Investment impact - 2022

Extra financial report

Degroof Petercam
Trust. Knowledge.

asset management
private banking
investment banking
asset services

DPAM

Contents

I. CEO Letter

We are pleased to present the Investment Impact Report for 2022, which highlights our commitment to sustainable investing and provides valuable insights into the sustainability of our investment portfolio. At DPAM, we firmly believe that responsible investment practices not only generate financial returns, but also contribute to a more sustainable future.

DPAM has a long track record when it comes to integrating environmental, social and governance (ESG) factors and striving for a continuous implementation of sustainable angles in its portfolios. This has been demonstrated by our second place in the Hirschel & Kramer Responsible Investment Brand Index (RIBI™) and consistently ranking in the top 10 since the inception of the index. The RIBI index acknowledges firms that have successfully integrated responsible investment into their core brand.

Even with this strong track record, the implementation of the flood of regulatory directives, regulations, and laws was a focal point in 2022. Through its Sustainable Finance Action plan, the EU aims to ensure the economy is financed in a way that supports the Sustainable Development Goals (SDGs) and the Paris Agreement. The plan is supported by a comprehensive regulatory package designed to direct more capital into sustainable development across the EU, combat greenwashing, and make the sustainable investing landscape more transparent and easier to understand for investors. The main building blocks of this plan are the Sustainable Finance Disclosure Regulation, the European Union Taxonomy, and the inclusion of sustainability preferences in clients' assessment processes.

In the spirit of being a sustainable partner to our clients, we also feel responsible for guiding them through the complex shift that the industry is facing. Plenty of client interactions, the publishing of DPAM's Principle Adverse Impact statement, and the proactive sharing of the European ESG Template (EET), which provides clients with extensive data about the sustainability features of our products, are only a fraction of the methods used to assist our clients in navigating regulatory complexities.

Other than the regulatory focus, DPAM maintained its robust conviction to continuously improve its approach towards sustainable and responsible investments. In 2022, we officially committed to the Net Zero Asset Managers (NZAM) initiative. This requires asset managers to commit to with the goal of net zero emissions by 2050 or sooner. We wish to stress that this commitment is a natural evolution of DPAM's approach to integrating climate-related risks into its investment process. Our company's latest TCFD report details further steps that we have taken to accompany our investee companies on a low-carbon trajectory.

Last year, we also added two collaborations to our long list of initiatives. ADVANCE pushes companies to fully implement the UN Global Principles, align their political engagement with their responsibility to respect human rights (specifically in the US), and deepen progress on the most severe human rights issues in their operations and across their value chains. Secondly, the collaborative engagement initiative on solar, initiated by the Investor Alliance for Human Rights, ensures that companies active in the solar value chain are not complicit in using forced labor to produce cells or wafers.

To further strengthen our robust stewardship activities, we broadened the scope of our engagement policy to also engage with sovereign bond issuers, amplifying the impact we have on our investments. Moreover, DPAM decided to expand its voting activities to Asia, due to the greater internationalization of our investments.

The objective of this report is to explain to our stakeholders the results of embedding sustainability throughout our investments. We are aware that DPAM continuously needs to move the needle, and transparency is a cornerstone in our sustainable journey.

Enjoy the read,
Peter

II. The Scope of this Report

We recognise the direct impact we have on society, our clients, our employees, and other stakeholders. The direct impact of DPAM through its operations is mainly tackled in [Degroof Petercam's extra financial report] and will therefore not be covered in this report. We specifically refer to the following chapters in Degroof Petercam's extra financial report, which are relevant for DPAM's operations:

- Walk the talk – environment
- Walk the talk – governance
- Walk the talk – societal engagement
- Accompany people in the transition -staff

DPAM generates most impact, through its client solutions, covering both our investment strategies and our engagement activities. This report will therefore focus on these solutions. We are inherently convinced that sustainable and responsible investment is the way forward in order to reduce risk, anticipate tomorrow's successes, and contribute to a better society. We have taken on the responsibility to integrate extra-financial factors in our investment policy to address ESG challenges.

Convinced of the added value of ESG integration in general and sustainable investments in particular, DPAM initiated its roadmap to excellence in sustainable and responsible investment in 2001. We have been a signatory to the Principles for Responsible Investment advocated by the United Nations (UN PRI) since September 2011. By adhering to these principles, DPAM commits to adopting and implementing the six UN-PRI guiding principles.

DPAM demonstrates its commitment at the highest level, consistently integrating ESG factors as an actively sustainable asset manager, by being an active owner who engages with its investees. The key milestones in this journey are depicted in the figure below.

In 2022, DPAM committed to the Net Zero Asset Managers Initiative (NZAM). The adherence to this program is detailed further in the environmental chapter of this report, focusing on climate change. This report will also highlight DPAM's efforts in corporate governance, as well as human rights.

2003
Launch of sustainable European equity strategy

2008
Set up of proprietary country sustainability model
Launch of Sustainable DM government bonds strategy

2009
Set up of Fixed Income Sustainability Advisory Board (FISAB)

2010
Member of FIR 2010

2011
Signatory of UN PRI
Set up of RI Steering Group (RISG)

2012
Member of various National Sustainable Investment Forums (SIF)

2013
Launch of sustainable EM government bonds strategy
ESG integration in European equity research
Formal adaption of Voting policy

2014
Formalization ESG process in global equity
Engagement program

2015
Launch of sustainable euro investment grade credit strategy

2016
Rating A UN PRI
Launch of indexed SRI series

2017
Top rating A+ UN PRI
Launch of the sustainable thematic expertise
ESG factsheets for full fund range
Carbon footprint disclosure of sustainable portfolios

2018
Top rating A+ UN PRI
External recognition – Luxflag label

2019
Top rating A+ UN PRI
TCFD Recommendations supporter
Impact assessment
Launch of sustainable climate thematic aggregate bonds strategy
Launch of sustainable multi-thematic global equity strategy
External recognition - Towards Sustainability label

