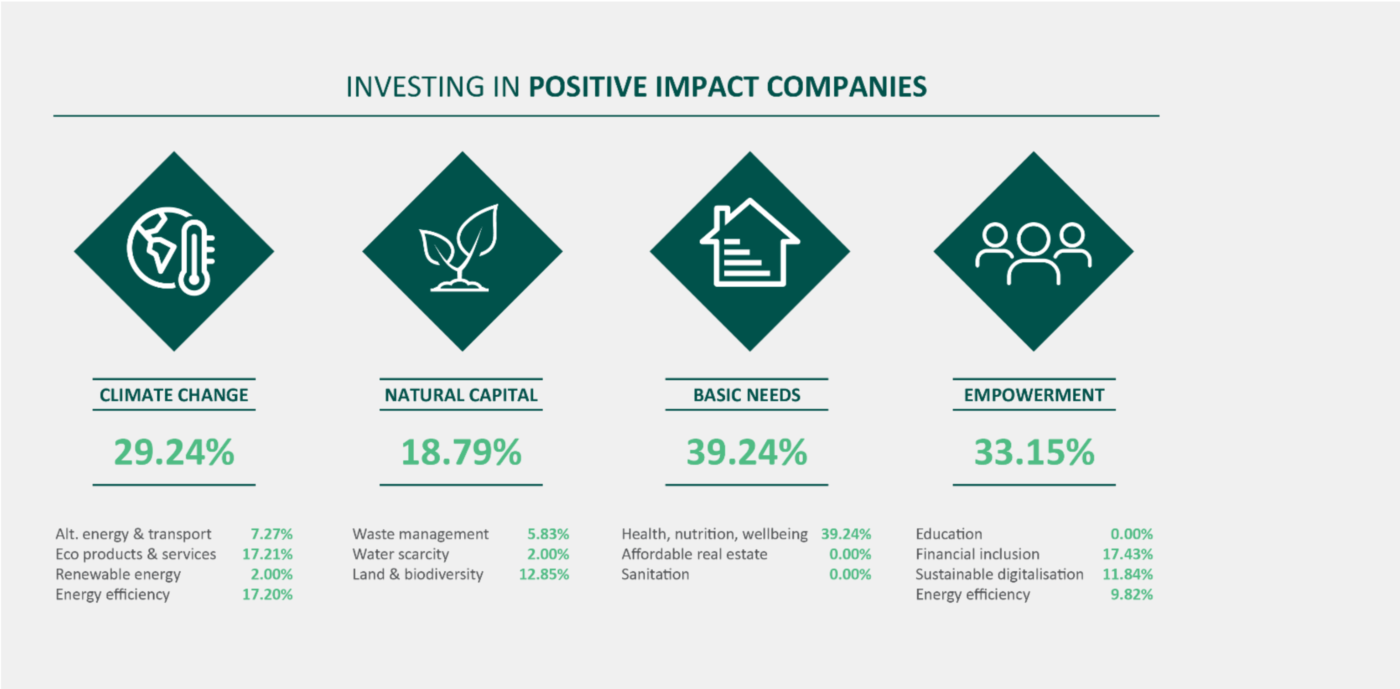
Beyond the ESG screenings, the research teams incorporate ESG criteria in their analysis. The analysts will provide a qualitative assessment based on a critical review of ESG information and data provided by MSCI ESG Research and Sustainalytics. They also use other sources of information, and they notably gather information through their interaction with companies and their management teams.

6.7 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.

Until recently, DPAM articulated the 17 SDG's around mainly 4 actionable impact themes, namely climate change and stability, natural capital, basic needs and empowerment. These 4 themes are commonly used by the impact investing community.

In a second step, DPAM calculated the portfolio's exposure to these categories and to the relevant subcategories. These subcategories closely match the SDGs (because the SDGs were created for governments, not all SDG's are easily translatable under their current form into investment and they have to be adapted to fit better with businesses). This way the portfolio's positive impact can be traced back to the Sustainable Development Goals.



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 side 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.

