

2023

Engagement Activity report

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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 **399 letters as part of our voting activities**, reaching out to **299 companies**. These letters advocated for positive change and transparency in corporate boardrooms.

65 companies came under scrutiny in the context of our **controversial behavior 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 2023, we conducted **246 engagements**—both collaborative and individual - to defend our values and convictions. These interactions were purpose-driven, focusing on several critical areas:

- **ESG Best Practices:** We championed environmental, social, and governance (ESG) best practices 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 fellow 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 2024 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.

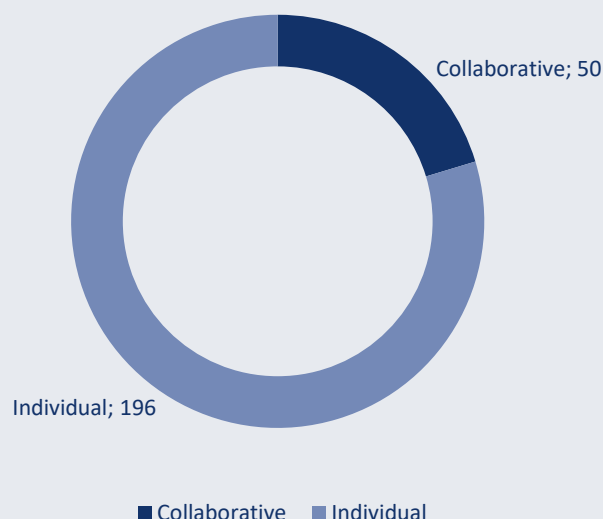
Together, we aim to advance and shape a future where responsible business practices thrive, and our impact resonates far beyond balance sheets.

Peter De Coensel, CEO at DPAM

II. 2023 Engagement overview

Corporate ESG Engagement

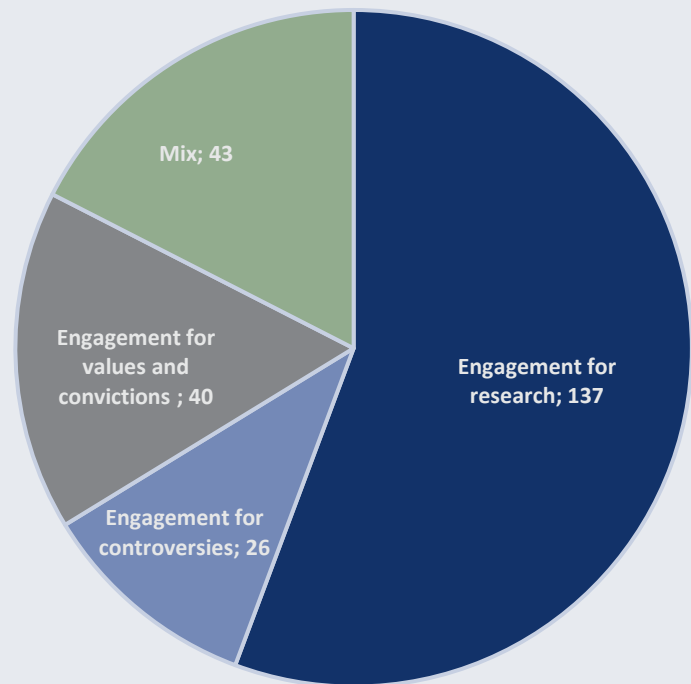
Individual Engagement means engagement DPAM has launched on its own initiative



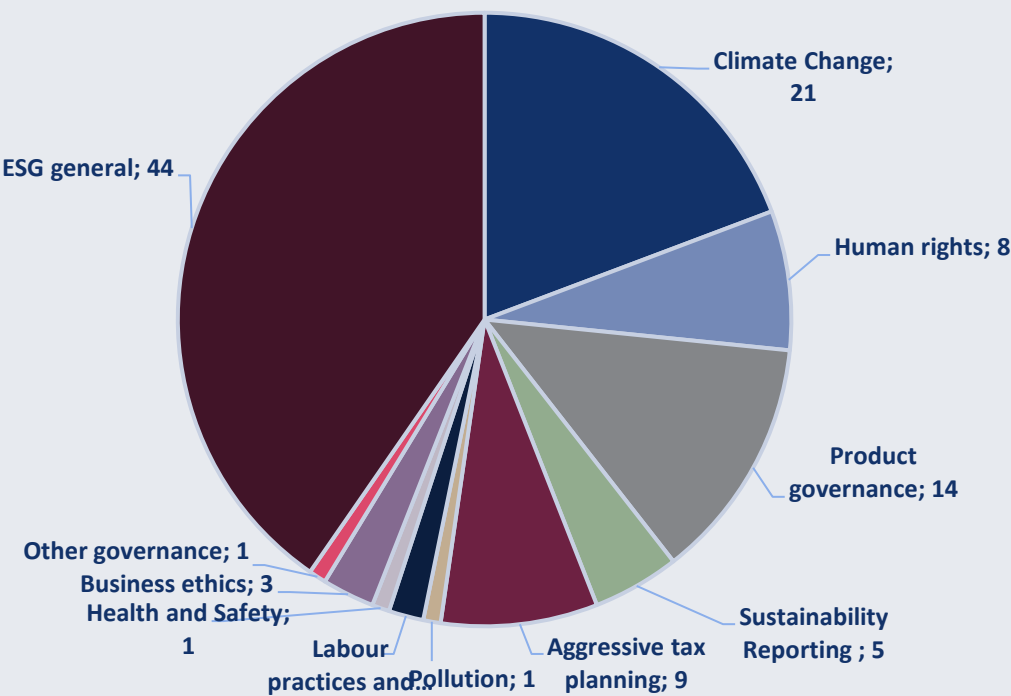
Collaborative means engagement carried out through a collaborative initiative DPAM is member of. Individual engagement is engagement DPAM has decided to launch on its proper initiative.



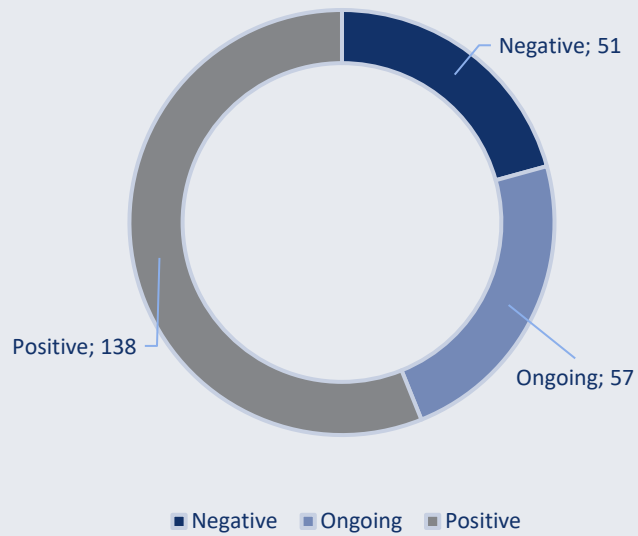
Number of Engagements per Engagement Type



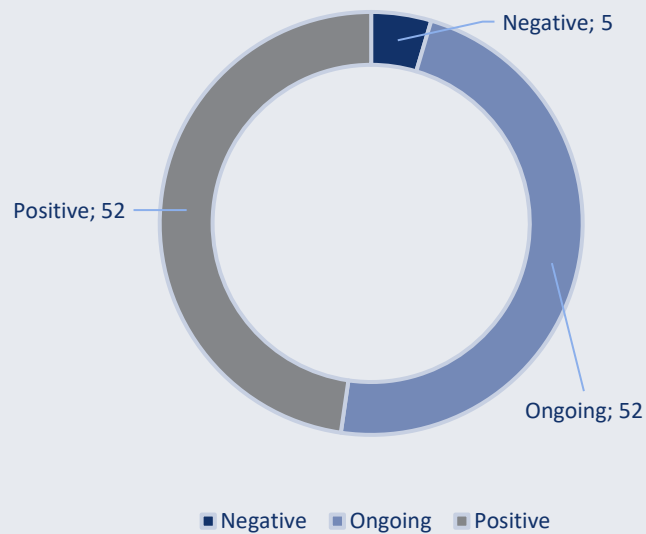
Engagement Topics Breakdown
(Engagement for values & convictions, Engagement for controversies, and Mix)



Engagement outcomes - All types



Engagement outcomes - Values and Conviction & Controversies



The outcome is considered:

