2024

Engagement Activity Report

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Contents

I. CEO letter

As we reflect on the past year, our commitment to responsible investment remains unwavering. This annual engagement report looks at our sustainable investment activity, exploring the impact we have made through meaningful interactions with companies. Engagement activities are not mere transactions; they represent our impact. As asset managers, we hold a unique position—one that allows us to shape the trajectory of our investments and, by extension, society.

In total, we sent **312 letters as part of our voting activities**, reaching out to **227 companies**. These letters advocated for positive change and transparency in corporate boardrooms.

64 companies came under scrutiny in the context of our **controversial behaviour screening process**. This meticulous evaluation allowed us to identify areas of concern and to address them. Notably, we **engaged with around 22%** of these companies, demonstrating a commitment to rectifying issues and preventing future controversies—an impressive leap from the previous year.

Throughout 2024, we conducted **308 engagements** —both collaborative and individual - to defend our values and convictions. These interactions were purpose-driven, focusing on several critical areas:

- **ESG best practice**: We championed environmental, social, and governance (ESG) best practice through our voting influence.
- **Environmental and climate risks**: Our efforts centered on mitigating environmental risks and promoting climate-conscious strategies.
- **Social responsibility**: We addressed human rights infringements and social risks head-on.
- **Corporate governance and taxation:** We held companies accountable to create transparent governance and responsible tax practices.

We carried out these engagements both collaboratively and individually. Partnering with investors and civil society enabled the effect of our engagements to ripple beyond boardrooms. Together, we amplified our voices, ensuring a broader societal impact. Over the last year, we have observed some consolidation among collaborative engagement initiatives. The industry benefits from this consolidation, as unified messages to companies set clear expectations to drive positive change.

Our engagement objectives for 2025 are outlined in our new engagement policy, accessible online. As we continue this journey, let us remember that dialogue is our catalyst for progress—a force that transforms investments into meaningful contributions.

Together, we aim to advance and shape a future where responsible business practices thrive, and our impact resonates far beyond balance sheets.

Peter De Coensel
CEO at DPAM

II. 2024 Engagement overview

Corporate ESG Engagement

Individual
266

Collaborative
42

Collaborative engagement means engagement carried out through a collaborative initiative DPAM is member of.
Individual engagement is engagement DPAM has launched on its own initiative.

Number of engagements per engagement type

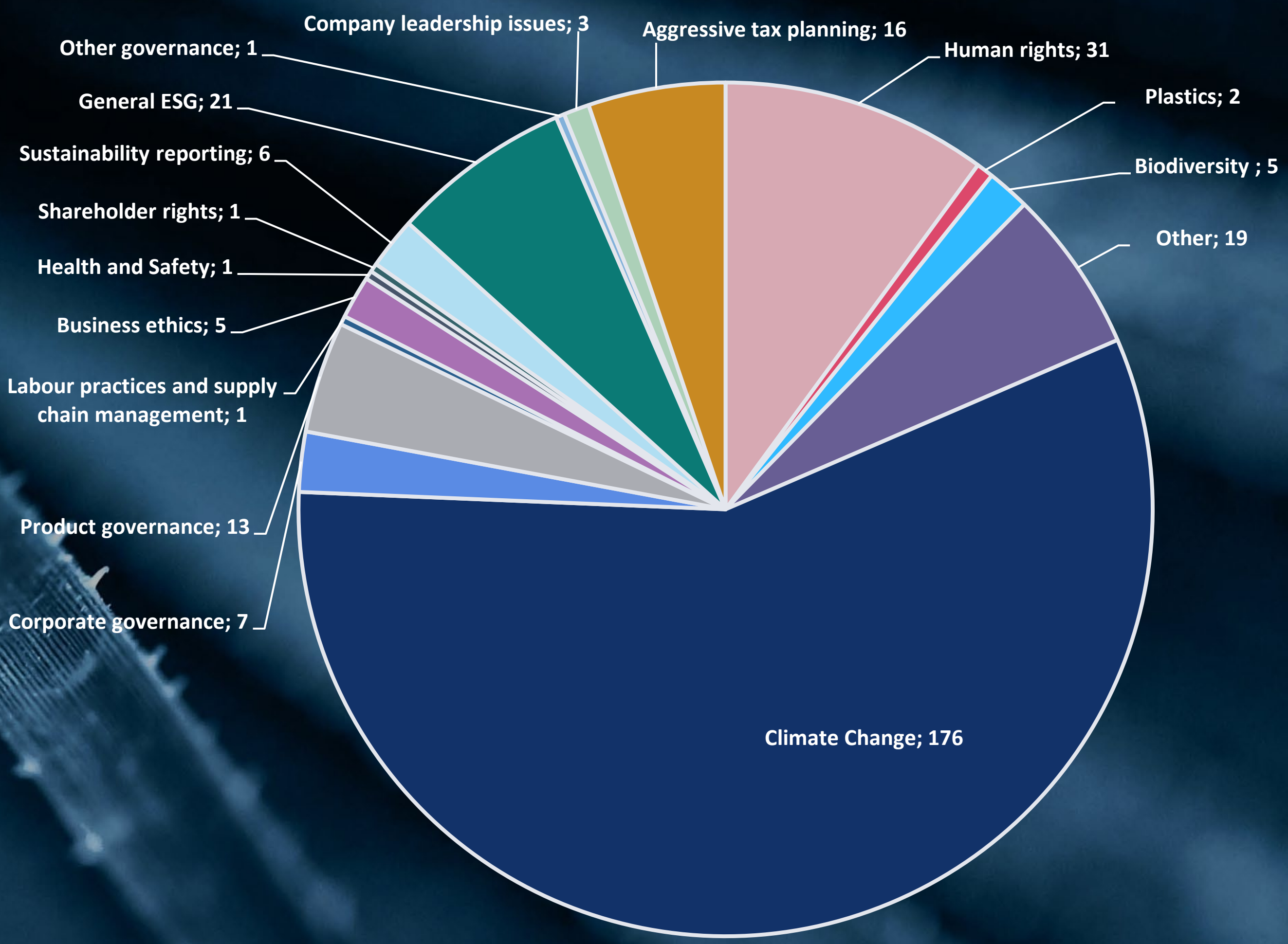
Engagement for controversies
15

Engagement for values and convictions
201

Engagement for research
92

Engagement theme breakdown

(*Engagement for values and convictions, engagement for controversies, engagement for research*)



Engagement outcomes - all types

Positive
44%

Ongoing
37%

Negative
19%

Engagement outcomes - values and convictions & controversies

Positive
80

Ongoing
85

Negative
51

The outcome is considered:

Negative: no response, no acknowledgement, no commitments, no implementation, no improvement;

Ongoing: the company is aware but there has been no result yet; or

Positive: willingness to change and adapt, no formal escalation process implemented.

Corporate – Voting engagement

Companies
227

312
Letters

Answers
83

2024 Controversy Review

64

Companies Reviewed in 2024 versus 65 in 2023

Following the ESG review:

58%

Declared eligible in line with 58% in 2023

22%

Resulted in formal engagement in line with 22% in 2023

20%

resulted in exclusions in line with 20% in 2023

Engagement to reduce the negative impact of our investment

In 2024, our priorities in terms of engagement were aligned with our major global goals:

ESG controversies

DPAM adheres to the regulatory '**do not harm'** principle and takes a proactive stance when the behaviour of a company risks causing harm. Consequently, DPAM reviews any significant controversies surrounding invested companies, engaging with them to enhance their ESG profile and monitor adverse impacts. This involves addressing the most substantial negative effects on sustainability factors, which encompass environmental, social and governance issues. This approach aligns with the EU Taxonomy regulation's triple objective, to: **ensure minimum social safeguards**; **uphold good governance principles** and **avoid activities that have a negative impact on other environmental objectives.**

Ad-hoc controversial behaviour review

Similar to the periodic controversial behaviour review, ad-hoc cases are also subject to an in-depth controversial behaviour analysis to ensure that informed investment decisions can be taken. These cases often require a much faster response, both in terms of assessment as well as engaged dialogue and potential investor actions. Note that this analysis, similar to the above, is relevant for all investment decisions, for both sustainable as well as traditional portfolios, as controversial behaviour often implies broader investment risks.

To ensure that swift yet thoughtful investment decisions can be taken, an ad-hoc checklist has been setup. The checklist covers topics linked to the origin, financial impact, company reaction and the providers assessment/coverage. Company engagement (engaged dialogue) is a key pillar of the assessment, as it might offer relevant insights into the severity of the case (for example, responsiveness, openness, etc.)