2020
Top rating A+ UN PRI
TCFD Steering Group
Launch of global convertible bonds strategy
Launch of sustainable Asia-pacific multi-thematic equity strategy
Extension of sustainable equity offering: US, Euroland, SME & Real Estate

2021
Controversial activity revisited to better express climate ambitions
Review of a number of investment processes to raise the bar
New tooling for data-performance

2022
Joined Net Zero Asset Managers initiative (NZAMi)
Launch of sustainable EM government bonds hard currency and corporate bonds strategies

2023
Collaborative Engagements: Advance and ICCGN
Target validation and disclosure of total AuM aligned with NZAMi

III. Overall ESG Performance of our Client Solutions

Sustainable investing is growing rapidly, encouraged by new regulation. Sustainability issues are also becoming more apparent and more material for companies and investors; from the war in Ukraine to the rapid effects of climate change. Even though assets are managed with different strategies and investment objectives to fit clients' needs, DPAM believes that companies and countries that act in a sustainable way towards the environment, society, and all its stakeholders, are more likely to be able to deal with a variety of issues, including systemic risks, in the future.

At DPAM, we translate this belief into four policies.

1. Our **Sustainable and Responsible Investment Policy** describes the adopted sustainable investing approaches (ESG integration, best-in-class, thematic, norms-screening) DPAM can apply across all asset classes.

2. Our **Controversial Activities Policy:** if there's any uncertainty about a company's participation in controversial activities, whether it's already in our portfolios or being considered for investment, DPAM will have an engaged dialogue with the company's management.

3. Our **Proxy Voting Policy** aims to defend the values and principles regarding corporate governance that DPAM advocates and wishes to see applied by the companies in which it invests, on behalf of DPAM Funds or clients.

4. Our **Engagement Policy** describes the rationale for engaging with companies (and national representatives), our expectations as an investor, and the different channels DPAM uses; from formal dialogue, through collaborative or individual engagements, to more informal dialogue during the numerous meetings with the management of companies organized by the research and investment teams.

To interpret the figures and graphs in this section, it is important to understand how we integrate ESG factors into our investments. DPAM has a threefold commitment to sustainable investing.

In the following chapters, we will look at our investment strategies, as well as our stewardship initiatives through the lens of this threefold commitment.

To uphold fundamental rights, compliance with recognized global standards is essential. These standards include the UN Global Compact, ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs, and underlying conventions and treaties. These global standards aim to uphold four fundamental principles: defend human rights, defend labor rights, prevent corruption, and protect the environment. Drawing on specialized and independent research, a company will be categorized as compliant, non-compliant, or placed on a watch list.

To avoid controversial activities that may negatively 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, which 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.

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

1. Our sustainable and responsible investment strategies

1.1. Our approach towards sustainability

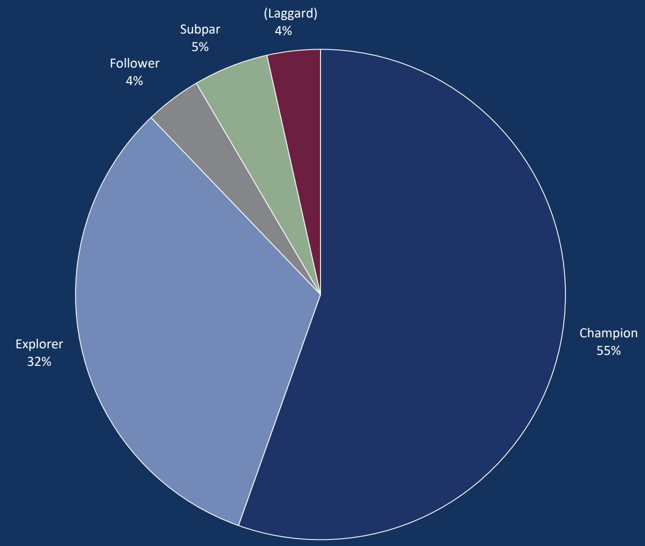
DPAM's Sustainable and Responsible Investment policy describes the approach developed by DPAM to integrate ESG challenges into its investment strategies, from a risk and an opportunity perspective. The approach is based on pragmatism and dialogue and is intended to be holistic and comprehensive, as all economic sectors are included.

The latest year-end figures demonstrate the tenacious approach that DPAM applies in its commitment towards sustainability. It allocates DPAM's total investments across its different funds and mandates according to the sustainable profiles described in our proprietary sustainability model.

We apply this model on each of our sustainable funds and report on a quarterly basis. It is important to note that cash and sovereign bonds are not included in this exercise.

Based on the latest available figures, only 0.001% of DPAM's AUM is invested in 'Laggard' companies, limiting investment risks linked to ESG factors. More than half of our investments are 'Champions'.

Figure 1. Overview of DPAM's investment profile allocation according to its proprietary sustainability model



Source: DPAM, Sustainalytics, MSCI ESG

Laggard companies are not respecting the minimum fundamental values. This refers to companies that are classified as non-compliant with the Global Standards or that have been found to be implicated in the most severe ESG controversies (level 5 on a scale of 1 to 5).

these profiles are strictly forbidden in Article 8 and Article 9 products.

Subpar companies have an ESG risk management score that is situated in the fourth (worst) quartile of their industry or that are facing serious allegations of controversial behaviour (level 4 on a scale of 1 to 5). Both classifications are treated equally as severe controversies reveal information about the effectiveness of a company's potentially high ESG score and the linked policies and programs.

Follower companies have a below average ESG risk management score (situated in the third quartile of their industry) but do not face serious allegations of controversial behaviour (maximum level 3 on a scale of 1 to 5).

Explorer companies have a good ESG profile (ESG risk management score between the 50th and 75th percentile of their category) and do not face any severe allegations of controversial behaviour (level lower than 4 on a scale of 1 to 5). Alternatively, they concerncompanies that have a superior ESG profile (ESG risk management score between the 75th and 100th percentile of their category), which face moderate allegations of controversial behaviour (level 3 on a scale of 1 to 5).