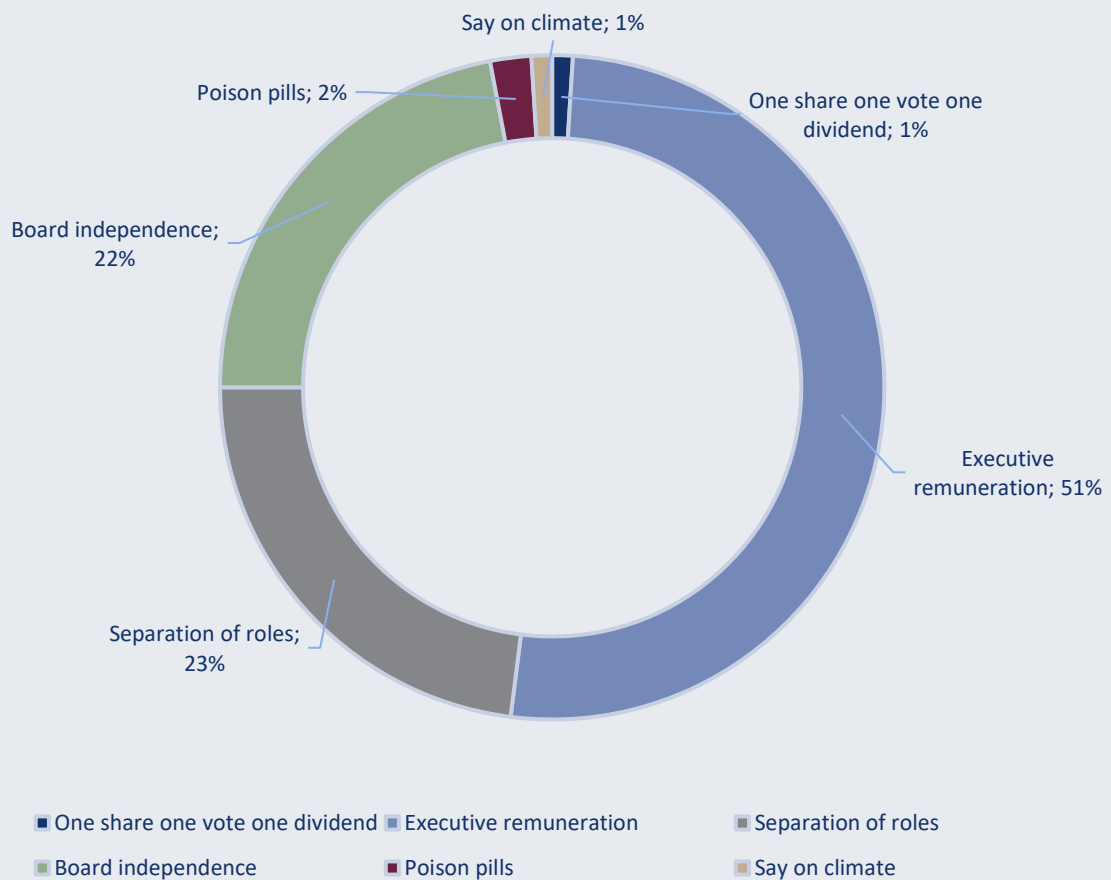
- Negative: no response, no acknowledgement, no commitments, no implementation, no improvement;
- Ongoing: the company is aware but there has been no result yet; or
- Positive: willingness to change and adapt, no formal escalation process implemented.

Corporate – Voting Engagement

299
Companies

399
Letters

83
Answers



2023 Controversy Review

65

Companies Reviewed in 2023 versus 57 in 2022

Following the ESG Review:

58%

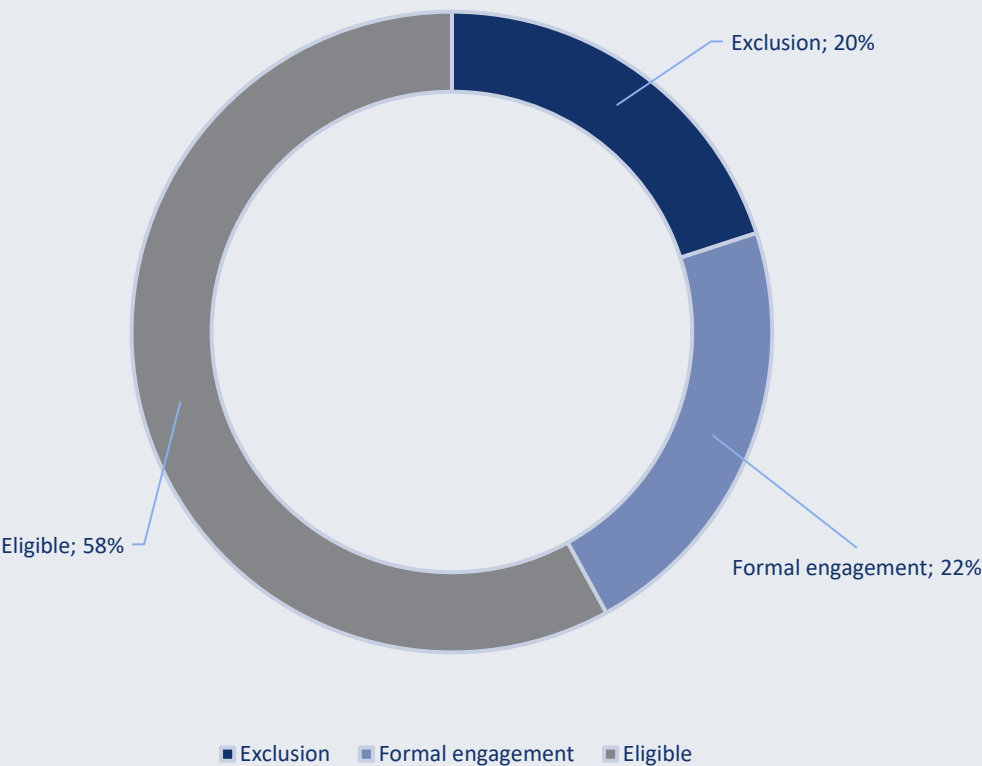
Declared eligible versus 75% in 2022

22%

resulted in formal engagement versus 9% in 2022

20%

resulted in exclusions versus 16% in 2022



In 2023, 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 on any behaviour of a company that 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.**

- **Promoting ESG best practices through Voting**

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

- **Environment and Climate risk**

DPAM prioritizes science-based target setting for investees as a key performance indicator in environmental engagement. Joining the NZAM initiative, DPAM commits to Net Zero portfolios, emphasising active ownership and engagement for credible emission-reduction paths. The Net Zero Asset Managers 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 prioritizes 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.

- **Social and human rights infringement**

Digital Rights

DPAM emphasises the economic value of data and advocates for its responsible use amidst increasing global regulation including the General Data Protection Regulation (GDPR), Digital Services Act (DSA), and Digital Markets Act (DMA). 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.

Forced labor

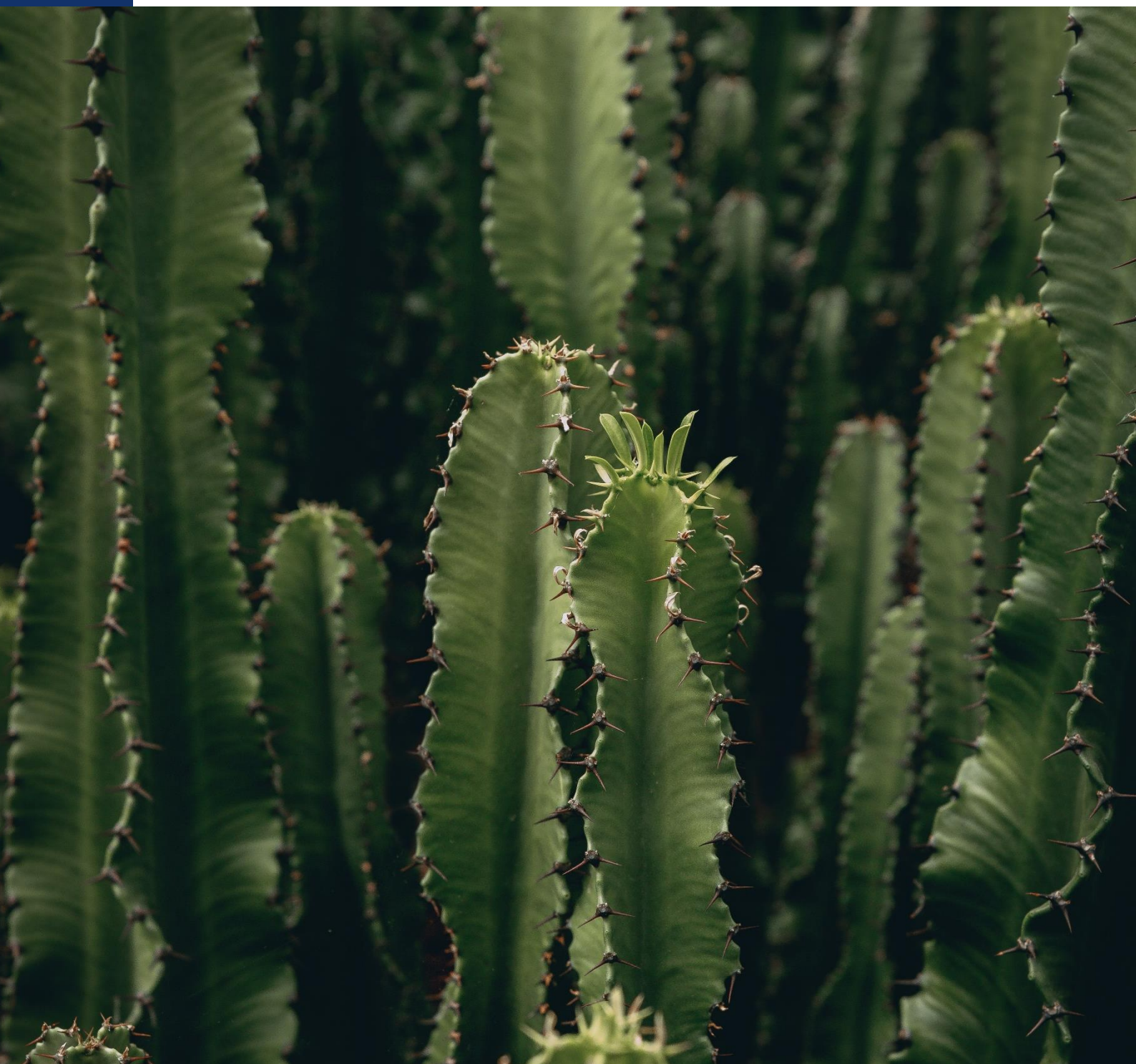
DPAM encourages ethical practices and emphasises the need for companies to go beyond certifications and proactively engage to ensure human rights are respected in their operations, particularly in high-risk sectors like food production, retail and the garment industry.