Engagement to defend our values and convictions

Climate risk

DPAM prioritises science-based target setting for investees as a key performance indicator in environmental engagement. Joining the Net Zero Asset Managers (NZAM) initiative, DPAM commits to net zero portfolios, emphasising active ownership and engagement for credible emission-reduction paths. The NZAM commitment includes implementing stewardship, focusing on scope 3 emissions, and disclosing carbon footprints for better climate risk control.

In addition, and closely linked to the above, DPAM prioritises Corporate Climate Transition Plan disclosures to assess the credibility and feasibility of investee's climate commitments in addition to climate-related risk exposure and strategic positioning.

Biodiversity

DPAM acknowledges the material risks and opportunities presented by biodiversity loss, therefore DPAM has committed to adopting the Taskforce on Nature-related Financial Disclosures recommendations and became a signatory of the Finance for Biodiversity Pledge. By signing the Pledge, DPAM committed to engage with companies to reduce their negative impacts on biodiversity. Focus areas for these engagements are the disclosure of nature-related impacts and dependencies, the establishment of board oversight of biodiversity-related matters, setting science-based and time-bound targets and developing nature transition plans.

Social and human rights infringement

Digital rights

DPAM emphasises the economic value of data and advocates for its responsible use amid increasing global regulation including the General Data Protection Regulation, the Digital Services Act and the Digital Markets Act. Digital rights cover various human rights in the digital realm, including privacy, freedom of expression, and the right to internet access. The challenge lies in assessing company practices which are not standardised and this is exacerbated by the impact of emerging technologies.

Due diligence on social risks in supply chains

DPAM prioritises supply chain resilience and sustainability. Regulations like the German Supply Chain Due Diligence Act and the Corporate Sustainability Due Diligence Directive (CSDDD) highlight corporate responsibilities. Despite complex supply chains, DPAM engages to help drive informed decision-making which considers human rights and social risks.

Conflict-affected and high-risk areas

As the number, duration and severity of global conflicts and related human rights violations increases, our concerns about the effects of these conflicts on vulnerable people and communities are growing. Companies working in these areas, might face legal, operational and reputational challenges. We therefore expect companies in these areas to respect applicable obligations under international human rights and humanitarian law and fully align their policies and processes with normative international frameworks.

Workers’ representation

Companies that ensure their employees' voices are heard through proper representation, often see improved job satisfaction and productivity. DPAM engages with companies to ensure that this right is safeguarded and workers’ voices acted upon.

Corporate governance and corporate taxation

Board oversight on ESG risks and opportunities and the integration of ESG into risk management processes is key. DPAM seeks a board composition that provides effective ESG oversight, responding to regulatory shifts towards stakeholder governance. Furthermore, tax equity and avoidance are key governance aspects, and DPAM encourages transparency and fairness, promoting responsible tax practices through ongoing assessment and engagement.

Promoting ESG best practices through voting

DPAM advocates for board independence, urging companies to balance their composition. It consistently votes against combing the roles of **CEO and Chairman**, rejects **anti-takeover defenses**, and supports the principle of **one share, one vote, one dividend**. DPAM emphasises **transparent and sustainable remuneration policies** aligned with long-term interests and advocates for **Say on Climate.**

Aligning voting decisions with ESG commitments

Depending on the outcomes of our engagement efforts, we will make an informed decision and vote accordingly during the company's General Assembly.

This process represents a key step in upholding our commitment to ESG principles. By aligning our voting decisions with the ESG issues we advocate for, we aim to drive meaningful progress, reinforce accountability, and ensure our actions reflect the values we promote.

Engagement with countries

2024 was the third year DPAM actively engaged with countries, primarily through their treasury departments. Our approach involves sharing insights derived from DPAM's proprietary sustainability model, highlighting strengths and weaknesses and challenging countries to address these issues. It emphasises that our country allocation is influenced by our country model.

III. 2024 Key engagement updates: Engagement to reduce the negative impact of our investment

ESG controversies

Our sectoral review follows a strict process, described in our Controversial Activities Policy.

The number of companies reviewed by the SRI Steering Group in 2024 remains stable in comparison with last year.

The number of exclusions and engagements also remains stable compared to the year before. The number of eligible issuers has reduced slightly following a controversial review.

- **58%** have been declared **eligible** following the ESG controversies reviews
- **22%** resulted in a **formal engagement (see escalation process in our Engagement policy)**
- **20%** resulted in **exclusion**

2024 Controversy review

	Months	Number Of Companies Reviewed	Companies For Engagement	Companies Ineligible
Pharmaceuticals, Biotechnology & Life Sciences (=Healthcare excluding Health Care Equipment & Services)	January	4	1	1
Industrials (excluding Transportation)	February	5	1	1
Transportation (=Industrials excluding Capital Goods + Commercial & professional services)		0	/	./
Energy	March	2	1	1
Utilities		2	0	0
Materials (excluding Chemicals)		3	0	3
Consumer discretionary (excluding Automobiles & Components)	April	4	4	0
Consumer staples	May	3	0	1
Chemicals (= Materials excluding: Construction Materials; Containers & Packaging; Metals & Mining)	June	4	0	The four companies were kept on the exclusion list for the year.
Autos & components (= Consumers Discretionary excluding Consumer Durables & Apparel + Consumer Services + Retailing)	September	6	0	0
Information Technology	October	9	3	0
Communication services		7	1	0
Financials	November	8	2	*0*
('Medtech') = Health Care Equipment & Services	December	7	1	2
Real Estate		0	/	-/

IV. 2024 Key engagement updates: Engagement to defend our values and convictions

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

Environment and Climate risks: Climate change

The Paris Agreement and the global commitment to carbon neutrality have reinforced our conviction to increasingly focus on climate related risks and opportunities in our investment decision making process. Following our decision to support the TCFD recommendations and our active membership in Climate Action 100+, the Carbon Disclosure Project (CDP), NZAM and the Institutional Investors Group on Climate Change (IIGCC), DPAM aims to increase its ambitions and promote best practice on the topic.

The Glasgow Financial Alliance for Net Zero (GFANZ) was launched in 2021 and combines actions within the financial industry, such as the NZAM initiative and the Net Zero Asset Owner Alliance. These initiatives, in particular the former, will impact and guide DPAM's climate and investment strategy both at individual portfolio level and from a climate risk perspective, as we consider it our fiduciary and societal duty to do so.

Corporate focus

In 2024, we launched our own Science-Based Targets (SBT) campaign, focusing on companies without a validated SBT or a formal commitment to the Science Based Targets initiative (SBTi). The campaign covered the top five contributors to carbon intensity per fund, DPAM's largest financed emissions and companies where DPAM holds the largest ownership stakes.

109 engagement letters.
56 companies responded positively.
2 resolutions co-filed.

In total, we sent **109 engagement letter**s, urging companies to either commit to the SBTi (or an equivalent framework) or to provide a rationale for not setting an externally validated SBT.

By the end of 2024, **56 companies responded** positively by either: committing to the SBTi, confirming they are in the process of setting a target or awaiting SBTi approval, or engaging with the SBTi to develop sectoral decarbonisation approaches. Companies that did not respond or provided negative feedback will be added to the active voting list and this information will be integrated into our TCFD assessments.

Following the 'Corporate Climate Transition Plan' status reports of several initiatives (please refer to our Engagement Policy for more details), DPAM also decided to join **IIGCC's Net Zero Engagement initiative (NZEi)**. The initiative was set up to engage with corporates on their climate transition commitment, plans and strategy. As such, DPAM is joining other investors in reaching out to multiple corporates to discuss their disclosures.

Within the framework of our engagement escalation tactics in addition to formal outreach to investees, we also consider (co-)filing shareholder proposals as a way to further push for alignment with our values and convictions. As such**, in 2024 DPAM co-filed 2 resolutions** in Europe, submitted for a vote at Shell Plc and TotalEnergies.

In 2022 responsible investors, including DPAM, co-filed a resolution urging TotalEnergies to adopt Paris-aligned climate targets. The company rejected the resolution outright. In 2023, DPAM again co-filed a similar resolution, which was tabled at the Annual General Meeting. TotalEnergies actively urged shareholders to vote against it, but the resolution still received 30% support. That same year, TotalEnergies' climate plan gained only 85.76% shareholder approval, significantly lower than comparable companies, signalling growing dissatisfaction with its climate strategy. In 2024, DPAM co-filed another resolution, this time calling for a separation of the CEO and Chair roles to improve governance. TotalEnergies rejected this resolution as well. Despite increasing shareholder pressure and notable dissent, TotalEnergies continues to show resistance to addressing its climate and governance shortcomings.