Champion companies have a superior ESG profile (ESG risk management score between the 75th and 100th percentile of their category) and which do not face any moderate or severe allegations of controversial behaviour either (below level 3 on a scale of 1 to 5).

1.2. A relentless focus on regulation

Apart from the sustainable profile of our investments, the EU Action Plan on Sustainable Finance sets out a comprehensive strategy to further connect finance with sustainability. Its cornerstone, **the Sustainable Finance Disclosure Regulation (SFDR),** translates this strategy into ten key actions across three different product classification categories. The goal of this report is not to detail the regulation, but it's important to understand the key components of the SFDR. This regulation seeks to achieve **more transparency and reduce information asymmetries with regards to the integration of sustainability risk**, consideration of adverse sustainability impact, the promotion of environmental or social characteristics of an investment, and aims to redirect financial flows towards financing the green economy.

One outcome of this regulation is the classification of financial products into distinct categories. These different categories are described as follows.

Article 8 SFDR	Promotion of environmental or social characteristics and which do not invest in sustainable investments
Article 8 'BIS' SFDR	Promotion of environmental or social characteristics and which invest partially in sustainable investments
Article 9 SFDR	Sustainable investments or a reduction in carbon emissions, as objective

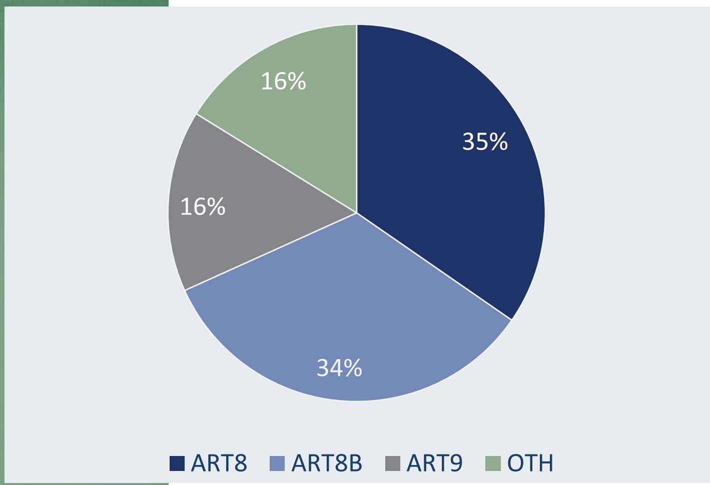
Impact

In line with regulatory templates, **DPAM has prepared detailed, comprehensive disclosures for its Article 8 and 9 products. These include, among others**:

- A clear statement of the product's sustainability objectives for article 8+ and 9 products;
- The performance of the products against the sustainability indicators that measure the attainment of those objectives;
- The performance of the products against sustainability impact metrics (Principal Adverse Sustainability Impacts (PASI)), measured by harmonised factors developed by the EU regulator;
- Details on how DPAM is taking into account the principle adverse impact of its investments;
- Detailed information on the strategies, methodologies, data sources, and actions taken to achieve the sustainability objective;
- Details on the Principle Adverse Impact of the Degroof Petercam;
- Information on the positions of the products' alignment with the European Taxonomy.

Figure 2 depicts the overall AUM of DPAM classified according to the SFDR.
We consider article 9 and art 8+ products as sustainable investments, meaning that **49% of DPAM's net AUM are considered sustainable investments, including mandates. This is an increase of 2% compared to last year**, demonstrating DPAM's goal to move more of its AUM towards sustainable products.

Figure 2. SFDR Classification as at end 2022



Source: DPAM

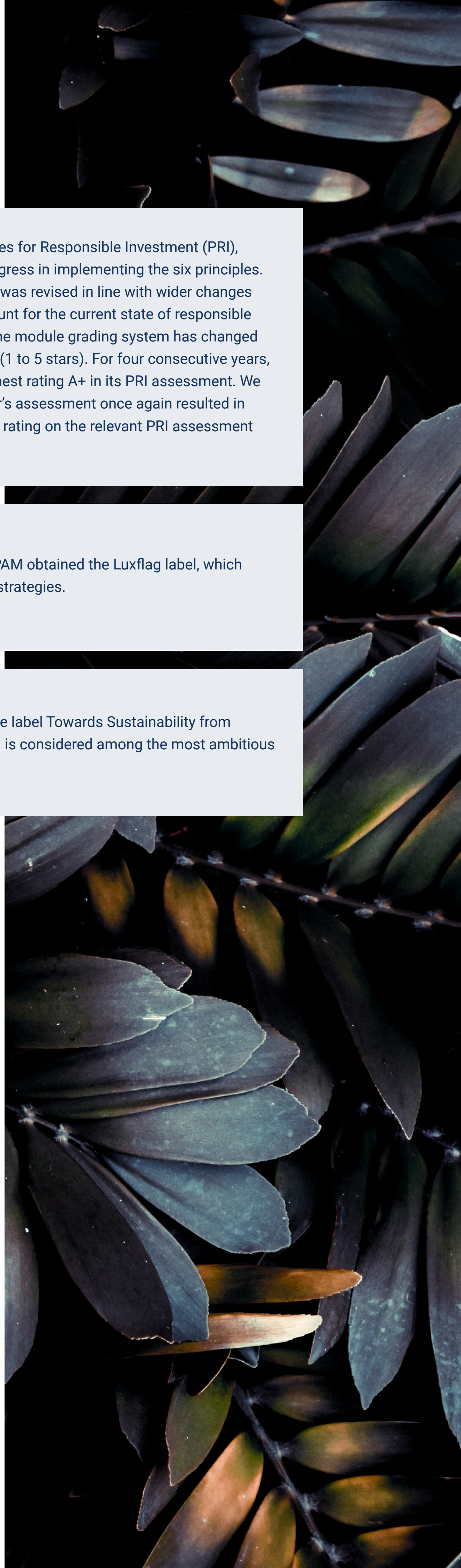
1.3. External assurance

Our sustainable strategies are submitted to annual internal and external audits conducted by multiple labelling authorities. **In 2022, audits were conducted as part of the Central Labelling Agency (CLA) for the 'Towards Sustainability' label. These audits confirmed that our sustainable funds have adhered the sustainable investment rules** detailed above and that these policies are aligned with best sector practices.