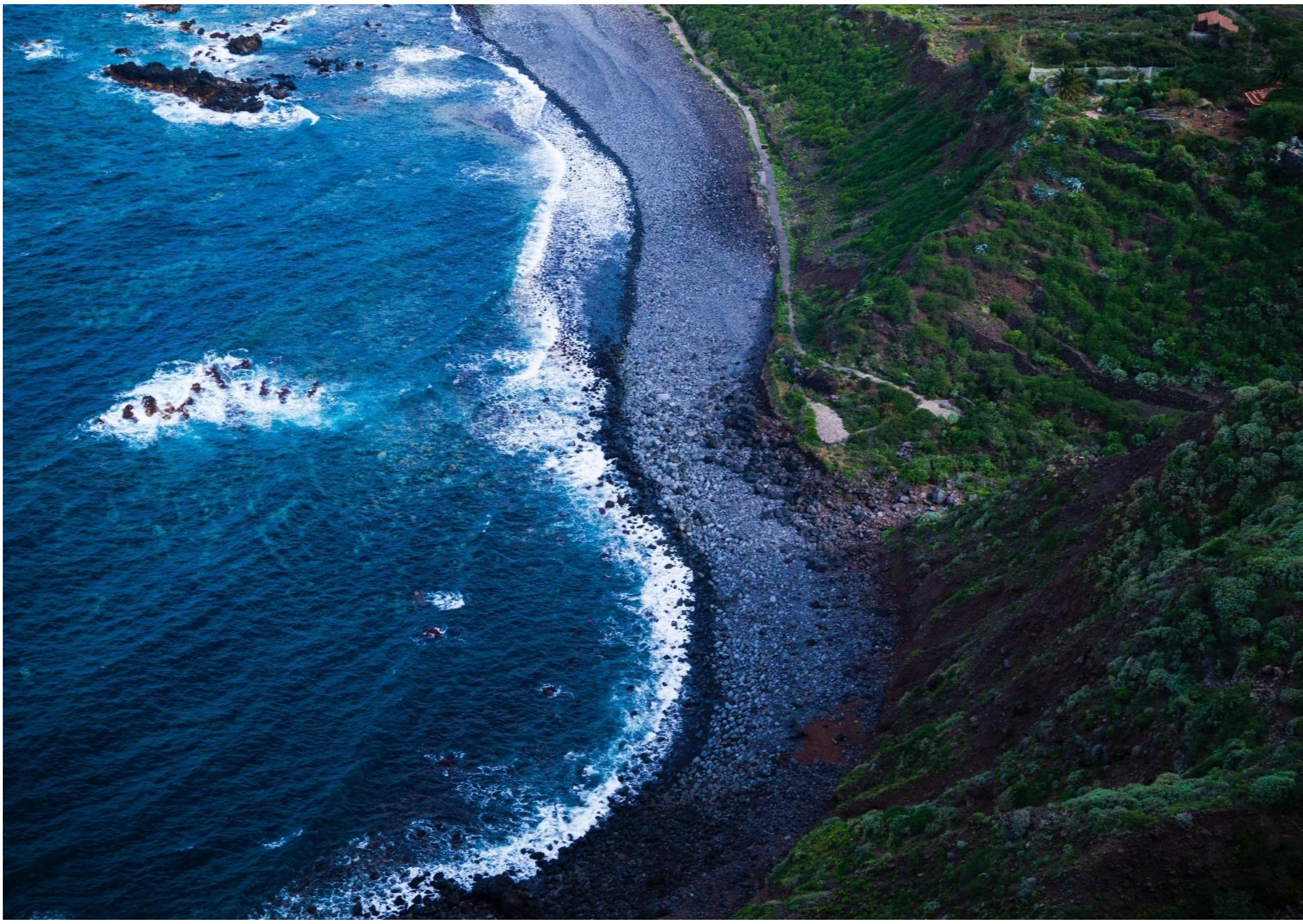
Furthermore, the SDG’s are used when identifying the major challenges companies must face and when performing fundamental analysis on actors in specific challenging sectors.

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.



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. 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.

3. 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.

4. 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 Compact	The United Nations Global Compact 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 noncompliant.
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).
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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