Furthermore, DPAM, together with Follow This and 27 other investors managing approximately $4 trillion in assets, co-filed another resolution in 2024, urging Shell to align its medium-term carbon emissions reduction targets with the Paris Agreement, including Scope 3 emissions. Shareholders, through an advisory vote, supported the call for Shell to align its medium-term emissions reduction targets—covering the greenhouse gas emissions from the use of its energy products (Scope 3)—with the Paris Agreement's goal of limiting global warming to well below 2°C, aiming for 1.5°C.

More details on the aim, status and progress of these initiatives can be found hereafter as well as in our **2024 TCFD Report**.

To conclude DPAM also **engages on use-of-proceeds (credit) issuance** or **sustainability-linked bond issuance** whenever we have concerns or identify potential misalignment with our framework and as a result might be exposed to potential reputational or financial impacts. As such, we reached out to 19 companies, while these engagements tended to strengthen our initial beliefs, they also resulted in our decision not to invest in two bonds due to concerns or misalignment with our requirements in terms of climate strategy.

In 2024, an Italian financial player issued a green bond associated with its green bond framework. Although the green bond complied with several of our internal checks (for example ICMA alignment and second party opinion), several of the eligibility criteria in the use of proceeds section were not aligned with the latest EU regulatory thresholds as included in the technical screening criteria of the EU Taxonomy. Given its international recognition, as well as the consultation process including industry, regulators and scientists, we decided to challenge the company on a potential revision of its framework to ensure alignment with market best practice, regulation and the latest available consensus. Following this engagement, we received a formal, written certification of an upcoming revision of their green bond framework including new eligibility criteria and a confirmation that all outstanding green bonds would comply with the latest updated framework.

In 2024 a data center company issued a green bond associated with its green bond framework. Although the green bond complied with several of our internal checks (for example ICMA alignment and second party opinion), one of the eligibility criteria in the use of proceeds section was not aligned with the latest EU regulatory thresholds as included in the technical screening criteria of the EU Taxonomy. Following engagement with the company on the eligibility criteria for their newly built data centers, that are not aligned with the latest available science and market best practice, we decided not to invest in the green bond. The company failed to positively answer our demands to integrate a regional split and an ambitious threshold for the power usage efficiency of its data centers that is aligned with the Climate Neutral Data Center Pact.

Stakeholder outreach

Beyond corporate engagement, DPAM is also committed to defending its values and convictions through engagement with other stakeholders in the financial landscape. As mentioned in its Engagement Policy, DPAM mainly focuses on actions led by collaborative engagement initiatives (CA100+, IIGCC, FAIRR). Actions taken throughout 2024 include among others:

- Joining dedicated webinars to share knowledge and experience (for example, use of CDP-reported climate data);
- Participating in the development and publication/sharing of investor expectations or concerns (for example, climate stress testing);
- Proxy Voting Advisor outreach (for example, discussing the approach to Say-on-Climate voting recommendations).

Aligning Voting decisions with ESG commitments

In 2024, we constructed an Active Voting List of 437 companies, of which 87 fell within DPAM's voting scope.

Priority companies

Monitoring list

- Financed emissions ranking: top financed emissions.
- TCFD top 5 issuer assessment scope.
- TCFD dashboard: NAV and ownership.

- Collaborative engagements.

Engagement list

- No SBTi.
- Carbon performance OFF track.
- Collaborative engagements.

Active voting list

- DPAM tracking:

  (1) no follow-up formal engagement; (2) flagged by PM/analyst/RICC; (3) no constructive collaborative engagement
- SBTi collaborative engagement; no follow up/commitment
- CDP disclosure campaign: no follow up/commitment
- Previous AGM: no follow up of SHP

Voting agendas of these 87 companies were analysed on a case-by-case basis, while we also considered the previous engagement outcomes we had with these companies.

Hence, after casting votes, we re-engaged with 28 companies to address concerns about their lack of progress or transparency in climate reporting. Key issues included:

- the absence of a decarbonisation strategy,
- no commitment to net-zero greenhouse gas emissions by 2050,
- a lack of science-based targets, inadequate short-, medium-, and long-term greenhouse gas reduction goals,
- insufficient disclosure of climate risks and capital expenditures, and
- poor integration of climate-related goals into executive compensation.

Engagement also took place when governance oversight of climate issues was weak, particularly when boards failed to address previous shareholder votes or climate-related strategies. Where necessary, voting actions included opposing the CEO, the chairman of the board, the remuneration report, the financial statements, the climate report, or other key resolutions before engaging with the company.

For management Say on Climate proposals, we voted:

- against 10 Say on Climate proposals,
- in favour of 2, and
- abstain on 1.

The main reasons for opposing included a lack of clarity on the potential implications of the vote, no commitment to net-zero emissions, the absence of ambitious and quantified Scope 3 targets relevant to the sector and proportionate to total emissions, insufficiently quantified or explained climate targets, an overly qualitative and broad scenario analysis, a lack of disclosure on capital expenditures related to climate strategy, and the rollback of sustainability goals just before the AGM.

Regarding climate-related shareholder proposals, we voted in favour of 28 votes and against 13, due to their anti-ESG nature.

A focus on the Transition strategy

In 2024, we engaged with 29 companies as part of the transition strategy, of which 5 engagements were for values and conviction, while 24 were for research.

The strategies with a focus on transition allow the allocation of a certain percentage of portfolios to high-carbon-emitting sectors. Within this segment, a structured engagement strategy is applied using a tiered approach:

1. Engagement for research – Companies with transition plans & targets
   - If a company has established a transition plan, set an SBTi target, or validated key performance indicators (KPIs), our engagement focuses on assessing the feasibility and financial rationale of its transition strategy.
   - The goal is to ensure that the transition plan is both credible and financially viable, considering factors such as transition costs and long-term economic impact.

2. Engagement for values and conviction – companies without SBTi targets or strong climate commitments
   - For companies without a strong CDP temperature rating or validated SBTi targets, formal engagement is initiated.
   - The objective is to encourage the company to set clear climate targets or, if they have not, to understand the barriers preventing them from doing so.

3. Engagement for values and conviction – oil & gas sector
   - Regardless of whether oil & gas companies have set climate targets, they remain subject to formal engagement.
   - Given the sector’s significant carbon footprint, engagement efforts are intensified to ensure meaningful and accountable transition commitments.

This engagement strategy ensures a structured and impactful approach to driving climate-related progress within the transition strategy.

Environment and Climate risks: Biodiversity

The Kunming-Montreal Global Biodiversity Framework (GBF), adopted at COP15 in 2022, presents an ambitious plan for a world in harmony with nature by 2050. The Framework includes 23 targets for 2030 and emphasises the urgent need for immediate action. The GBF reinforced our conviction to increasingly focus on biodiversity risks and opportunities in our investment decision making process. DPAM therefore decided to become an early adopter of the TNFD, following our support for the TCFD recommendations. As financial institutions have their principal impact on biodiversity through their investments, DPAM also signed the Finance for Biodiversity Pledge. To engage with companies and promote best practice on this topic, DPAM is a member of several collaborative initiatives.

As with Climate Action 100+, DPAM has taken an active role in Nature Action 100. This global investor engagement initiative focuses on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative targets 100 companies from key sectors that significantly impact nature and play a key role in reversing biodiversity loss by 2030. By engaging with these companies, investors aim to increase awareness and drive corporate ambition to make public commitments and set time-bound scientific targets, for example. In 2024, DPAM participated in 5 collaborative engagements focusing on biodiversity. As frameworks and supporting materials are still under development (SBTN, Nature Transition Plans, …) engagements are focusing on board oversight of biodiversity-related matters and assessment of nature-related impacts and dependencies. DPAM also participated in 2 collaborative engagements focusing on plastics, where the main areas of engagement were on the one hand, disclosing volumes of virgin plastic usage and plastic recycling rates, and on the other, setting time-bound targets for recycling/reusing plastic and for reducing their use of virgin plastic.

Lastly, DPAM is taking a role in the Investors Initiative on Hazardous Chemicals, from Chemsec, which aims to reduce the adverse impacts of hazardous chemicals. Through engagement, investors will ask the largest publicly traded chemical companies to increase transparency in their disclosure of the production volumes of hazardous chemicals and to set time-bound phase-out plans for persistent chemicals.