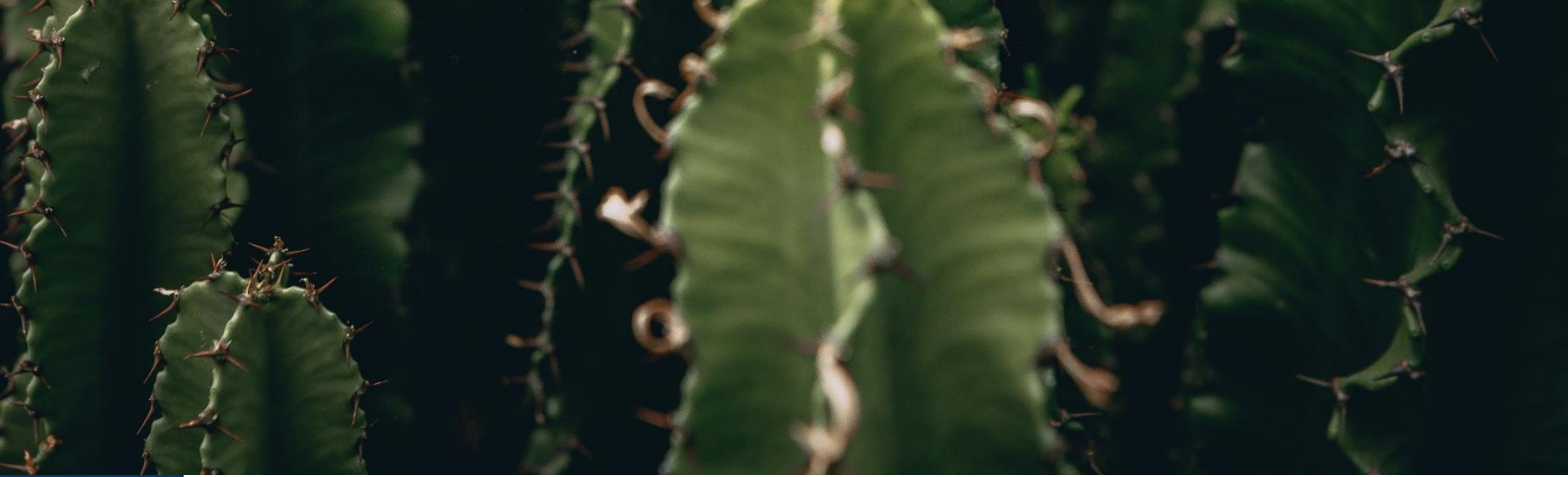
- **Corporate Governance and Corporate Taxation**

Board oversight over ESG risks and opportunities and the integration of ESG into risk management processes is key. DPAM seeks 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.

- **Engagement with countries**

2023 was the second 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. 2023 Key engagement updates

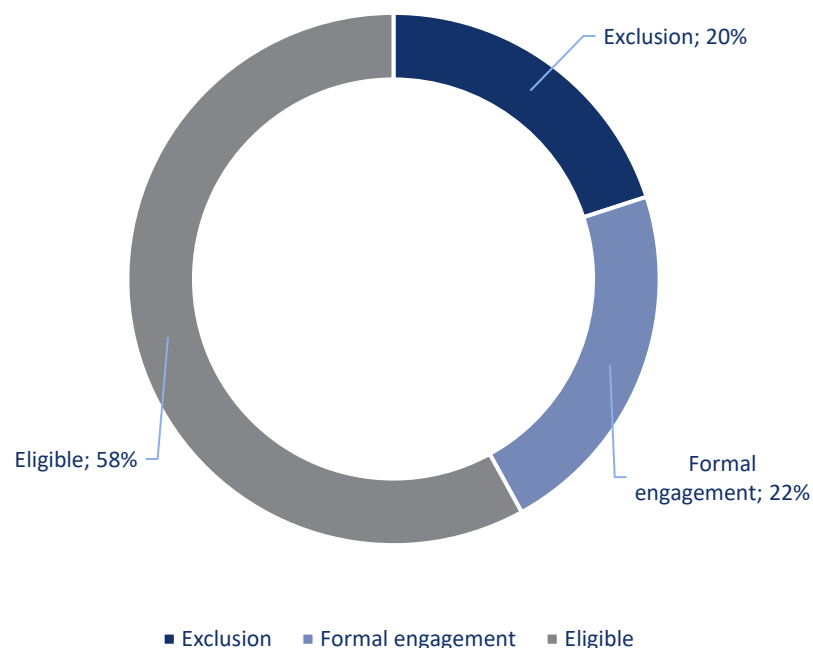
1. Engagement to Reduce the Negative Impact of our Investment – ESG Controversies

Our **sectoral review** follows a strict process, described in our [controversial activities policy](#).

The number of companies reviewed by the Responsible Investment Steering Group (RISG) in 2023 has increased compared with last year: from 57 companies to 65 companies.

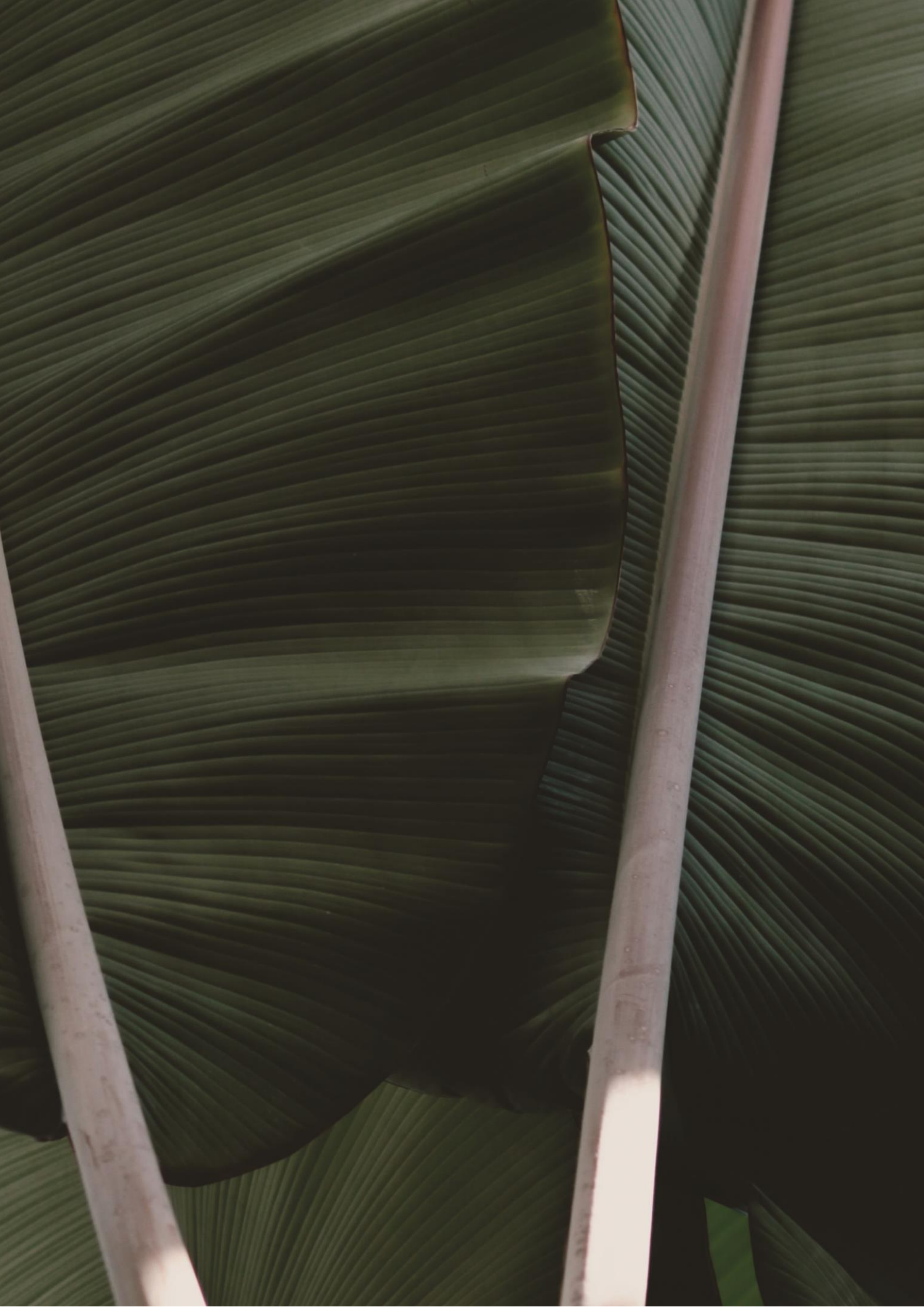
The number of exclusions and engagements has also increased compared to the year before. The number of eligible issuers has reduced slightly following a controversial review.