These recognitions are strengthened by DPAM's second place in the Hirschel & Kramer Responsible Investment Brand Index, discussed earlier in this report.

Figure 3. Overview of labelling authorities

PRI Principles for Responsible Investment	As a signatory of the UN-backed Principles for Responsible Investment (PRI), DPAM has to report every year on its progress in implementing the six principles. The PRI 2021 assessment methodology was revised in line with wider changes to the Reporting Framework and to account for the current state of responsible investment and future advancements. The module grading system has changed from alphabetical (A+ to E) to numerical (1 to 5 stars). For four consecutive years, DPAM has managed to maintain the highest rating A+ in its PRI assessment. We are very proud to announce that this year's assessment once again resulted in top ratings, with an average of 4.1/5 star rating on the relevant PRI assessment modules.
ESG LUXFLAG Label	For all the relevant sustainable funds, DPAM obtained the Luxflag label, which highlights the quality of our sustainable strategies.
TOWARDS SUSTAINABILITY	For all the relevant funds, we obtained the label Towards Sustainability from Febelfin. Together with Luxflag, this label is considered among the most ambitious in Europe on sustainability.



2. Our stewardship initiatives

It is DPAM's commitment to generate impact across meaningful and measurable sustainable goals. This requires a reorientation of the debate away from simple exclusion frameworks towards active stewardship with clear escalation paths. DPAM is taking up the role of a sustainable investor by assisting its investee companies and sovereign bond issuers. The impact DPAM can have on its investee companies, is described in two policies: the Voting Policy and Engagement Policy, with their respective activity reports that are issued each year.

2.1. Using our voice and our vote

The Voting Policy aims to defend the values and principles of corporate governance that DPAM advocates and expects to be applied in companies in which it invests, on behalf of DPAM Funds or clients in the scope of this Proxy Voting Policy. The results of this policy can be found in our **Voting Activity Report of 2022.**

In March 2022, EU ministers agreed on a common position on a proposal to set minimum quota targets for female company directors. The minimum goal is for at least 40 percent of non-executive company board members, or alternatively, at least 33 percent of all board members, to be women by 2027. We have been including these expectations in our voting activity for many years and were glad to see regulation followed suit.

DPAM ramped up its voting activities in 2022. **We took part in 706 general and extraordinary meetings, comprising a total of 10,303 resolutions.** This is slightly higher than the activity of last year, partially explained by the geographical expansion of the scope. **DPAM also decided to expand its voting activities to Asia. Because of their respective importance, we gave priority to companies active in China and Japan.**

We supported management nearly 85% of the time, but voted against their recommendations for investigation in 14.14% of the cases. These cases ranged from "say-on-climate" votes to gender diversity and executive remuneration.

2.2. Engaging investee companies

Our Engagement Policy is the second policy that impacts investee companies or sovereign bond issuers. Raising questions, utilizing experts, sharing information, and engaging with a positive yet critical mindset offers DPAM professionals a sense of responsibility and prompts them to act by taking the consequences of their decisions into account as best as possible.

The way these engagements take place can range from formal dialogue, through collaborative or individual engagements, to more informal discussions during the numerous meetings with company management.

In its Engagement Policy, DPAM makes a distinction between:

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

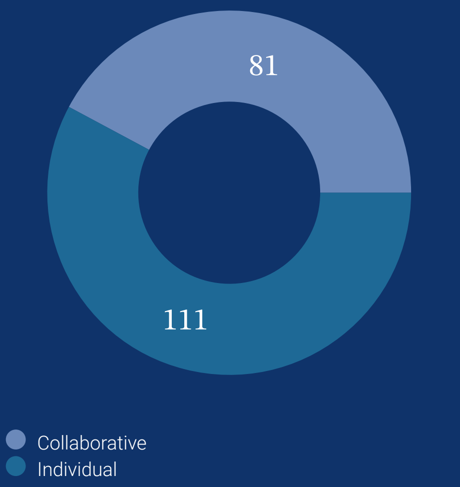
Formal engagements have a defined escalation process, which demonstrates DPAM's firm commitment and purpose, and its aim to look beyond financial investment performance. Figure 4 depicts these types of engagements across different ESG aspects for the year 2022. These figures are relevant for the formal engagement activities, aimed to reduce the negative impact of DPAM's investments or to defend the company's values and convictions.

The outcomes of the engagements in 2022 are described in our Engagement Activity Report, along with some examples.

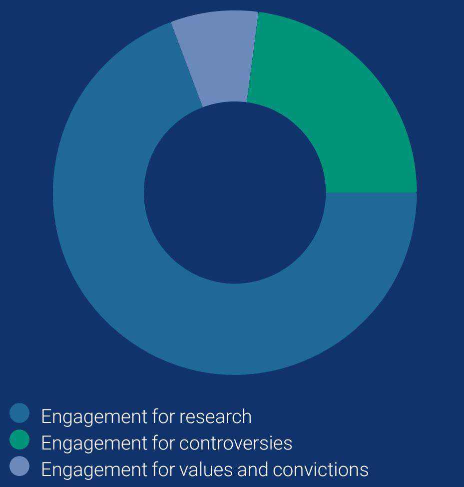
In 2022, among the 50 investee companies in our portfolio where we had the highest level of ownership (ranging between 1% and 5%), we identified nine companies that warranted formal engagement. These engagement efforts were centered around fostering improved governance practices and addressing material environmental risks. The outcomes of these nine engagements in the top 50 investee companies where we have the highest level of ownership, resulted in four positive and five negative outcomes. We have witnessed changes in remuneration or board compositions, bolstered by our active ownership role.