Nature Action 100 · spring · IIHC · FAIRR A COLLER INITIATIVE

Social and human rights infringement

In 2024, DPAM participated in **12 collaborative initiatives, 11 on human rights** and **1 on labour practices and the supply chain**.

Digital rights - promoting human rights best practices in digitalisation

DPAM joined a collaborative initiative on Facial Recognition Technology (FRT) in 2021. By 2022, the initiative completed its first phase, gathering best practices on this rapidly evolving technology. As a biometric tool, FRT identifies or verifies individuals using facial images or videos without requiring physical interaction, making it accessible, seamless, and cost-effective. Governments, law enforcement, and corporations are adopting FRT for security and efficiency, but its largely unregulated use raises significant human rights concerns, leading to bans, fines, and reputational risks.

A best practice guide was established in late 2022, covering policy, ethics, governance, and product use. The World Benchmarking Alliance's Collective Impact Coalition on Ethical AI has since taken over the initiative, addressing transparency gaps in ethical AI disclosures. The Coalition focuses on raising awareness, leading best practices, and improving corporate commitments to ethical AI. DPAM actively engages with ASML, Microsoft, and Airbnb to assess their ethical AI principles, governance, and human rights impact across the AI value chain. In addition to this, DPAM co-filed a shareholder proposal on child safety at Apple in early 2024 but withdrew it after Apple committed to several actions. Apple agreed to a call with the Chair of the Nominating and Corporate Governance Committee to discuss the proposal and DPAM's concerns. They also provided a written summary of risk assessments conducted under the U.K.'s Online Child Safety Act and Australia's e-safety regulations, detailing products and services posing the highest risk to children, the potential harm, and Apple's mitigation strategies. Additionally, Apple outlined its process for identifying and addressing child sexual abuse material reported to the National Center for Missing and Exploited Children. Within three months of publishing the App Store risk assessment required by the EU's Digital Services Act, Apple committed to discussing findings and recommendations on child safety with DPAM. Apple provided the necessary documents in early 2025, and the engagement with the company is ongoing.

Due diligence on social risks in supply chains

Scrutiny regarding **supply chains** is increasing, and human rights are increasingly regulated to empower all stakeholders. Regulation is principally targeting companies and financial institutions.

Supply chain regulation has been increasing over the last decade and examples include: the French Corporate Duty of Vigilance Law (2017), the UK Modern Slavery Act (2015) and the California Transparency in Supply Chain Act (2010). New regulations are emerging globally providing impetus for the European Commission's attempt to deliver an EU Social Taxonomy, aligned with OECD Due Diligence Guidance. Moreover, the European Commission adopted the Corporate Sustainability Due Diligence Directive (CSDDD) in 2024. The goal is to spur corporates to include the environmental and human rights impacts of their activities in corporate strategy, through risk management and monitoring.

Furthermore, the CSDDD mandates that companies integrate human rights and environmental considerations into their operations and governance. However, recent amendments have raised concerns among stakeholders. Notably, the directive's scope has been narrowed to apply only to companies with over 1,000 employees, exempting approximately 80% of previously targeted firms. Additionally, due diligence obligations have been limited to direct suppliers, with assessment frequency reduced from annual to every five years. These changes aim to reduce administrative burdens but have sparked criticism from environmental groups and investors, who argue that they undermine the directive's effectiveness in promoting sustainable corporate practices.

DPAM is a member of the ADVANCE initiative, led by the Principles for Responsible Investment (PRI). This collaborative initiative aims to protect and enhance risk-adjusted returns by promoting progress on human rights through investor stewardship. Preventing and mitigating negative impacts on people can lead to better financial risk management and help investors meet the evolving demands of beneficiaries, clients and regulators.

The initiative was launched with an initial focus on mining and metals companies, as well as independent power and renewable energy producers. For the latter, DPAM serves as a lead engager for two companies headquartered in Spain and Portugal. DPAM has conducted multiple engagement calls with Acciona Energía regarding the company's ambitions, policies, and processes for establishing a robust due diligence system.

During several calls in 2024, supported by specialised NGOs, DPAM helped Acciona Energía strengthen its processes in key areas such as responsible sourcing from the People's Republic of China. This coalition of investors works to define long-term engagement objectives and foster genuine partnerships with the engaged companies, ensuring that recommendations are effectively implemented in the short to medium term.

Conflict-affected and high-risk areas (CAHRA) forced labour

As the number, duration and severity of global conflicts and related human rights violations increases, our concerns are growing about the effects of these conflicts on vulnerable people and communities. Companies working in these areas, might face legal, operational, and reputational challenges. We therefore expect companies in these areas to respect applicable obligations under international human rights and humanitarian law and to fully align their policies and processes with normative international frameworks. DPAM encourages ethical practices and emphasises the need for companies to go beyond certifications and proactively engage to ensure human rights are respected in their operations, particularly in high-risk sectors like food production, retail and the garment industry.

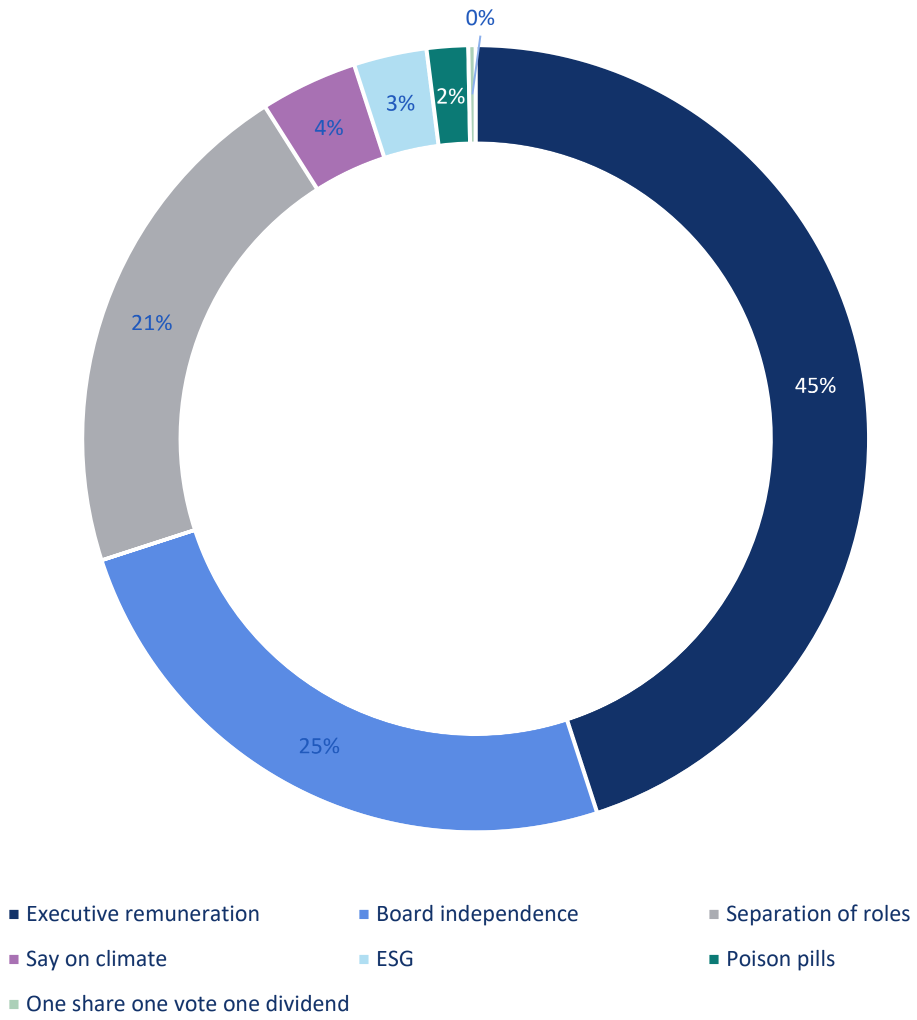
The concept of CAHRA is gaining rapid relevance, with an increase in armed conflicts around the world. Companies with activities in Russia and occupied Ukrainian territory, were blamed for assisting in Russia's war efforts. Corporations active in the occupied Palestinian territory, were blamed for normalising Israel's annexation of certain Palestinian areas. IT companies were linked to human rights abuses in Congo, for using conflict minerals. The examples are plentiful. In order to define proper expectations as an investor, DPAM joined a collaboration of investors to identify best practices in this regard. The aim of the pilot project is to support a group of investors in undertaking heightened human rights due diligence (hHRDD) for their investments in CAHRAs. The pilot project involves engaging a delimited set of portfolio companies in the technology and renewable energy sectors with exposure to risks in CAHRAs. This pilot project will work towards a public best practice guide on hHRDD for companies with an exposure to CAHRA in their value chain.