- **58%** have been declared **eligible** following the ESG controversies reviews (compared to 75%),
- **22%** resulted in a **formal engagement (for example a letter)** (compared to 9%),
- **20%** resulted in **exclusion** (compared to 16%)



2023 Controversy review

	Months	Number Of Companies Reviewed	Companies For Engagement	Companies Ineligible
Pharmaceuticals, Biotechnology & Life Sciences (=Healthcare excluding Health Care Equipment & Services)	January	5	0	4
Industrials (excluding Transportation)	February	8	3	1
Transportation (=Industrials excluding Capital Goods + Commercial & professional services)		0	/	./
Energy	March	0	/	/
Utilities		2	0	0
Materials (excluding Chemicals)		3	1	2
Consumer discretionary (excluding Automobiles & Components)	April	4	3	0
Consumer staples	May	5	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	11	0	0
Communication services				
Financials	November	11	5	0
("Medtech") = Health Care Equipment & Services	December	6	2	1
Real Estate		0	/	-/



IV. 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.



1. Environment and Climate risks

1.1 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 TCFD recommendations and our active membership in Climate Action 100+, 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 Net Zero Asset Managers 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 on an individual portfolio level and from a climate risk perspective, as we consider it our fiduciary and societal duty to do so.



a) Corporate focus

In 2023, to progress engagement priorities related to climate values and convictions, DPAM continued its active participation in the collaborative initiatives it is member of, for example, Climate Action 100+, the CDP (Non-Disclosure Campaign & Science-based Targets Campaign), the FAIRR initiative and IIGCC. DPAM has participated in **13 collaborative engagements on climate change** and **31 collaborative engagements requesting improved climate-related disclosures via CDP's Non-Disclosure Campaign**, in which we took the lead in several cases. Out of those 31 investees, over one fourth (26%) have subsequently made disclosures to CDP. Furthermore, we joined the **2023 SBT campaign**, targeting over 1,000 companies and asking them to consider science-based target setting. By the end of 2023, slightly more than 10% of the companies approached committed to setting a science-based target, while almost 20% are assessing the feasibility or have indicated they will likely commit to the initiative.

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)**. Closely aligned with the methodology of CA100+'s Net Zero Benchmark assessment, 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 2023 DPAM joined FollowThis and co-filed 5 resolutions** in the United States and Europe, submitted for a vote at **Chevron Corp.** and **Exxon Mobil Corp.**, **TotalEnergies**, **BP Plc** and **Shell Plc**, requesting the companies to align their existing 2030 reduction aims covering the greenhouse gas (GHG) emissions of the use of their energy products (Scope 3) with the goal of the Paris Climate Agreement: **to limit global warming to well below 2°C above pre-industrial levels** and to **pursue efforts to limit the temperature increase to 1.5°C**. In addition, DPAM co-filed another resolution at **Engie**, requesting a modification of Engie's articles of association, in order to include the possibility of submitting a consultative vote every three years on its climate strategy and every year on its implementation. Note that co-filing is often combined with both corporate and proxy voting advisor outreach to detail the proposal and rationale.

Furthermore, DPAM has engaged with six companies on their **Say-on-Climate report** or **climate progress report**, as their plans or progress reports were put to a shareholder vote at their 2023 AGMs: **Ferrovial S.A.**, **EDP Energias DE**, **Portugal S.A.**, **TotalEnergies SE**, **Altarea**, and **Shell Plc**. All companies were sent a letter, **detailing our voting rationale**, next to the **Climate Transition Plan** criteria we expected them to align with. In addition, in accordance with escalation tactics DPAM once voted against the re-election of the Chairman and the approval of the 2023 Remuneration Report following unsuccessful engagement efforts and the misalignment of the climate strategy with the goals of the Paris Agreement.

More details on the aim, status and progress of these initiatives can be found hereafter as well as in our **2023 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 17 companies, while these engagements tended to strengthen our initial beliefs they also resulted in our decision not to invest in two bonds in our dedicated climate strategy due to concerns or misalignment with our requirements.

In 2023, a UK financial player issued a green bond, associated with a framework. Although the green bond complied with several of our internal checks (for example, ICMA-alignment and second party opinion), we noticed one of the thresholds in the use-of-proceeds section was not aligned with latest EU regulatory thresholds as included in the EU taxonomy, and still referred to the older, less ambitious thresholds. Given its international recognition, as well as a consultation process including industry, regulators and scientists, we decided to challenge the company on a potential downward revision of the threshold to ensure alignment with best practice, regulation and the latest available scientific consensus. Following the engagement, we received formal, written confirmation of an upcoming revision.

In addition, in 2023, a road operator issued a sustainability-linked bond. One of the (KPI) targets was linked to a reduction of emissions intensity defined by the amounts of carbon emitted per kilometer of road operated. Following a review of the investment (capex) plans, we noticed significant capacity expansions were to be expected, impacting the denominator and hence reducing the intensity of the emissions reductions while absolute emissions would not reduce. Following an outreach which resulted in no revision of the KPI, we decided to refrain from investing in the bond for our dedicated climate strategy.

b) 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 2023 include amongst 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).

1.2 Biodiversity

The Kunming-Montreal Global Biodiversity Framework (GBF), that was 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 biggest impact on biodiversity through their investments, DPAM recently joined several collaborative initiatives to engage with companies and to promote best practice on the topic.

In 2023, DPAM joined **3 new initiatives**:

1. Nature Action 100
2. Spring
3. The Investor Initiative on Hazardous Chemicals



Nature Action 100



spring



As was the case for 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 addition, DPAM endorsed Spring, the collaborative engagement initiative launched by UN PRI. The initiatives are complementary as they will target different companies and Spring will focus on land-use, one of the five drivers of biodiversity loss.

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.



2. Social and human rights infringement

In 2023, DPAM participated in **six collaborative initiatives, three on human rights and three on labour practices and the supply chain.**

2.1 Digital rights - promoting human rights best practices in digitalization

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

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

Nevertheless, in some cases, new technologies such as FRT can undermine our fundamental rights. Yet this technology is being designed and used in a largely unconstrained way, presenting risks to basic human rights and it has caused numerous controversies. These controversies represent serious reputational, operational, and financial risks for the companies involved, as well as salient risks to human rights. As mass surveillance expands, technological innovation is outpacing human rights protection and there are growing reports of bans, fines and backlists relating to the use of FRT.

The best practice guide, which was established at the end of 2022, encompasses best practice relating to policy, ethics, product definition, design, governance, marketing and product use. The development of the technology is running significantly faster than its regulation, increasing the responsibility for companies to adopt a strict policy on the role of FRT.

The second phase, which started in 2023, focused on explaining best practice to companies active in the domain and nudging them to apply these. Through these engagements investors can fill the regulatory gap. As regulation is prone to catch up companies that have implemented best practice will not be as impacted by regulation on this topic.