Figure 4. Overview of fvormal engagement activities carried out in 2022

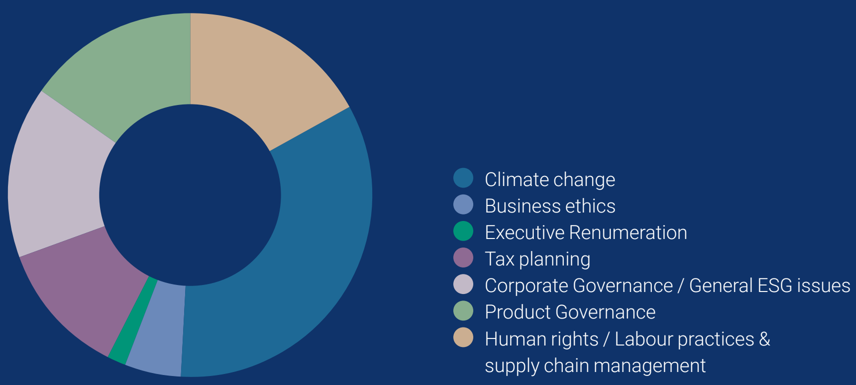
Engagement channels



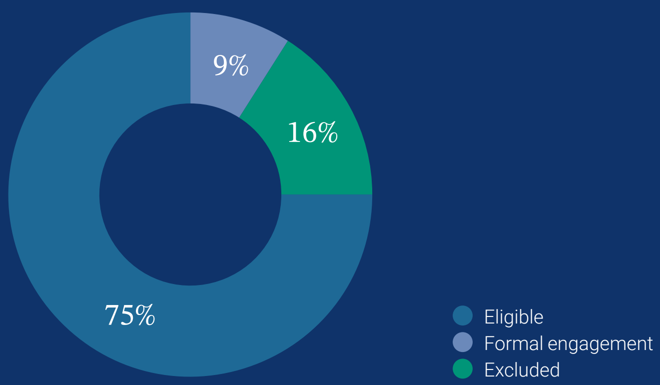
Engagement and dialogue



Engagement topics



Controversies



Source: DPAM

2.3. Engaging sovereign bond issuers

2022 also marked **the launch of our systematic country engagement program.** As explained in our updated Engagement Policy, engaging with countries necessitates a different approach than engaging with companies.

Our primary objective is to raise awareness among governments about the importance of ESG issues, including in sovereign bond investments.

Secondly, we introduce our sustainability model, particularly the scorecard established for each of the countries in the eligible universe. It allows us to highlight the strengths and areas that require attention for each country under review. These meetings can take different forms (on-site visits, virtual meetings, emails) and involve different stakeholders in the bond value chain (technicians, technocrats, ministers, etc.).

Lastly, we emphasize the importance of green finance and share our expectations regarding the qualities of a verified impact bond.

In 2022, we initiated 37 dialogues with 34 different countries: 22 dialogues with OECD countries and 15 with emerging economies. This innovative approach towards engagement is constantly evolving. Therefore, it is too early to determine the results of these engagements. However, we believe we have raised awareness in 25 countries and will continue discussing the model and respective scorecard with 12 countries. In 2023, we will further increase our coverage of countries in which we have investments and engage in dialogue.

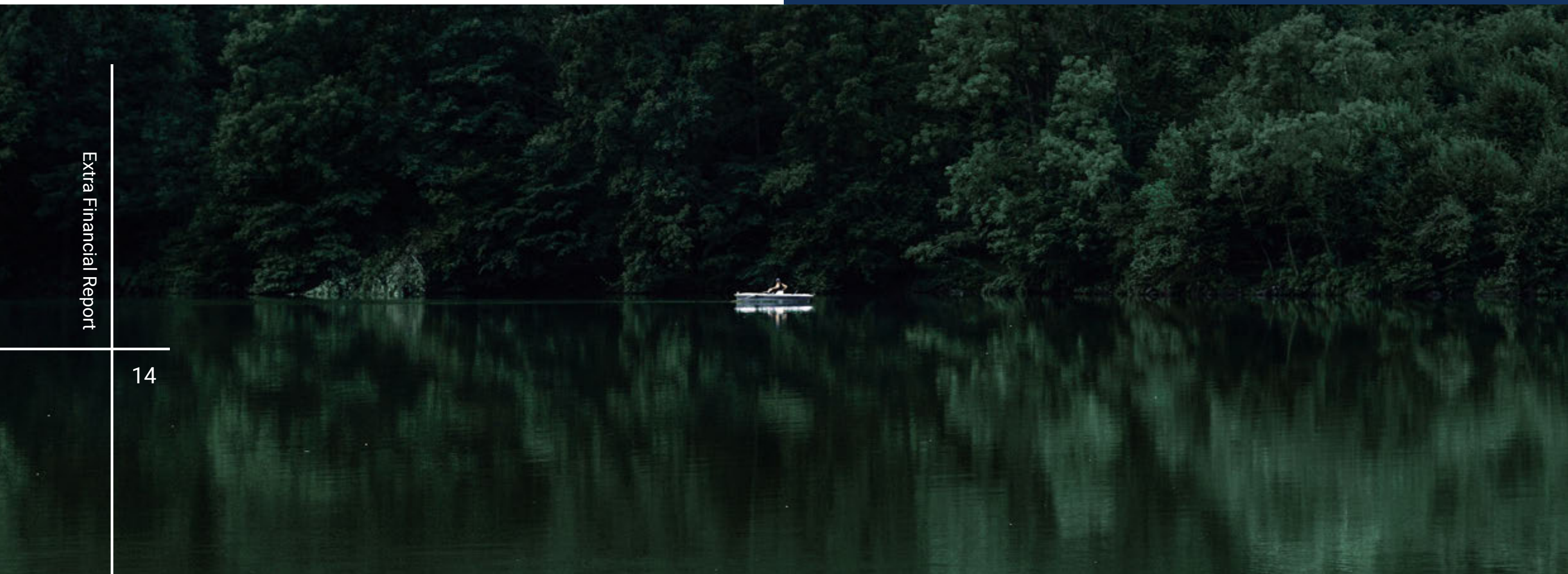
Focus on: Annual Sustainability Seminar

On 12 October 2022, DPAM hosted the sixth edition of its Sustainability Seminar in Paris. The seminar focused on the relevance of active engagement and voting rights.