Workers' representation

Workers' representation rights are fundamental to fostering fair labour practices, mitigating social risks, and ensuring long-term business resilience. From an investor perspective, strong worker representation enhances corporate governance, reduces operational disruptions and contributes to stable and productive work environments. As regulatory scrutiny and stakeholder expectations around labour rights intensify, companies that uphold these rights are better positioned to manage workforce-related risks and maintain their license to operate. In the future, demographic shifts, evolving labour laws and the increasing demand for just transitions in sectors impacted by decarbonisation will make worker representation even more critical. Engaging companies on these rights helps build sustainable business models that align with both investor interests and broader societal expectations. For instance, in 2023 and 2024, DPAM, as part of the Investor Alliance for Human Rights, led an engagement with Starbucks due to concerns over anti-union measures in the U.S. These included union-busting, exclusion of unionised workers from benefits and alleged violations reported by the National Labor Relations Board, such as store closures, reduced compensation, discriminatory policies, surveillance, and terminations. We engaged with the company on issues including human rights breaches, interference with employees' rights, human rights due diligence, and Board actions related to unionisation. We also discussed human rights impact assessments, third-party involvement and potential transparency improvements, like publishing supplier lists for the coffee supply chain.

Promoting ESG best practices through voting

In 2024, DPAM has systematically engaged with all companies for which we voted ‘Abstain’ or ‘Against’ on the six topics shown in the graph. Therefore, DPAM sent **312 letters** to **227 companies**. We received **83 answers** representing 36.6% of companies, acknowledging shared information and the willingness to engage on the topic, or requesting further details by e-mail or call.



Source: Glass Lewis, DPAM – 31.12.2024

Please refer to the Voting Activity Report for the results of DPAM's actions as a responsible shareholder.

Corporate governance and corporate taxation

We engage with issuers to encourage appropriate board composition and expertise, to understand ESG risks and opportunities and to involve middle management in ESG priorities.

Corporate governance includes several themes such as political lobbying, business ethics, tax fairness/avoidance and bribery and corruption, for example. DPAM's staff is particularly sensitive to ethical business, a core value for the company.

In **2024**, 27 **engagements were** related to corporate governance including on: remuneration policy, leadership issues, board oversight and aggressive tax planning.

DPAM conducted 16 engagements on aggressive tax planning with the following goals: first, to empower companies by enhancing their comprehension and communication of information regarding their tax practice in the public domain; second, to incentivise companies to elevate their standards in matters of tax transparency and fairness; finally, we aimed to provide ongoing support and guidance to companies as they advanced in addressing these critical issues.

Engaged dialogue with countries

Engagement with sovereign bond issuers is based on **dialogue for mutual learning** and the aim of this dialogue is to provide a mutual exchange of information and best practice. The dialogue is structured according to a multi-step process that progresses from awareness raising to focusing on the Paris Agreement's strategy and commitments.

In 2023 and 2024, we were able to better structure and formalise the engagement efforts we started in 2022. This is a learning curve for all the parties involved due to the diverse actors encountered and their variation in terms of ESG profiles and the challenges they face. A one size fits all approach is not possible.

To increase efficiency and our reach, as well as adopting an improved structure for engagements, we have analysed and joined some collaborative initiatives which aim to help us to improve our process and to increase the number of countries we can enter into a dialogue with, namely:

The Emerging Markets Investors Alliance (EMIA)

In 2023, DPAM joined the EMIA, this:

- Is a not-for-profit organisation that enables institutional emerging market investors to support **good governance**, **promote sustainable development**, and **improve investment performance** in the governments and companies in which they invest. The Alliance seeks to raise awareness and advocate for these issues through collaboration among investors, companies or governments and public policy experts.
- Was formally incorporated in 2015 and holds **educational events** for investors on topics relating to **transparency and anti-corruption**, the **environment**, **human rights**, **animal welfare**, and **corporate governance**. The Alliance also produces educational materials on these issues and empowers investors to become effective advocates for good governance.
- Empowers investors - only a few international institutions have the power to influence public and private sector governance and sustainability in emerging markets. These include international financial institutions such as the World Bank, select non-governmental organisations such as Transparency International or the Global Reporting Initiative and other governments. The Alliance empowers investors to stand alongside these institutions as leading advocates for good governance and sustainability.

In 2024, EMIA launched its first working group aimed at improving social conditions in developing nations. This group, focused on Human Capital and Gender Equity (HCGE), includes **DPAM** as a founding member, alongside several prominent investors in government debt.

The HCGE working group is currently concentrating its efforts on ten key countries with significant investments: Nigeria, India, Senegal, Côte d'Ivoire, Kenya, Zambia, South Africa, Ghana, Benin and Ethiopia. Its activities are structured into three phases:

- Education and assessment: conducting educational sessions and developing scorecards to evaluate each country's social conditions and existing initiatives.
- Stakeholder engagement: collaborating with key organisations such as ECOWAS, the African Development Bank (AfDB), and the World Bank.
- Information consolidation and advocacy: compiling critical insights on the social conditions of the selected countries and drafting letters to their governments.

Guided by international and local organisations, including the United Nations and the World Bank, the HCGE working group has already sent its first engagement letters to the governments of Nigeria, Zambia, Benin, and Côte d'Ivoire. These letters advocate for the following actions:

- Increased budget allocation: Prioritising education, healthcare, and gender equity initiatives within the country's national budget while addressing fiscal deficits.
- Gender-sensitive procurement: Adopting transparent, gender-inclusive public procurement practices inspired by successful initiatives in Ekiti State, which have created opportunities for women-owned businesses.
- Enhanced data collection and transparency: Improving the collection and disclosure of data related to education, health and gender equity.

Through these efforts, the HCGE working group aims to promote the integration of education and gender equity goals into national policies and budgets, driving long-term improvements in social outcomes.

The Public Sector Working Group:

DPAM joined the public sector working group which focuses on **debt & fiscal governance** and **decarbonisation**. Several countries will be considered and DPAM will focus on South Africa as the starting point. DPAM joined the working group on **enhanced labelled bonds standards** as well, in order to:

1. Improve our framework to assess the use of the proceeds of bonds issued by countries; and
2. Make discussions with issuers on this specific topic easier, through a facilitating network and framework.

The Investor Policy Dialogue on Deforestation

In **early 2024,** we decided to support the **Investor Policy Dialogue on Deforestation Initiative (IPDD).** A collaborative investor initiative, set up in 2020, to engage with public agencies and industry associations in selected countries on the issue of deforestation. The focus will be on Brazil and Indonesia.

In 2024, we sent 45 letters, of which:

- 30 were sent to emerging market countries, namely: South Korea, Chile, Czech Republic, Turkey, Peru, Mexico, Costa Rica, Dominican Republic, Indonesia, Côte d'Ivoire, South Africa, Zambia, Armenia, Benin, Georgia, Colombia, Namibia, Kenya, Uganda, India, Colombia, Nigeria, Suriname.
- 15 were sent to developed market countries, namely: Ireland, Austria, Luxembourg, Canada, Slovakia, Germany, Australia, Japan, Denmark, Iceland, Italy.

V. Material engagement cases

It is important to acknowledge the complexity of linking specific outcomes to a particular engagement or investor. When our recommendations are put into action, the impact is evident. In other cases, we might have an influence but it is subtler and harder to identify.