In 2023, DPAM **has co-filed with other investors** a shareholder proposal to be submitted for a vote at Apple in the 2024 proxy season. The online sexual exploitation of children poses substantial business risks to Information, Communication, and Technology (ICT) companies and investors. Legislation, such as the STOP CSAM Act and similar legislation in the EU, UK, and Australia, **holds tech companies accountable for child safety online**, leading to potential financial penalties. Millions of cases of child sexual abuse material (CSAM) circulate annually, with emerging AI threats. Despite being a major player, **Apple does not proactively detect CSAM in iCloud**, raising concerns about its commitment. Apple's limited transparency on assessing risks in child sexual exploitation leaves investors uninformed, unlike its industry peers.

For this reason, **DPAM and other shareholders requested** that Apple publish a report by March 2025, assessing the risks of its products and services being used to facilitate the online sexual exploitation of children, including metrics on the effectiveness of Apple's efforts including the amount of CSAM transmission prevented annually, prepared at reasonable expense, excluding proprietary information.

2.2 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 is close to delivering the Corporate Sustainability Due Diligence Directive. 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. The directive also provides that victims of negative externalities are granted remedy mechanisms by corporates.

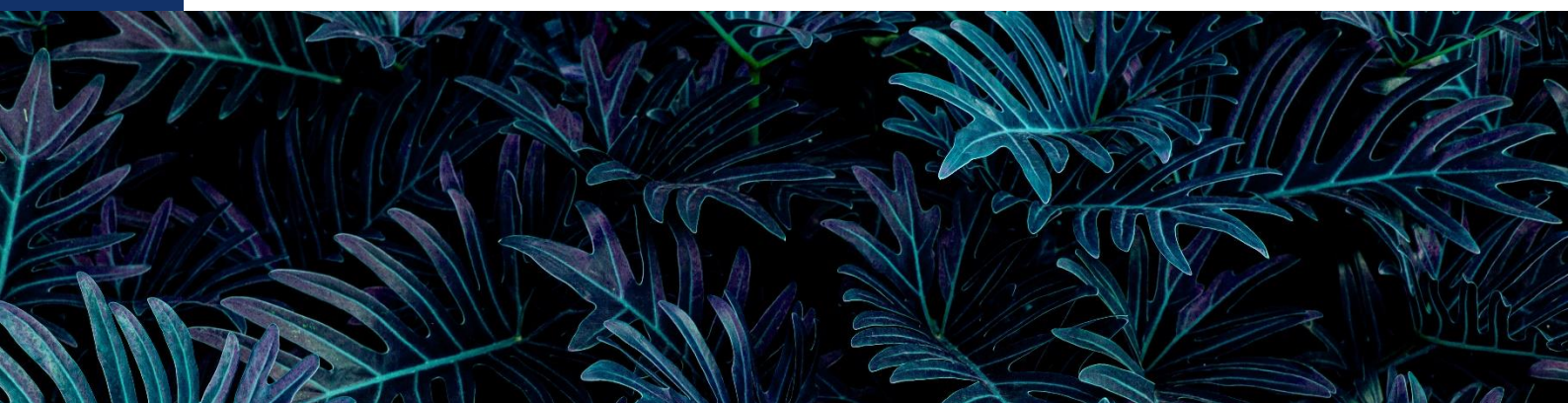
The Uyghur Forced Labor Prevention Act, a Federal Law in the US, highlights the necessity of considering human rights in the supply chain. The goal of the Act is to ensure that American entities are not funding forced labor among ethnic minorities in the Xinjiang region and sanctions have been imposed on certain manufacturers prohibiting the export of products to the US. The legislation causes clear problems for US companies that include such manufacturers in their supply chains and proper human rights due diligence would have avoided this. Similar legislative proposals are under way in Europe, and, in June last year, the European Parliament adopted a resolution condemning crimes against humanity against the Uyghurs in China and calling for a ban on the import of products made by forced labour. Following the resolution, the European Commission published a proposed regulation on the prohibition of products made using forced labor in the EU which aims to empower EU member states to detain, seize or order the withdrawal of a product from the EU market if it finds that such product was made using forced labour.

2.3 Forced labour

Forced labour continues to be a significant concern, particularly during our comprehensive social evaluations where we assess the industries most susceptible to human rights violations. In 2023, we focused on food production, retail sectors and the garment industry. These sectors are particularly vulnerable to the risk of forced labour, affecting both their supply chains and direct operations.

We conducted in-depth analyses of companies in these high-risk sectors, particularly those where evidence suggested the use of forced labour. This evidence may have emerged from controversies or poor rankings by NGOs dedicated to evaluating corporate practices on forced labour. In cases where a company's disclosure and response to our engagement was found to be lacking, our confidence was diminished which could lead to potential divestment decisions.

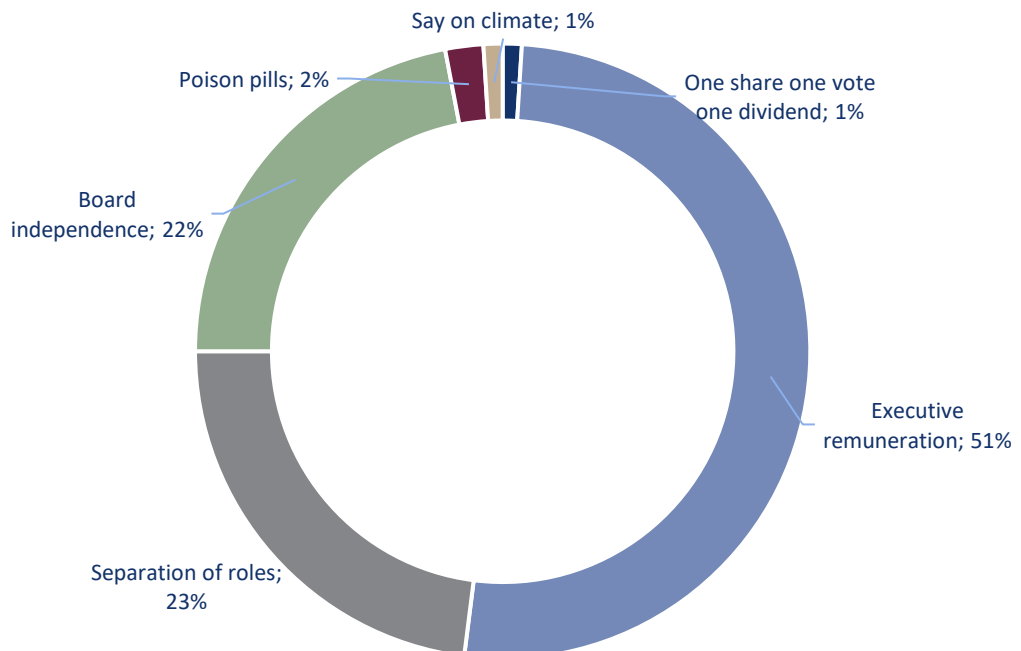
In the garment industry, allegations of forced labour were primarily linked to the manufacturing of textiles in sweatshops, notorious for their extremely low wages and unfair working conditions, sometimes in collusion with local authorities. Conversely, the food and beverage sector faced challenges further up the supply chain, notably in the sourcing of commodities like soy, palm oil, cocoa or coffee. Although these commodities are often subject to international certifications, requiring regular audits, we advocate for companies to go beyond merely purchasing certified products and to proactively engage in additional measures to ensure ethical practices throughout their operations.





3. Promoting ESG best practices through voting

In 2023, DPAM has systematically engaged with all companies for which we voted “Abstain” or “Against” on the six topics shown in the graph. Therefore, DPAM increased its engagement by 122.72% in comparison with 2022 as **399 letters** were sent out to **299 companies**. We received **83 answers** representing 27.76% of companies, acknowledging shared information and the willingness to engage on the topic, or requesting further details by e-mail or call.



Please refer to the separate [voting activity report 2023](#) for the results of DPAM's actions as a responsible shareholder.



4. 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 **2023**, **32 engagements** related to corporate governance **alone** while **43 others included** corporate governance.

Nine of DPAM's engagements were on aggressive tax planning for which we had the following goals. First, we sought to empower companies by enhancing their comprehension and communication of information regarding their tax practice in the public domain. Second, we strove 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.



5. Engaged dialogue with countries

Dialogue with the stakeholders is at the heart of our fundamental research and investment process. Engaging in a dialogue is a means to fine-tune fundamental research-driven investment decisions and to spread best practice and innovative solutions to ESG challenges.

DPAM uses engagement as a due diligence process, integrated in our commitment to be active, sustainable and research-driven. Engaging with sovereigns allows us to actively **contribute to the promotion of responsible governance and sustainable development** and DPAM is convinced of the important role sovereign bonds play as financing mechanisms for a transition to a low carbon economy.