A panel of experts concluded that ESG integration without active engagement and voting lacks credibility, as both constitute essential components to achieve societal objectives across ESG challenges. Moreover, if investment managers are truly committed to generating impact across meaningful and measurable sustainable development goals, they need to reorient the debate away from simple exclusion frameworks, in favor of active ownership with clear escalation paths.

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

This reports continues with highlights of DPAM's efforts in climate change, corporate governance and human rights.



One of the dialogues that took place last year was with Mongolia. The country is classified as “free” by Freedom House and as a “flawed democracy” by the Democracy Index published by the Financial Economist Intelligence.

On the environmental side, the bottom performance of Mongolia is mainly explained by its high reliance on coal. The country experiences substantial climate variations with high temperature fluctuations, heatwaves, drought, and river floods. This is expected to increase, and it will have an impact on the development trends in the country. For instance, unplanned development in flood-exposed areas and interactions with air pollution issues could enhance health risks, particularly the high pollution in the cities . It could also lead to increased inequalities. However, the country benefits from unique opportunities in renewable energy development. The “Land of the Blue Sky,” with 250 sun shining days annually, and the wind from the Gobi Desert, are important potential sources of solar and wind energy. The power potential of these two combined sources should be sufficient to meet the country’s energy demand. It could also meet Northeast Asia’s regional energy demand if suitable transmission infrastructure is ensured. The country aims to increase the share of renewable energy in total installed capacity up to 20% by 2023 and 30% by 2030.

The environmental issues weigh on the social dimension as the constant fog results in low air quality, particularly in Ulaanbaatar, landlocked in the valley.

We had the opportunity to discuss these challenges with important representatives of the country, in particular the Ambassador of Mongolia in Belgium and the Vice Minister of the Energy Ministry during his official visit in Brussels as Chairman of the International Energy Charter.

DPAM’s commitment to the Net Zero Asset Management Initiative was also discussed, together with other international commitments to decarbonization. This allowed us to highlight the importance of reducing the country’s reliance on coal while better utilizing renewable resources for internal consumption

Furthermore, we shared our expectations regarding green bonds, notably the importance of alignment between the issuer country and its environmental/climate policies, the green projects targeted by the use of proceeds from green bonds. We also highlighted the most important criteria to assess green bonds: the clear use of proceeds (eligibility of the projects, decision-making process), disclosure of documentation, approved verifier, and management of proceeds, i.e., tracking proceeds.

IV. Tackling climate change

Although significant climate events affected thousands of people in 2022, urging governments to step up their climate ambitions, COP27 was overshadowed by multiple crises. The aftermath of COVID-19 and the war in Ukraine triggered global inflationary shocks, concerns about food security, energy shortages as well as increased geopolitical uncertainty, protectionism and a multi-polar world order. 2022 also saw spikes in oil and gas prices (and issuers' valuations) and a renewed coal focus. All these events substantially impacted economic activities and hence investors around the world, increasing the likelihood of delayed rapid-policy responses.

To mitigate climate risks, DPAM initiated the implementation of the TCFD recommendations back in 2019. **In 2022, we enhanced our approach and further integrated climate-related risks and opportunities in our investment decision-making processes.**

At all levels, from governance to metrics and targets, we continued our efforts to identify areas of improvement based on best practices and internal research.

- From a governance and policy perspective, we introduced dedicated online and in-person training on various climate topics for both internal and external audiences. These topics ranged from TCFD recommendations and climate risk assessments at the issuer level to the EU Taxonomy and achieving Net Zero.

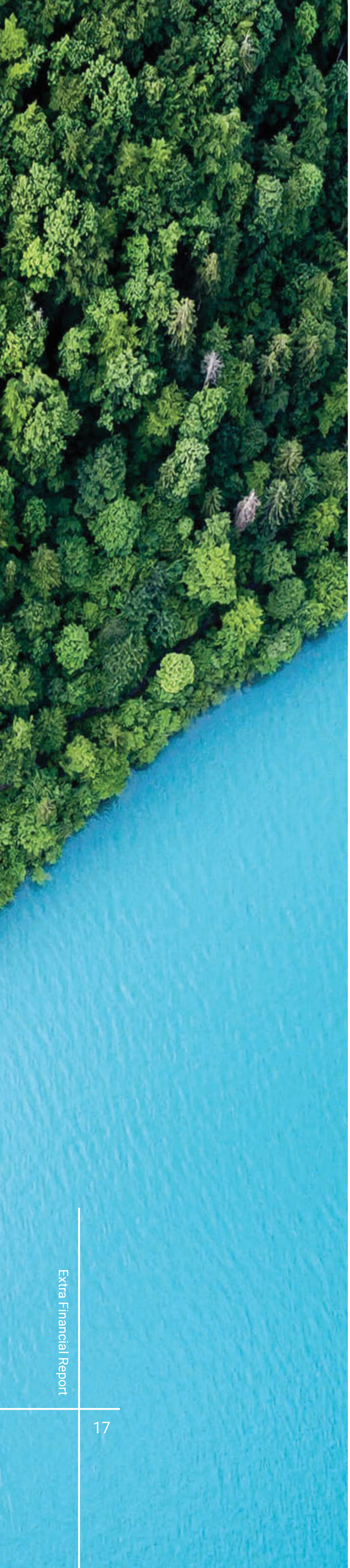
- **We continued our efforts to revise our voting policy and prepare for upcoming Climate Resolutions or so-called "say-on-climate" votes.** We implemented a new framework that includes follow-up through a formal engagement letter, detailing our voting behavior and considerations.

On the research side, we continued our assessment of **the most carbon-emitting positions in our investment portfolios and implemented a process for formal outcome reviews and follow-up.**

From a risk management perspective, we expanded our 2021 TCFD Dashboard to assess risk and opportunities exposure at DPAM level by integrating additional data sources, such as science-based target setting and internal climate risk assessment coverage.