Engagement with Nigeria

Engagement year	2024
Date (Quarter)	Q4 2024
Company / Country	Nigeria
Engagement purpose	Having an engaged dialogue with representatives of the Government of Nigeria is immensely valuable for mutual learning and exchange of best practice regarding sustainable development. During this dialogue DPAM highlighted how our sustainable commitment is integrated in our traditional credit analysis and investment decisions by introducing our proprietary country sustainability model. The aim was to have a fruitful dialogue on how the country is positioning across the three ESG dimensions and to receive feedback.
Engagement details	During this engaged dialogue with representatives of the Ministry of Finance, DPAM presented Nigeria's scorecard, derived from our country model, and welcomed feedback on the country's performance. The key area of discussion was data availability, since DPAM's model is based on quantitative indicators to enable the objective comparison of countries. Representatives of the government of Nigeria mentioned that data availability and data representativeness is a big challenge in their country and more generally in West Africa. Indeed, all data currently published is based on statistical estimates and might not always reflect the current situation. To remedy this, Nigeria is actively working on data collection infrastructure by digitalising the different ministries and by working on increased transparency of the data. This engaged dialogue helped to increase awareness around the type of data that might be used by investors to steer investment decisions. Nigeria mentioned they would start to monitor commonly used sources to track whether the data published is accurate and engage if necessary.
Engagement outcome	Positive
Next steps	Long term dialogue

Engagement with Colombia

Engagement year	2024
Date (Quarter)	Q2 2024
Company / Country	Colombia
Engagement purpose	Having an engaged dialogue with representatives from the Government of Colombia is valuable for mutual learning and the exchange of best practices regarding sustainable development. During this dialogue DPAM highlighted how our sustainable commitment is integrated in our traditional credit analysis and investment decisions by introducing our proprietary country sustainability model. The aim is to have a fruitful dialogue on how the country is positioning across the three ESG dimensions and to welcome feedback on the country's performance.
Engagement details	Colombia's scorecard highlighted room for improvement in terms of security and peace, based on the Global Peace Index from the Institute for Economics & Peace. Representatives of the government of Colombia mentioned that despite the peace agreement with FARC, signed in 2016, there are still ongoing conflicts. To remediate these threats to the security of Colombian citizens, the government has invested in infrastructure, education and the development of municipalities, especially where the FARC are active. As agriculture is an important economic driver for the country, the government has initiated a program to support vulnerable and poor communities by providing them with agricultural land and financing infrastructure (like schools and supermarkets) to create more resilient ecosystems. It was emphasised that all these investments are included in Colombia's social bonds, for which allocation reports and impact reports are published to monitor financed projects. The engaged dialogue also focused on Colombia's efforts for biodiversity preservation. As the host of the Biodiversity COP, Colombia has decided to create a 'Fund for Life and Biodiversity' which will aim to halt further biodiversity loss. By 2026, the environment ministry hopes to manage close to $1 billion to preserve ecosystems. Several KPI's will be linked to this fund to monitor progress. Furthermore, Colombia has published a green taxonomy that includes biodiversity as a sector. This taxonomy will enable the classification of economic activities that positively contribute to biodiversity and that are environmentally beneficial.
Engagement outcome	Positive
Next steps	Long term dialogue

Engagement with company A

Engagement year	2024
Date (Quarter)	Q4 2024
Company / Country	Company A (transition campaign)
Engagement Type	Engagement for research
Engagement Theme	Climate Change
Engagement purpose	The engagement was triggered by Company A's SBTi-validated decarbonisation targets and its progress toward achieving them. The objective is to assess the company's alignment with its 1.5°C near-term goals, evaluate progress on 2030 targets, and understand challenges to its longer-term net-zero ambitions, particularly regarding reliance on Combined Cycle Gas Turbine (CCGT) plants and sectoral emissions accounting.
Engagement details	As part of the engagement framework for transition, when a company has set a plan, has an SBTi target, or has validated KPIs, the purpose of informal engagement is to ensure that the transition makes sense and is rational from a financial perspective (e.g., the cost of transition, etc.). In the case of Company A, the company's decarbonisation targets were validated by SBTi. The engagement process with Company A began with a review of its decarbonisation targets, which have been validated by SBTi for alignment with a 1.5°C pathway. Discussions with the company focused on its progress toward achieving these targets, particularly the 80.2% reduction in scope 1 emissions per kWh and the 72.5% absolute reduction in scope 1 and 2 emissions by 2030. Company A also outlined its plan to reduce scope 3 emissions by 50% by 2034, primarily through a decline in gas volume sales. Key points covered in the engagement included the role of renewable energy growth in driving emissions reductions, the continued reliance on CCGT plants for grid stability and the absence of a formal science-based net-zero target due to challenges in accounting for network-related emissions. Company A explained that its long-term decarbonisation strategy depends on the UK's broader energy transition, including advancements in renewables, CCUS, and green hydrogen. Company A expressed confidence in meeting its 2030 targets, supported by a robust pipeline of renewable projects, despite being slightly behind on certain metrics as of March 2024. The company emphasised that longer-term goals will require further sectoral progress and regulatory alignment, particularly in addressing emissions from thermal generation and networks.
Engagement outcome	Positive
Next steps	Continue tracking

Engagement with Company B

Engagement year	2024
Date (Quarter)	Q1 2024 and Q4 2024
Company / Country	Company B (transition campaign)
Engagement Type	Engagement for values and convictions
Engagement Theme	Climate Change
Engagement purpose	The purpose of the engagement was to understand why Company B had no science-based targets as well as to request them to set ambitious science-based targets.
Engagement details	Although we recognised Company B's ambitious decarbonisation targets (-50% over 2021-30 across the value chain and net zero by 2038 with HSD% offsets), in 2024, we initiated an engagement with Company B in order to understand why they still lacked science-based targets. The main reason provided by the company was that the SBTi framework for auto original equipment manufacturers (OEMs) is not adapted to global OEMs. According to this framework, ‘Automakers setting science-based targets shall commit to the phase out of new internal combustion engine (ICE) cars and vans by 2035 in leading markets and by 2040 globally’. For Company B, such a target is fit for developed markets and China, where EVs are indeed the main decarbonisation avenue. However, it’s more complex for regions like Latin America and Africa. For example, in Brazil, where decarbonisation policy focuses on alternative fuels from biological origin running on ICE cars, Company B develops flex-fuel vehicles which run on gasoline-ethanol blends. Because of the global reach of Company B, the company is unable to commit to a ‘one-size-fits-all’ approach. This does not mean that decarbonisation targets are not well underpinned. By 2030, Company B intends to sell 100% Battery Electric Vehicles (BEV) passenger cars in Europe and 50% BEV for passenger cars and light-duty trucks in the U.S. In addition, Company B has developed a Hydrogen Fuel Cell Zero Emission solution which combines the advantages of hydrogen fuel cells and electric battery technology in a Fuel Cell Electric Vehicle (FCEV). Finally, Company B also works on alternative fuels for ICE, be it from biological or non-biological origins such as e-fuels. We also note that management incentives are well aligned with this versatile decarbonisation strategy. Some information from the company is still pending, such as whether the decarbonisation targets have been verified by an independent third party. Conclusion: at this stage we believe the decarbonisation path of Company B is sensible and the explanations provided by the company make sense. We understand the company is in the midst of a management shakeup. We should re-engage with the company once we have more clarity on the new management in order to ensure the decarbonisation of products remains a priority.
Engagement outcome	Ongoing
Next steps	Engagement to be continued

Engagement with Company C

Engagement year	2024
Date (Quarter)	Q2 2024
Company / Country	Company C
Engagement Type	Engagement for controversies
Engagement Theme	Product governance
Engagement purpose	Following the review of the 'Industrials' sector for Corporate Behaviour/ESG controversies screening, presented to DPAM's SRI Steering Group in February 2024, the decision to engage with Company C was taken because of alleged involvement in the Grenfell Tower disaster, a fire in London in June 2017 which killed 77 people. Company C's subsidiary 'Celotex Ltd' had manufactured 95% of the insulation material which was used during the renovation works of the Grenfell Tower. It was suspected that Celotex manufactured 'RS5000 insulation panels' had contributed to the quick spread of the fire and the release of toxic fumes, which were key factors in the high number of fatalities .