An engagement is meaningful as soon as it has an impact, for example, when it leads to change and progress. However, as explained in our engagement policy, we use a different approach when engaging with countries than when engaging with companies.

Engagement with sovereign bond issuers is based on **dialogue for mutual learning** and this dialogue should therefore 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.

Our **primary objective** is to **raise awareness** among governments about the **importance of ESG integration**, including in sovereign bond investments. ESG factors provide a robust view on a country's risk profile, shedding light on how countries are managing **environmental challenges, social inequalities** and **governance structures**. In the first phase of an engagement our role is to emphasise that investors consider ESG criteria in their investment decisions to indirectly encourage them to adopt policies that foster sustainable development. **Second**, we **introduce the proprietary country model** that DPAM has been developing since 2007. We explain how it works and what DPAM learns from it and in particular we extensively discuss the scorecards DPAM produces for each of the countries eligible for investment. In this way, we highlight countries strengths and areas for attention, while gathering their feedback for a mutual exchange of information. This meeting can take different forms (on-site visits, virtual meetings, emails) and can be with different stakeholders in the bond value chain (technicians, technocrats or ministers for example).

The third phase of engagement insists on the **importance of green finance** and the country's potential in financing the transition. We highlight DPAM's expectations regarding the use of the proceeds from bonds and share our expectations on the qualities of or improvements possible to green finance frameworks. **Finally**, we have an exchange about a **country's alignment with the Paris Agreement** and its ambitions to **reach Net Zero by 2050**. Almost all countries have committed to achieve carbon neutrality by 2050, however it is important to assess the credibility of their claims and their pathway to reach this target.

This discussion about credible paths to alignment with the goals of the Paris Agreement is key for DPAM as a signatory of the Net Zero Asset Management Initiative. Although sovereign bonds are typically out of the scope of such initiatives, we remain convinced of the importance of this asset class and therefore seek its alignment with our commitments.

In 2023 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. In 2022, we initiated 37 dialogues with 34 different countries, 22 dialogues with OECD countries and 15 with emerging economies.

In **2023** we **initiated a first contact with ten emerging economy countries** and **will contact 12 others** in the **first half of 2024**. Furthermore, we conducted **engaged dialogues** with **eight countries** namely: **Poland, Hungary, Serbia, Macedonia, Malaysia, Mongolia, South Africa** and **Romania**.

On the OECD side, we initiated **engaged dialogues with 11 countries**, namely **Poland, Romania, Hungary, Sweden, the Netherlands, Slovenia, Canada, Portugal, the United States, Italy** and **Ireland**. In terms of **collaborative initiatives**, in **2023**, DPAM joined the **Emerging Markets Investor Alliance** this:

- Is a not-for-profit organization 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 organizations 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.

DPAM joined the **public sector working group** which focuses on **Debt & Fiscal Governance** and **Decarbonization**. Several countries will be considered and DPAM will focus on South Africa as 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.

Furthermore, **in early 2024**, we decided to support the **Investor Policy Dialogue on Deforestation Initiative (IPDD)**. A collaborative investor initiative, set up in July 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.





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 becomes subtler and harder to identify.

1. Engaged Dialogue with Sweden

1.1 Engagement Details

We started our engagement with **Sweden** in December 2023. Beyond traditional questions regarding economic forecasts, we discussed the country's green issuance plan and its energy transition.

Sweden is among the leaders in terms of the environment and the energy transition. Sweden was the first to set up a carbon tax in 1991. It has been an example in terms of emissions reduction - it has the lowest carbon footprint per habitant in Europe in 2021 - 5 tons CO₂/Habitant. This is thanks to high share of renewable energy and electricity and heating systems which are nearly decarbonised. A signatory of the Paris Agreement, Sweden aims to be the first fossil-free welfare state in the world by 2045.

Nevertheless, rising social tensions and inequalities and the increasing participation of the extreme right in the governance of the country has created uncertainty about the pursuit of the energy transition. Concerns are rising notably with the increase of Sweden's GHG emissions in 2023 and negative forecasts for coming years. The end of financial aid for car-sharing and public transport and for subsidies for offshore wind and the development of high-speed trains are political decisions which put the transition at risk. The increase of fossil fuel subsidies is incompatible with Sweden's commitment to be a fossil fuel free economy by 2045. In addition, the future role of nuclear power is unclear with rightwing parties generally in favour of expansion and leftwing and green parties in favour of phase out.

The evolution of these indicators were essential questions we had relating to the sustainable development of the country and the assessment of its commitment to alignment with the Paris Agreement. Engaged dialogue is to be continued.

1.2 Outcome

Ongoing

2. Collaborative initiative and engaged Dialogue with Romania

2.1 Engagement Details

We started our first dialogue with **Romania** in September 2022. Through our contact with representatives of the central bank, the debt office and the treasury, we are raising the awareness of sustainable criteria in our selection of sovereign bonds.

The first step of our engaged dialogue was the presentation of our model.. In the context of emerging economies worldwide, Romania is doing quite well in terms of transparency, democratic values, the environment and population. Nevertheless, in terms of education, we have highlighted areas for improvement.

The objective of our dialogue is to highlight the importance of sustainable indicators in our selection of sovereign bonds and the materiality of these indicators beyond regulatory requirements.

The public officials we engaged with welcomed our approach and asked if we could share best practice and further information on our indicators.

Through collaborative initiatives, we have also had the opportunity to engage with the country on the green bond framework they plan to adopt where they have also displayed willingness to align with best practice.

2.2 Outcome

Ongoing

3. Formal Engagement – ESG Controversy

3.1 Engagement Details

Following the internal review of ESG controversies affecting our investee companies from the materials sector, the Responsible Investment Steering Group decided to conduct an engagement with Company B.

The reasons why Company B was included within the scope of DPAM's ESG controversies review were threefold: **1) occupational health and safety problems, 2) labour relations issues; and 3) reported cases of air and water pollution at some of the group's sites.**

Concerning Company B's occupational health and safety tracking record: the group had recorded 22 fatalities at its facilities in 2022, 29 in 2021 and 17 in 2020. The occupational health & safety (OHS) issues seemed particularly acute in Kazakhstan. Moreover, workers had previously protested over unsafe working conditions and outdated safety equipment in several Kazakhstani sites. In France, Company B had been exposed to number of lawsuits (with 300 outstanding claims, at its peak, at the end of 2021) filed by former and current employees accusing the group of exposing them to asbestos in the workplace. Company B was sentenced to pay some limited damages in several cases. Company B had also received several limited fines for **failing to comply with occupational health and safety regulation in several countries around the world**, often after workers have been injured. These factors pointed towards a deteriorating OHS profile and possibly, a systemic issue. At the same time, Company B announced its "Journey to zero" strategy, aiming at drastically decreasing workplace fatalities and injuries.

The engagement aimed at assessing how far-reaching Company B's "Journey to zero" strategy was, and particularly to what extent impactful, tangible measures were being put in place. We could identify some positive signals such as the OHSAS 18001 certification of sites, the creation of a Joint Global Health and Safety Committee, efforts to implement training programs, the tracking of Lost-Time-Injuries and of near-misses, and the fact that the management's remuneration was now partly dependent on ESG metrics including health and safety performance. Company B's answers restated that OHS was the highest priority for 2023. It clarified that the worst OHS difficulties were mostly concentrated in Kazakhstan, and it provided some explanations for the group's struggle to address this situation notably the lack of qualified technical personnel. It also announced programmes in place to invest in new safety equipment, to detect precursors of fatalities and injuries at each site and to apply a

quarantine to every site after a serious accident took place. 15% of executive remuneration had been tied to short term OHS performance, 10% to long term OHS performance, with fatalities cancelling remuneration. In relation to the asbestos issues in France, Company B announced an action plan to remove the asbestos at the two sites, to monitor the air quality and to ensure the protection of employees when the work is carried out. It also clarified that the group's OHS performance remains above the world's average for the sector. Overall, Company B's answers showed a **strong commitment and that the measures in place were more ambitious than those of most of its peers. Yet, performance figures remained poor for the last year they were available, and we remained circumspect as to the real effectiveness of these measures.** Unfortunately, our doubts were later confirmed in October when the Kazakhstan site was once again hit by a catastrophic accident. Despite the group's efforts, the scope of the accident was deemed too severe, and **Company B was consequently placed on DPAM's exclusion list** for all Sustainable and SFDR article 8 strategies.

The second topic we engaged on was **labour rights**, following alleged reports that anti-unionisation practices might have occurred at some sites. Company B's answer was only partly convincing, reasserting the group's commitment to comply with local regulation, and insisting on some union agreements in Spain. Engagement was on-going when the deteriorating OHS situation triggered exclusion.