On the metrics and targets front, we are expanding our reporting capabilities for specific clients and prepared for the SFDR reporting obligations, which include disclosing climate-related principle adverse impact indicators. In terms of target setting, a Net Zero feasibility study, initiated in 2021, has been finalized during Q2 2022, **followed by the validation of our portfolio-linked Net Zero target setting approach during Q4 2022.**

Furthermore, all SFDR-classified article 8+ or 9 funds include a climate-related KPI (target) in their investment approach.



Net Zero Asset Management

Achieving Net Zero by 2050 is an ambitious goal, that requires commitment and a detailed plan with milestones. We recognize that **a firm engagement on setting a science-based emissions reduction target will be a key pillar of the commitment.** Since the alignment of a portfolio with the 'below two degrees' target depends on its constituents, **we strongly believe these actions should be prioritized.** As a result, an assessment trajectory has been initiated by our TCFD Steering Committee to evaluate the impact of zero-targeting on investment decisions, the investment universe, and our commitment to the Net Zero Asset Managers initiative. Given the variety of standards, expectations, pathways, methodologies, and tools, financial institutions set different types of targets, which have implications for investment trajectories and performance. To ensure a comprehensive understanding of all implications, we preferred a thorough feasibility assessment.

The internal assessment, which took place in the second half of 2021 and the first quarter of 2022 incorporated a broad range of feasibility studies, including financial feasibility, investment risk implications, legal compliance, data accuracy and availability, scientific foundations and practical implications. More concretely, the assessment process consisted of:

- An assessment of the concepts of 'Paris Alignment' / 'Net Zero' / 'Science-based Targets' for financial institutions (i.e. implications), based on reputed, internationally-recognized standards;
- The assessment and selection of appropriate tools/sources for portfolio assessment (including best practices), aligned with the above;
- Data gathering, including the selection of appropriate providers in case required and data availability assessment;
- A test of the selected tool(s), sources and methodologies;
- An assessment of data accuracy and limitations as well as the use cases (integration in investment decision making, extended reporting, regulatory obligations);
- An assessment of the implications of converting portfolios to the requirements as identified in the steps above, i.e. asset allocation consequences, financial feasibility, investment risk implications (e.g. VaR), asset concentration, green bubbles, overvaluation, etc.;
- Formal recommendations of the TCFD Steering Committee to DPAM's Management Board;
- A decision by the DPAM Management Board.

The feasibility study resulted in a formal commitment in March 2022, with validation in November 2022. More information on this commitmentcan be found here.

For more information on how we include climate-related topics in our investment process and the improvements that were made last year, we refer to our publicly available TCFD report.

V. An eye on corporate governance

As a sustainable and responsible investor, we systematically take governance aspects into account across our different strategies. This is reflected by a significantly low number of severe controversies in corporate governance across our investments, in line with last year's results.

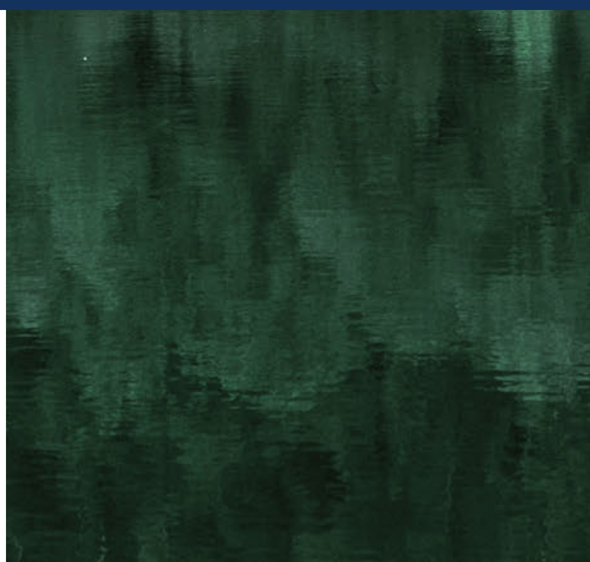
As mentioned previously, **DPAM voted on 10,303 resolutions.** Of these resolutions, 391 were made by shareholders. An increase in shareholder proposals can be observed over the last voting seasons, and we believe this trend will only accelerate over the next couple of years. Compared to last year, we have monitored an increase of around 25%.

- **154 of these shareholder proposals covered social topics** related to working conditions, freedom of association, lobbying reports, employees, and health & safety.
- **137 proposals covered corporate governance aspects**, of which we supported 68, notably regarding independent board chairman, separation of chair and CEO, and a general 10% threshold for calling a special meeting.
- **64 proposals focused on environmental topics**, in which we supported all proposals on reporting and reducing greenhouse gas emissions. We also supported all proposals on report/action on climate change.
- **Finally, 25 proposals tackled compensation**, of which we supported 14 as they are fully aligned with our ESG convictions and commitments, notably in terms of the executive compensation program, including the variable compensation linked to ESG criteria.

On the eve of the 2022 Proxy Voting season, DPAM decided to collaborate with FollowThis, an organization uniting shareholders to push big oil to transition and move beyond business as usual. The initiative's goal is well-aligned with our engagement priorities on the environmental side, i.e., pushing for science-based target setting by our investees.

The initial work with FollowThis focused on an engagement with one European oil major to set a Paris Aligned scope 3 emissions reduction target. However, as the company was unable to commit to an acceptable target, it was decided to escalate via the submission of a shareholder proposal, which was later rejected by the company.

In Q4 of 2022, while preparing for the 2023 Annual General Meetings, it was decided to continue the collaboration with Follow This by targeting various oil and gas majors, leading to the co-filing of several resolutions asking for Paris Aligned scope 3 targets.



VI. Defending human rights

Workers' rights are a critical ESG topic – fair pay and treatment matter to us all, and low pay is an issue in some sectors. Other sectors have fatality rates that are too high, or not enough gender diversity. According to a recent analysis by Exane, labor costs are 150% of operating profit on average. Wage inflation is real, and **we know that happy workers are more productive.**

It would benefit companies to invest in their workers in order to improve productivity and well-being and to better handle wage inflation. Due to strong inflation and limited wage growth in the Eurozone area, research demonstrates a decrease in real wage growth, together with profit margins reaching record highs. The International Labour Organization states that pandemic spill-over effects, together with "a set of multiple and overlapping crises" made worse by the Ukraine conflict, have fueled inflation, causing real wages to fall in many countries around the world. This tension between a drop in real wages and record profit margins won't be tenable in the future, demonstrating the need for companies to properly manage their workers.