Engagement details	As a first step, DPAM asked for confirmation that the RS5000 was manufactured out of polyisocyanurate, and asked for explanations about this choice of material (which is flammable); - DPAM asked for clarification around the fire-resistance testing protocol applied to certify the rs5000 (back when Celotex wasn't yet a Company C subsidiary), and whether Company C deemed it sufficient when it took over Celotex? - DPAM asked for a description of the corrective measures taken by Company C after it took over Celotex, and also following the Grenfell tower disaster. The answers provided by Company C provided clarity over the group's efforts to improve product governance following the takeover of Celotex, as well as over the group's reaction following the disaster. Company C did not try to hide the fact that the insulation panels were made of polyisocyanurate (PIR). Nonetheless, it showed that such material was extensively used in construction materials back then and more convincingly that Company C had quickly phased out these families of products since then. Company C clarified that all organic compounds (such as polyester, polymer, textiles, composites, wood …) and many other construction products (notably those used in the tower), released toxic gases when combusting. Company C also provided clarification about its product documentation and how it has improved it after taking over Celotex. DPAM engaged again with Company C following the release of the first investigation report by UK public authorities. The report clearly pointed at gross negligence by the architect and contractors as the main cause for the disaster. Nonetheless, it also criticised the UK regulatory agency's (UK's Building Research Establishment), weak and inadequate regulation and the fact that manufacturers of construction materials usually only sought compliance with weak regulation rather than offering insulation products with enhanced fire resistance properties. Company C highlighted that it had started taking measures to improve Celotex process controls, quality management and approach to marketing even prior to the disaster, that it discontinued the sales of RS5000 on the day following the disaster, and that it stopped selling insulation products for buildings higher than 18 meters. Importantly, the group highlighted that an independent study by a UK university showed that even more advanced insulation material would have also combusted in the same way due to the intensity of the fire (caused by the outside cladding manufactured by another company). This corroborated Company C's stance. Overall, the engagement confirmed that Company C only played a marginal role in this fire and that the severity of this disaster cannot be linked to Company C's actions. Moreover, Company C has demonstrated a proactive and responsible attitude prior to and following the fire, including a significant upgrading of product management protocols, of product transparency practices, as well as a full phase-out of the legacy insulation materials (and a management change). Therefore, we conclude that the future risks have been mitigated by the company.
Engagement outcome	Positive
Next steps	Engagement is completed

Engagement with Company D

Engagement year	2024
Date (Quarter)	Q1 2024
Company / Country	Company D
Engagement Type	Engagement for controversies
Engagement Theme	Human rights
Engagement purpose	DPAM and other investors are pressuring Company D to address child labour violations at its franchised restaurants, which have damaged its reputation. Since 2013, Company D faced over 2,300 violations, the most among fast food chains. The coalition wants Company D to: 1. Enforce a zero-tolerance child labor policy. 2. Improve human rights oversight. 3. Conduct an independent risk assessment by the end of 2024. Despite acknowledging the issue, Company D took minimal action, leading to legal fines and reputational risks. Investors demand better monitoring and accountability to resolve the problem.
Engagement details	DPAM has joined a coalition of investors managing over $2.2 trillion in assets to address concerns about Company D's failure to adequately respond to child labour law violations at its restaurants. In January, The Washington Post published an analysis of U.S. Department of Labor statistics, revealing that Company D has faced over 2,300 child labour law violations across more than 13,000 restaurants since 2013. Since 2020, there have been 15 violations per 100 restaurants. Although no violations were found at corporate-owned locations, the incidents have negatively impacted Company D's brand reputation. The collaborative initiative first raised concerns in a letter to Company D in 2023. In response, the Chairman acknowledged the issue but emphasised that the violations occurred at franchised, not corporate-owned, locations. He indicated plans for further dialogue, but no follow-up communication occurred. Consequently, the coalition urged Company D's Board to: -Implement a zero-tolerance policy on child labour within its Global Brand Standards for franchised restaurants. -Assign oversight of human rights, including child labour, to the Public Policy and Strategy Committee, as outlined in Company D's Human Rights Policy. -Conduct an independent third-party human rights risk assessment covering all Company D's locations, including franchises, with findings

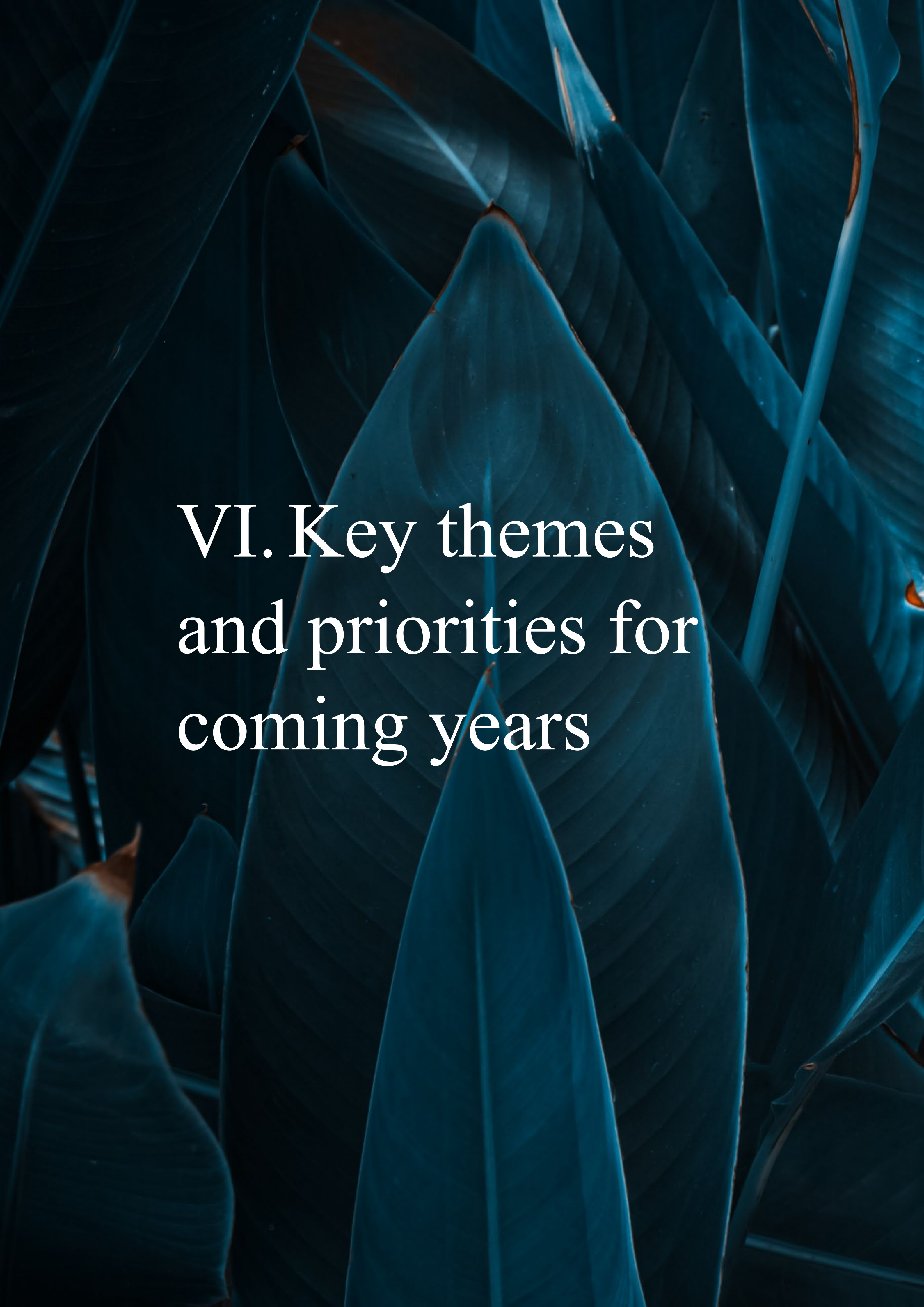
	published by December 31, 2024, and annual updates thereafter. Company D's continued inability to resolve child labour issues exposes the company to significant reputational and legal risks. The Washington Post found Company D had the highest number of child labour violations among fast food chains from 2013 to 2023. Additionally, between January 2018 and November 2022, Company D franchisees accounted for 8.7% of all child labour violations reported to the Department of Labor. Growing public awareness of child labour issues, supported by an Ipsos poll showing 77% of Americans would avoid brands associated with child labour, further threatens Company D's reputation. Company D has faced legal repercussions, including $304,107 in fines for employing over 400 children at more than 60 locations, with violations involving hazardous tasks and wage and hour infractions. In response, Company D planned to survey franchisees about child labour practices to enhance training and resources. However, this approach fails to address the underlying lack of oversight by the Board and management. The coalition argues that adopting a zero-tolerance child labour policy, clearly assigning Board-level oversight of human rights, and conducting an independent risk assessment would better address the issue than internal surveys. In Q4 2024, the investor coalition had an engagement call with Company D, which enabled an in-depth exchange on child labour issues. We required the company to provide disclosures and: -Stressed the importance of enhancing disclosures on the steps the company is taking regarding child labour such as its monitoring process (number of visits scheduled and un-scheduled). -Requested information on: • the grievance mechanisms in place (total number of cases filed through the various mechanisms as well as a breakdown into complaint categories) • the number of substantiated allegations and whether this process is accompanied by third party audit • Measures taken in reaction to the cases filed -Concrete examples of what the company deems 'right actions' by franchisees and how it measures whether these actions have been successfully implemented. -Update on EU CSRD and CSDDD compliance.
Engagement outcome	Ongoing
Next steps	Engagement to be continued