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With regards to reported instances of **air, soil and water pollution**, our engagement targeted the Taranto plant in Southern Italy (severe atmospheric pollution), the tailing storage spill in Kryvyi Rih, Ukraine, as well as the pollution of the Fensche river in France. Concerning the Taranto plant, Company B insisted it did not own the plant, but is only operating it following an agreement with the Italian Government. Company B clarified that it had been completing 100% of the environmental measures covered by the contract, including the complete coverage of raw material yards (a key improvement to prevent dust from contaminating nearby residential neighbourhoods). Company B put the responsibility for the Ukrainian dam spill on a local subcontractor. In France, a court decision ultimately acquitted the company. Finally, Company B highlighted that the sale of one of its subsidiaries would significantly reduce possible environmental liabilities. **Overall, we deemed the group's answer to be only partly satisfying. Engagement was on-going when the deteriorating OHS situation triggered exclusion.**

3.2 Outcome

Company B was consequently placed on DPAM's exclusion list for all Sustainable and SFDR article 8 strategies.

This engagement allowed us to gain a more in-depth understanding of Company B's efforts on social (health and safety and labour relations) and environmental issues. By asking precise questions on specific allegations and the concrete measures implemented by the company to address them, DPAM also signified to the company's management that it was expected to deliver on its social and environmental commitments. Even though DPAM ultimately took the decision to divest, this engagement provided us with information which might prove useful when re-assessing Company B's future ESG performance, particularly with respect to occupational health and safety and labour relations. It will enable us to check whether the group has continued its efforts, and whether these have had an impact in terms of ESG performance, over time.

4. Formal Engagement – Science Based Targets Initiative (SBTi)

4.1 Engagement Details

Recent years were characterized by a rise in SBTi commitments and validations. However, M&A activities or spinoffs and separations of businesses have, unsurprisingly, impacted ESG commitments and targets, including climate targets. As a result, following the announcement of a separation of businesses at one of our investee companies, DPAM joined a **collaborative engagement** initiative (NZEi) to explore the implications of this split for its **SBTi commitments**, which form the basis for assessing whether a company's strategy aligns with a low-carbon economy.

Together with other investors, the chemicals company was approached via a **formal letter** to state our expectations for credible climate transition planning. This was followed by a **virtual meeting** with the company, focusing on the implications of the split for the commitments of the resulting entities. The company confirmed one of the two, the low-carbon part, will inherit the target, while the company will explore the feasibility and credibility of target setting for the other, carbon-intensive entity. Some of the complexities were raised and elaborated on.

Following a debrief between investors, it was decided to reach out to the company in Q1 of 2024 to **push further for more disclosures** in its Annual Report 2023 and 2024 on the status, potential hurdles and timeline for a formal commitment. Further engagement will proceed on the alignment of strategy and business operations with the target (see Corporate Transition Plan disclosures).

4.2 Outcome

The company confirmed **continuation of SBTi focus**, inheriting the target for one of the two entities, and exploring target setting for the other. Furthermore, insights were provided into some of the complexities of renewed SBTi commitments. **Informally asked to disclose** in its Annual Report 2023 the status, potential hurdles, and timeline of additional disclosures.

5. Formal Engagement - SBTi and Transition plans

5.1 Engagement Details

Within the framework of the CA100+ **collaborative engagement initiative**, DPAM is co-leading an engagement case on **Net Zero Benchmark disclosures (for example, climate transition planning)** with a major materials company. The engagement is an example of the multi-year nature of an engagement process as it started in 2020. DPAM, its co-leads and supporting investors decided to focus on SBT setting, Climate Policy Engagement, Decarbonization Strategy/Financing and Climate Accounting as engagement priorities for 2023.

Several constructive **virtual meetings** were scheduled in 2023, with: investor relations, sustainability managers and the head of technology. These aimed to highlight or explain the different elements raised in the Benchmark. But the meetings were also used to gain an understanding of the complexities of the business and the hurdles and timelines to meet criteria of the Benchmark. DPAM even organised **meetings with external research entities** to increase the company's understanding of the methodology underpinning the Benchmark (for example, Climate Policy Engagement). Throughout the engagement, several other 'quick disclosure wins' were flagged to the company, which we hope to see reflected in its 2023 Annual Report.

Furthermore, a **formal letter** has been sent to the company, addressed to the Audit Committee Chair, highlighting specific asks related to Paris-aligned accounts and audit disclosures.

5.2 Outcome

During 2023, the company:

- Received **SBTi target validation** for scope 1+2 intensity targets, next to absolute scope 3 emissions reduction targets;

- **Revised/fine-tuned its Association Review report** (climate policy engagement) following input from collaborative engagement meetings, with a commitment to publish an update in Q1 2024;
- Provided more detailed **disclosures on revenue generated or production linked to climate solutions and set targets** to increase it.

6. Formal Engagement – transition plans

6.1 Engagement Details

In some of the collaborative engagement initiatives, DPAM takes the role of **supporting investor**. Although this might be limited to supporting/signing formal letters or participating in company calls, sometimes a more active role is taken.

In 2023, the CA100+ co-led engagement with a French industrial gas company and allowed input and support from supporting investors. Although the company made progress in 2023 on several indicators, including target setting, commitment to Paris-aligned lobbying and the inclusion of climate elements in their executive remuneration scheme, DPAM raised some additional points on remuneration following a thorough review of the company's disclosures.

In alignment with the co-leads engagement priorities, we highlighted the need for greater insight into absolute emissions reduction pathways and reliance on subsidies and other incentives. We suggested some engagement questions linked to the topics raised.

6.2 Outcome

Progress made throughout 2023 on the Net Zero Company Benchmark:

- Additional **GHG emissions reduction target setting** (Net Zero by 2050 + Long Term);
- Commitments to **Paris-aligned lobbying**, including first actions by exiting the American Fuel and Petrochemical Manufacturers group;
- Inclusion of climate elements in their **executive remuneration** scheme;
- Company committed to **disclose a transition plan in 2024, detailing its main decarbonisation levers** (efficiencies, carbon capture sequestration and electricity).

7. Formal Engagement – Scope 3 emissions

7.1 Engagement Details

Credible scope 3 emissions reductions targets are an essential part of a company's climate commitment when these emissions are deemed material in the overall emissions profile (for example, >40% of total emissions). Therefore, in addition to SBTi, a specific focus is given to scope 3 targets. Although the SBTi has not finalised its methodology for the oil and gas industry yet, DPAM joined FollowThis in its **engagement activity to ask oil majors to set more ambitious, science/Paris aligned scope 3 targets**, with the important disclaimer to leave the strategy to achieve such a target up to the Board and Management of the company.

As part of the FollowThis engagement with a French oil major we co-filed a shareholder proposal after the initial request for a meeting, raising the topic, did not produce any constructive results.

To ensure the proposal was clearly understood, DPAM contributed to FollowThis' work in defining the proposal and its associated **supporting statement**. Linked to this, DPAM participated in several **meetings with proxy voting advisors**, together with FollowThis and other co-filers, to explain the

rationale behind filing such a proposal as well as to gain insight into the policy of those proxy voting advisors in formulating their recommendations.

To conclude, DPAM **pre-declared its voting intentions on the PRI website and participated in a webinar** to explain its participation in the co-filing.

7.2 Outcome

- Successful **co-filing** of the resolution
- **Revised Proxy Voting recommendations** of one provider, in support of the shareholder proposal.
- Approximately **30% support** for the resolution

8. Formal Engagement – Labour Rights

8.1 Engagement Details

In 2023, as part of the Investor Alliance for Human rights, DPAM was the lead investor in the case of **company A**, where worker-led unionisation efforts have been organised in the United States since late 2021. Company A responded with anti-union measures, including union-busting activities and the exclusion of unionised workers from benefits announced in 2022. The National Labor Relations Board filed a complaint, citing various alleged violations including: store closures, reduced compensation, discriminatory policies, surveillance and terminations.

Additionally, Company A received low Corporate Human Rights Benchmark scores in 2023 due to a lack of transparent processes for identifying, assessing and addressing human rights risks, the absence of a concrete approach to evaluate the effectiveness of actions taken and apparent oversight gaps relating to the Board of Directors regarding these risks.

Following these controversies, we formally engaged with Company A, **on behalf of the Investor Alliance for Human Rights**, on topics, including:

- Company A's efforts to share information related to human rights breaches and grievance mechanisms.
- Recent allegations regarding interference with employees' fundamental rights and whether the company pursues any efforts to improve and strengthen human rights due diligence.
- Board measures to handle unionisation issues and implement due diligence.
- Information about Company A's human rights impact assessment, third-party involvement and scope.
- Insights on proactively improving human rights due diligence to prevent harm and the possibility of publishing supplier lists for its coffee supply chain.