This untenable balancing exercise was illustrated by major unionization efforts at large US companies such as Starbucks or Amazon, in 2022 and massive layoffs at large technology companies at the beginning of 2023. We believe this is still an aftereffect of the unique demand for labor at these companies due to the COVID-19 pandemic. According to figures from the World Economic Forum, employment in most advanced economies has now either reached or surpassed levels preceding the COVID-19 pandemic, with labor shortages occurring in some of them. However, economies in low- and middle-income countries have found it harder to recover.

Next to a focus on workers, 2022 has been marked by a significant increase in attention for social considerations in investments in general. We identify two main sources for this shift:

- **the increase in geopolitical tensions** between the West - and more particularly the US - and China and
- the implementation and/or decision making in EU legislation.

US and European multinational firms are getting more cautious about their capital investments in China due to geopolitical concerns, the ongoing trade tensions between the US and China being the main culprit. The centralization of supply chains of Western companies in China has come to light due to the restrictions imposed in China during the corona pandemic, which has led companies to further diversify their supply chains towards Southeast Asia. The angle often used by the US to defend this ongoing trade war is the estimated 1 million people having been processed in re-education camps in Xinjiang and forced to support companies operating in the area. As a response, the US Uyghur Forced Labor Prevention Act (UFLPA) came into effect in 2022. It prohibits the import into the US of all goods mined, produced, manufactured wholly or in part in the Uyghur Region, on the presumption that forced labor is involved. Similar legislative proposals are underway in Europe.

This brings us to the legislative push that has characterized 2022, especially in the EU. Several different laws, directives, or regulations have seen the light of day or made strides in their development. The European Institutions have made significant decisions regarding relevant regulations, such as the Corporate Sustainability Due Diligence Directive (CSDDD). This directive introduces, among other things, a human rights and environmental due diligence obligation for certain companies and civil liability for failing to exercise due diligence. The directive is expected to have a significant impact on companies operating in the EU and may encourage companies worldwide to adopt more sustainable and socially responsible practices. This directive has been defined while another one will be implemented soon: the Corporate Sustainability Reporting Directive (CSRD). This will require companies to report on the impact of corporate activities on the environment and society and requires the audit of reported information. **Ensuring that investee companies have the proper policies and processes in place is therefore crucial.**

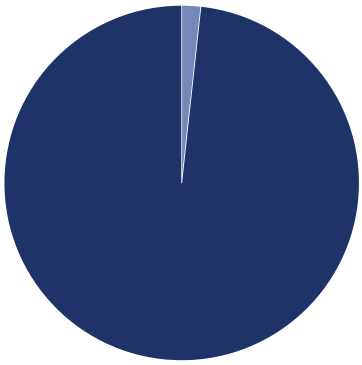
DPAM's actions on human rights

We witnessed a surge in interest around social topics in investing in 2022 due to the labor pressure in the aftermath of the COVID-19 pandemic, the increased geopolitical pressure fueled by human rights infringements, and the surge in regulation around social topics.

As a sustainable and responsible investor, we systematically take the social aspects into account for our sustainable strategies. This is implemented through our methodologies, scorecards, or normative screens. We refer to our sustainable and responsible investment policy for the details and overview of all these methodologies.

The UN Guiding Principles on Business and Human Rights, the UN Global Compact and the OECD Guidelines for Multinational Enterprises are the backbone for DPAM's human rights activities. **Input from our data providers, our in-house research and internationally-renowned non-profits pinpoint the most pressing human rights issues in our investments.** Subsequently, we actively engage with our investee companies on their implementation of the UN Guiding Principles on Business and Human Rights.

In 2022, we developed a system to identify companies that are at risk of infringing human rights. In 2023, we will start publishing a dedicated quarterly report, which will detail the major human rights issues per sector and any mitigating measures DPAM takes for said sectors.



Overall, these developments led to exceptional results when looking at the controversy levels of social issues of DPAM's portfolio companies across all its portfolios and mandates. Only 1.73% of DPAM's AUM across all its portfolios and mandates face a social controversy higher than level 3.

In 2022, DPAM also joined several social-themed collaborative initiatives, aligned with its engagement priorities, on top of its existing engagements. All can be consulted in DAPM's Engagement Report, but highlights are:

- **DPAM joined ADVANCE in 2022, the stewardship initiative for human rights and social issues launched by the Principles for Responsible Investment (PRI).** The expectations of the initiative are for companies to fully implement the UN Global Principles, align their political engagement with their responsibility to respect human rights and deepening of progress on the most severe human rights issues in their operations and across their value chains. DPAM took the lead to engage with two companies active in the utilities sector, to ensure a just transition.
- The solar industry is particularly vulnerable to forced labour in the Uyghur Region as 95% of solar modules rely on one primary material – solar-grade polysilicon, and because polysilicon manufacturers in the Uyghur Region account for approximately 45% of the world's solar-grade polysilicon supply. **We therefore called on actors in the solar supply chain to carry out a human rights due diligence exercise** and divest from exposures linked to the Uyghur region in China.

A Solid Sustainable Track Record

A growing focus on sustainable investing for over 20 years

Pioneer in sustainable sovereign debtover EUR 3.7 bn invested
(as of end of December 2022)

Signatory of UN-PRI since 2011
Top rating for the fifth consecutive year

EUR 16.8 Bn is compliant with SFDR 8+ & 9 funds across various asset classes (as of end of December 2022)

Exercise our voting rights **across 600+ companies** globally

In 2022 DPAM decided to join **the Net Zero Asset Managers Initiative**

Active via collabo-rative engagements (CA100+, CDP, ADVANCE, etc.)

Active dialogue with **100+ companies**

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