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Engagement Policy

Degroof Petercam
Trust. Knowledge.

asset management
private banking
investment banking
asset services

DPAM

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What do we engage on?

- Reducing the negative impact of our investment - Controversies
- Promoting ESG best practice through Voting at Companies
- Environment - Climate risk
- Environment - Biodiversity
- Social and human rights infringement
- Corporate Governance and Corporate Taxation

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.

How do we engage? (engagement types)

- Engaged dialogue
- Formal individual engagement
- Collaborative engagement

Escalation steps and timeframe

1. Formal engagement letter with requests
2. Identification of supporting investors via private/public letter
3. Proxy Voting (resolutions, directors, remuneration, for example)
4. (Co-)filing of resolution
5. Public statement
6. AGM stance
7. Litigation

Timeframe for divesting: 3 consecutive years (in which different escalation steps can be taken) of 'no/unsatisfactory progress' defined as:

- **Letters:** no implementation of the requests; and/or,
- **Support:** no identification of key investors/initiatives; and/or,
- **Proxy Voting:** no change of Chairman, no remuneration rejection or board/nomination committee opposition;
- **AGM stance:** no slot offered at AGM; and/or,
- **Resolutions:** No flagging of resolution, No solicitation of proxy providers, No (co-)filing possible, No significant increase in shareholder supporting the resolution (if filed), No implementation of shareholder proposals receiving majority vote

Introduction

This document represents the Engagement Policy of Degroof Petercam Asset Management (DPAM), a subsidiary of the Degroof Petercam group, validated by the Management Board in March 2025. It revises the initial 2016 version and is uniformly applied to all DPAM-managed investment funds across diverse asset classes, including indexing strategies.

Engaging with an issuer – be it a company or a country's representative - either through proxy voting or direct engagement in individual or collaborative initiatives allows us to defend our values and convictions, spread best practice and innovative solutions to ESG challenges and helps to mitigate the negative impact of our investments. As a pioneering sustainable investor, our objective is to integrate financial and sustainable performance and to have a positive contribution in fostering sustainable and inclusive growth so that our clients, stakeholders and society as a whole can thrive.

To uphold best practice, DPAM relies on reputable principles and guidelines including the International Corporate Governance Network (ICGN) Governance Principles, the UN Global Compact's 10 Principles, the OECD guidelines for multinational enterprises, the United Nations' Sustainable Development Goals, the OECD Due Diligence Guidance for Responsible Business Conduct, the Principles of Responsible Investment and recommendations from the Task Force on Climate-related Financial Disclosure (TCFD).

This document outlines DPAM's vision of effective and sustainable investing. It aims to optimise our positive impact for the benefit of society. This Engagement Policy aims: (a) to reduce the negative impact of our investment; and (b) to defend our values and convictions on the environment and social and governance issues. It highlights why we engage and our choices on which topics to prioritise. It explains the engagement process and its expectations in terms of progress from investee companies. It also includes details on means, channels and potential escalation. It makes clear how transparency is at the heart of our engagements.

I. Why do we engage with companies and countries?

DPAM's Mission

At DPAM, we aim to continuously improve our excellent track record of outstanding financial results through our in-house expertise, active investment approach and systematic ESG integration.

However, our investments and activities go beyond financial performance. Our principles push us to combine financial objectives with our role as a pioneering sustainable actor. They help us to provide an optimal service to our clients and to create a long-lasting, meaningful societal impact.

Through our people, our ambition, our culture and our investment principles, we will continue to champion our commitment to active management, sustainable values and in-depth research.

Sustainable and responsible investor

Being a sustainable and responsible investor goes beyond offering responsible products; it is a global commitment at company level, ingrained in everything we do, which can be defined in a coherent approach.

Looking beyond financial profit

First and foremost, being a sustainable and responsible investor involves raising key questions about the consequences of DPAM's investment activity in a global context. This means looking beyond pure financial profit and taking into account all stakeholders, while considering the consequences of each investment in companies and countries. Raising questions, relying on experts, sharing information, and engaging with a positively critical mindset has imbued DPAM professionals with a sense of responsibility and has pushed them to consider the consequences of their decisions to the best of their abilities.