8.2 Outcome

The company undertook a comprehensive Human Rights Impact Assessment carried out by a third-party across its entire value chain. The assessment aims to identify significant risks and provide recommendations, including improvements to grievance mechanisms and an examination of freedom of association and the right to collective bargaining.

9. Formal Engagement - Product Governance

9.1 Engagement Details

The opioid crisis refers to the rapid increase in the overuse, misuse/abuse and overdose deaths attributed either in whole or in part to the class of drugs called opiates/opioids, since the 1990s. The opioid crisis includes the significant medical, social, psychological, demographic and economic consequences of the medical, non-medical and recreational abuse of these medications.

The opioid crisis has been fuelled by a troubling collaboration between manufacturers and distributors. Pharmaceutical companies, seeking profit, engaged in aggressive and misleading marketing of prescription opioids, often downplaying the potential for addiction. Manufacturers, in turn, flooded the market with large quantities of these potent drugs. Distributors, motivated by financial gain, failed to implement effective oversight, allowing excessive amounts of opioids to flow into communities. The lack of proper monitoring and reporting by distributors, coupled with the manufacturing of vast quantities of opioids, played a pivotal role in the devastating escalation of the opioid crisis, contributing to its widespread impact on individuals and communities.

Different opioid manufacturers and distributors settled with the US state, reaching multi-million to multi-billion settlements.

In 2023, DPAM reviewed the list of companies that were involved in the opioid crisis based on different criteria, including:

- their involvement in opioid-related litigation/lawsuits;
- whether they were fined;
- whether the settlement was resolved;
- whether they are still selling/distributing opioids;
- whether they have set up prevention programs to combat the opioid epidemic.

The Responsible Investment team and the research analysts at DPAM analysed every company to assess the case's severity and prepare relevant discussion material. The engagement was launched in Q4 2023 and is still ongoing.

9.2 Outcome

Ongoing

10. Formal Engagement - Supply Chain Due Diligence

10.1 Engagement Details

Advance is a PRI-led collaborative stewardship initiative on human rights and social issues. The initiative was launched in December 2022 with the objective to advance human rights and positive outcomes for people through investor stewardship.

Investors seek to make progress through a range of stewardship tools and activities, including dialogue with companies and other stakeholders. Investors set three key expectations for companies that are engaged with through the initiative:

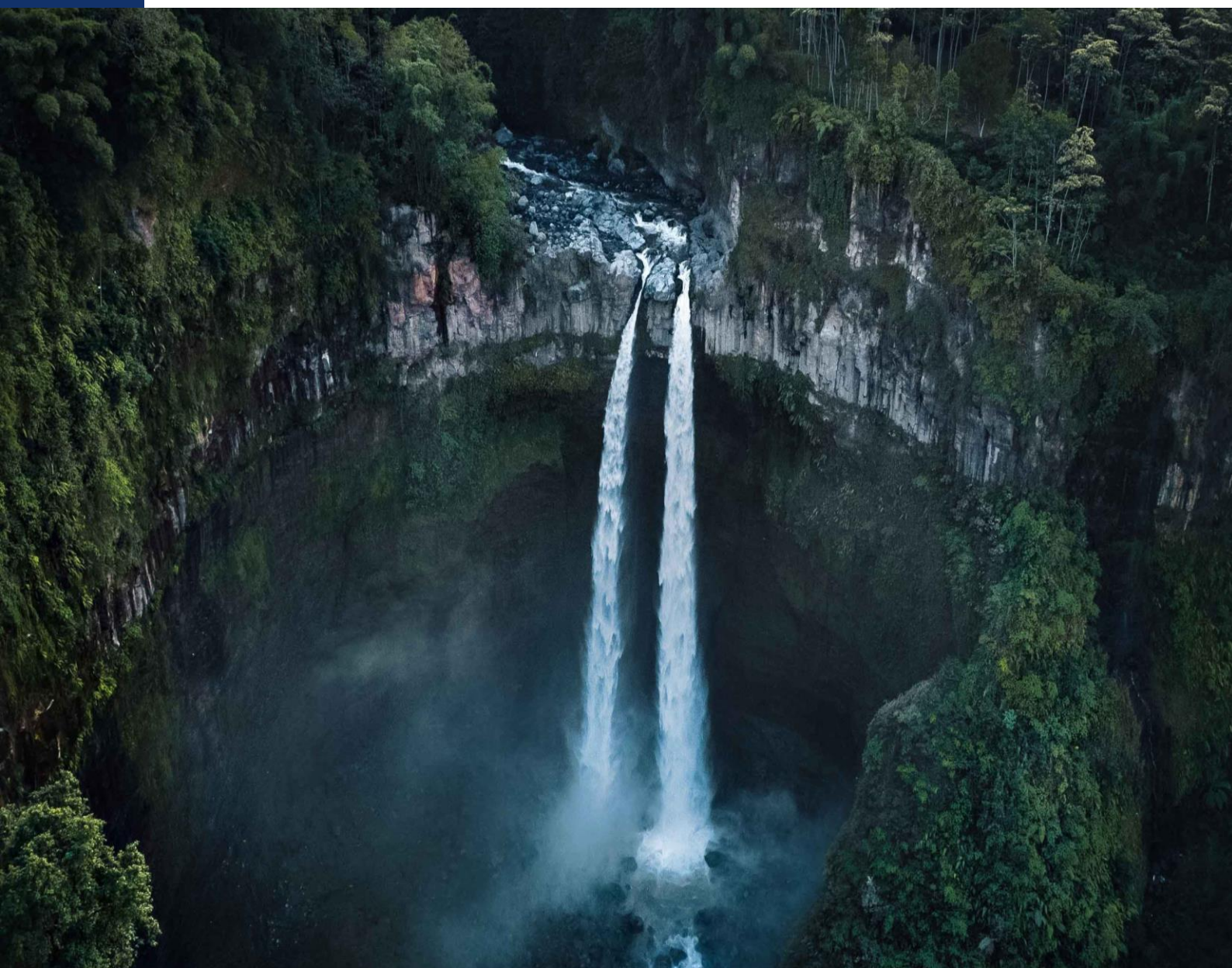
- Full implementation of the UN Guiding Principles on Business and Human Rights
- Alignment of their political engagement with their responsibility to respect human rights
- Increasing progress on the most severe human rights issues in their operations and across their value chains.

DPAM takes part in this initiative and has taken the lead in engagement with two renewable companies. These companies play a major role in the energy transition, but also need to ensure that the transition happens in a socially conscious way. To do so, we focused our discussions on several areas:

- Diversification away from Chinese suppliers of solar panels, which are produced with state-sponsored forced labour;
- Delivering a yearly comprehensive human rights report;
- Conducting increased due diligence in conflict-affected and high-risk areas, especially when indigenous populations are impacted by large renewables projects;
- The proper conduct of the six different steps detailed in the OECD guidelines for multinational enterprises, to avoid and mitigate the infringement of human rights either directly or indirectly, linked to the companies' operations.

10.2 Outcome

Ongoing. Some positive results were noted in the companies' reporting practices, but further advances can be made.





VI. Key themes and priorities for coming years

1. A challenging regulatory landscape

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

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

2. Securing the future: from promise to action

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

However, even with the most ambitious scenario of achieving net zero emissions, **the goal of limiting the rise in global temperatures to under 2C is not guaranteed**. To make this ambitious scenario a reality, a substantial amount of funding is required with estimates ranging up to USD 4.5 trillion, annually, by 2030.

It is clear that **urgent alignment of economic, climate, and security priorities is needed**. COP28 has been perceived as historic by some, due to the number of additional commitments and progress. These include the objective of *'tripling renewable energy capacity globally and doubling the global average annual rate of energy efficiency improvements by 2030'* in the final Global Stocktake decision and the fact that it is the very first time in 28 years of negotiations where it is clearly stated that we need to move away from fossil fuels in general, and not exclusively from coal, while also targeting other actions such as the phasing out of inefficient fossil fuel subsidies.

All in all, due to protectionism, (geo)political uncertainty and tensions (such as global conflicts and elections for over half of the world's population) and their impact on the (macro) economy, several research entities expect 2024 and 2025 to be bumpy years for corporates and financial institutions, resulting in head- and tailwinds, especially for those pursuing climate financing targets.

3. 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 the '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.

4. Social responsibility: the ugly duckling

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

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

5. Capital allocation and the cost of Net Zero

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

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

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

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





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 centralization and streamlining of initiatives would allow for greater efficiency, coverage and above all, impact on companies for society.

A relevant initiative is an initiative with clear scope, clear expectations and objectives and 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 various 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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Disclaimer

This document takes into account the requirements of the Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, for asset managers to publicly disclose how their engagement policy has been implemented.

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