Engagement with Company E

Engagement year	2024
Date (Quarter)	Q3 2024
Company / Country	Company E
Engagement Type	Engagement for controversies
Engagement Theme	Business ethics
Engagement purpose	Following the review of the 'Financials' sector, the decision to engage with Company E had been taken because: 1) Company E had been involved in Anti-Money-Laundering (AML) controversies relating to its Estonian branch in the 2005 - 2018 period. Company E was fined in Sweden (USD 107.1 m), in Estonia (USD 2 m), and in the US (USD 50 m) due to AML shortcomings. An investigation had been opened by the US Department of Justice. 2) Company E had also been involved in a dispute with the German tax administration over 'cum trades' which is a form of dividend arbitrage trading that contributed to significant losses in tax revenues across Europe. The dispute concerns the 2008-2015 period. Therefore, we decided to engage with the company to verify whether the company has taken appropriate measures to reduce AML risk, even though momentum seemed positive considering that there hadn't been any other controversy since 2018.
Engagement details	DPAM raised several questions regarding Company E's AML measures, particularly in light of past controversies and fines in the Baltic countries and Sweden. We sought detailed information on the concrete steps Company E has taken to enhance its AML function, including the allocation of additional resources, such as the recruitment of new full-time employees dedicated to Know-Your-Customer (KYC) tasks. We also requested specifics on the scope and depth of Company E's KYC efforts, including the number of clients reviewed, the proportion of business relationships terminated following these reviews, and the proportion of clients cleared. Additionally, we inquired about Company E's whistleblowing channels, specifically asking for confirmation that Company E has a 'no retaliation policy' to protect whistleblowers who report in good faith. We also sought assurance that the whistleblower system allows direct reporting to independent board members, bypassing all executives. Company E's response and regulatory feedback: Company E provided comprehensive answers, demonstrating a commitment to transparency and proactive issue resolution. This is evidenced by the minimal fines and sanctions imposed by the Swedish regulator following a thorough review of Company E's AML measures in both its Baltic subsidiaries and Swedish operations. The closure of the 'order of correction' by the Swedish Financial Supervisory Authority (SFSA) in October 2021 indicates that Company E has implemented the required measures, signaling an upgrade in its AML processes and a mitigation of AML risks. Company E also outlined its dedicated AML business plan and the 14 measures agreed upon with other Swedish banks. The group also confirmed that its whistleblowing system matches all requirements. Conclusion: Overall, Company E has implemented a comprehensive set of measures and received positive signals from the regulator, suggesting that the AML issues are being effectively addressed. The reinforced collaboration with Swedish authorities, sector-wide scrutiny and the lack of recent controversies are clear positives. Consequently, we concluded that AML risks for Company E are gradually decreasing and that the company should remain eligible for investment, barring any adverse developments.
Engagement outcome	Positive
Next steps	Engagement is completed

Engagement with Company F

Engagement year	2024
Date (Quarter)	Q4 2024
Company / Country	Company F
Engagement Type	Engagement for controversies
Engagement Theme	Human rights
Engagement purpose	Company F has been implicated in human rights violations related to its LNG project in Mozambique. The controversy centers around allegations that the Mozambican Joint Task Force, which was financed, housed, and equipped by Company F, was involved in severe human rights abuses, including detaining and torturing civilians on Company F's premises. These allegations were reported in a Politico article in September 2024 and later supported by further investigations. Despite Company F's claims that there is no evidence to support these allegations, scrutiny has intensified. Reports suggest that Company F failed to implement proper human rights due diligence and security oversight. DPAM decided to engage with the company and civil society actors to properly understand the case
Engagement details	**Key Steps Taken by DPAM** September 2024 – DPAM requested additional information from Company F following the publication of the Politico article. November 2024 – Held a call with Company F's ESG Investor Relations and Legal Department to understand the Mozambique situation. December 2024 – Organised a call with Company F's VP of Human Rights for further clarification. December 2024 – Engaged with the Politico journalist responsible for the investigative report on the alleged abuses. December 2024 – Based on these findings, DPAM's portfolio managers made subsequent investment decisions regarding Company F's exposure. January 2025 - Engaging with the NGO which carried out investigations on international human rights violations.
Engagement outcome	Ongoing
Next steps	Engagement to be continued



VI. Key themes and priorities for coming years

Navigating global sustainability trends

2024, the first year of Corporate Sustainability Reporting Directive (CSRD) reporting, brought regulatory challenges, including the European Commission's Omnibus Simplification package involving the CSRD, the CSDDD, and the Taxonomy, alongside Germany's call for a two-year delay and a reduction in reporting scope. These challenges have complicated compliance for investors under the Sustainable Finance Disclosures Regulation (SFDR), especially regarding material indicators. SFDR regulations have faced criticism for complexity, lack of clarity, inconsistency and difficulties in product comparison, which led to the Omnibus revision, this year. The Omnibus package's amendments will reduce the scope of corporates under the directive and impact the regulation process throughout the EU institutions (Council & Parliament). There is uncertainty over the timeline and implementation of the package into national law.

Over-regulation in Europe has contributed to an ESG backlash, influencing perspectives globally. In a year marked by major elections, short-term issues like inflation and border protection took precedence over environmental and social concerns. Despite this, European sustainable equity and bond funds saw positive inflows, unlike those in the US and Asia. Criticism of ESG investments was also linked to underweighting in the energy and defence sectors. Although the energy sector underperformed the S&P 500 in 2024, it has been a top performer since April 2020. Meanwhile, geopolitical tensions have resulted in challenges to the exclusion of defence investments from sustainable portfolios. Political pressure to ease capital access persists due to rearmament trends, but investment in defence remains limited by bans in countries like Belgium and Germany.

Despite regulatory constraints, confidence in sustainable investment remains strong, particularly at DPAM, which maintains its 'Actively Sustainable' approach. There is concern, however, about regulations limiting active portfolio management through rigid metrics. Transition financing poses another challenge, with stricter rules for SFDR Article 8 and 9 funds. Initiatives like the GFANZ, IIGCC, and the Transition Plan Taskforce are under scrutiny, with some investors withdrawing support. Nonetheless, participation remains strong overall, except for US banks facing political pressure. Enhanced environmental data is helping companies with transition planning, but the challenge lies in integrating these plans into valuations. Although clean energy investments have doubled compared to fossil fuels, efforts to combat global warming remain insufficient.

Biodiversity and natural capital data have improved, allowing better assessment of corporate dependencies, but caution is needed to avoid rigid investment constraints. Social issues were dominated by human rights concerns, including the implications of the CSDDD and Uyghur labor controversies in China's solar energy sector. Social risks related to the energy transition and the automation of the digital economy are expected to be central to the 2025 agenda.

Europe continues to push for mandatory sustainability disclosures, while the US remains hesitant, particularly with Trump's return, which signals a shift towards climate scepticism and increased fossil fuel drilling. The macroeconomic environment sends mixed signals about the future performance of sustainable funds, with Europe potentially pivoting towards competition, regulatory simplification, and green growth, while emerging markets maintain a focus on sustainability. In this uncertain landscape, the materiality of ESG issues and a commitment to sustainable performance will be crucial, especially considering the consequences of the Omnibus Simplification package and how the Commission could approach other regulatory texts closely connected with the CSRD, the CSDDD and the Taxonomy.

Conflict & high-risk areas and the global transition to sustainability

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

The extraction of minerals from conflict & high-risk areas seems unavoidable on this road. Indeed, these areas are currently dominating the clean transition, particularly in the realm of solar panel technology and batteries. From the Democratic Republic of Congo for Cobalt, to Lithium mines in Tibet or massive forced labour camps in the Chinese province of Xinjiang, the transition value chain is scattered with social issues.

The transition should not simply be a tradeoff, where we temporarily focus on the 'E' of ESG, to the detriment of 'S' and 'G' factors. A sustainable transformation with a focus on ESG should ensure that **all three elements are considered in equal measure**. By reaching out and actively engaging with companies and sovereigns and by leveraging their expertise, **financial companies can play an important role** in guiding key entities on their ESG journey.

Social responsibility: the ugly duckling

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

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

Capital allocation and the cost of net zero

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

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

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

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

VII. Be focused for bigger impact

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

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

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