Reducing the negative impact of our investments

Every investment carries an impact, whether positive or negative. Thus, it is crucial to assess the potential harm associated with our investments and actively engage with investees (companies or countries). By mitigating the negative impact, we contribute to an overall increase in the net positive impact on society.

Expressing our opinion, defending our key values and convictions and positively impacting companies & countries

DPAM embraces its social responsibility as a shareholder and investor by actively voicing opinions on company management, adopting a voting policy, and participating in shareholder meetings. It works to ensure companies follow best practices in corporate responsibility and protects the rights of shareholders and stakeholders through dialogue and engagement.

Beyond companies, DPAM engages with governments to promote green finance, viewing this as a way to drive sustainable development. By encouraging both companies and countries to address their activities' negative impacts, DPAM supports a shift toward sustainability as a foundation for a resilient global financial and economic system.

Through its investments, operations and strategies, DPAM creates an impact. Our aim is to make the impact as positive as possible. In our SRI policy and controversial policy, we have defined key topics we engage on.

E

Environment - Climate risk

- Net Zero – alignment with Paris Agreement
- Focus on Scope 3 emission reduction

Environment - Biodiversity

- Assessment & disclosure of biodiversity dependencies and impacts
- Board oversight & integration of biodiversity into overall corporate strategy
- Setting science-based targets

S

Social and human rights infringement

- Digital rights
- Due diligence on social risks in supply chain
- Conflict-Affected and High-risk areas
- Unionization and Union busting

G

Corporate Governance and Corporate Taxation

- ESG Board oversight
- Integration of ESG risks into the enterprise's risk management
- Board composition
- Tax Equity and Avoidance

Controversies

- Controversy level 3 (with negative outlook) and level 4: repeated and/or severe ESG controversies (e.g., including human rights or labor rights violations

Promoting ESG best practice through Voting at Companies

- Remuneration
- Separation of CEO/Chairman roles
- Independence of the board of directors
- One-share, One-vote, One-dividend
- Anti-takeover
- Climate change

Through its own policy, DPAM aims to increase its net positive impact to see our clients, stakeholders and society as a whole thrive.

Controversies

DPAM adheres to the ‘do no significant harm’ principle, implementing checks and engaging with companies to address controversies. The SRI Steering Group oversees DPAM's commitment, reviews and decides on engagement or divestment to promote sustainable practices and guides issuers toward inclusive growth through sector-specific reviews.

Priorities

We evaluate companies based on the allegations they face regarding ESG controversies, i.e., corporate controversial behaviour, as these controversies serve as crucial indicators of the effectiveness of ESG-related policies and programs. Companies facing controversies or scandals may be exposed to financial and reputational risks, necessitating a reactive engagement to comprehend the situation and to gain clarity on the remedial measures required.

DPAM's **'Active, Sustainable, Research'** process, conducted by the Responsible Investment Competence Center (RICC) team in collaboration with the research and portfolio management teams, involves analysing Sustainalytics' methodology's **'controversy level 4'** and **'controversy level 3 with negative outlook'**, as these levels pose significant risks.

Internal research is conducted on companies falling into category 4 and category 3 with a negative outlook. During this research, **the portfolio manager or the relevant sector analyst collaborates with the Responsible Investment (RI) Specialist** to scrutinise the issues in detail. It is important to note that any investment in companies facing a level 5 controversy is prohibited in our sustainable strategies and article 8 funds.

For this, DPAM **leverages various sources**, including MSCI ESG Research, Sustainalytics, brokers, and external experts, among others.

Every month, a specific sector undergoes a review according to this process, further referred to as the **'Periodic Controversial Behaviour Review'.**

Nevertheless, **ad-hoc cases** can also be discussed, following relevant evolutions linked to the controversial behaviour of reviewed cases or whenever new cases arise.

DPAM's **Controversial Activities Policy** reinforces its commitment to avoid controversial activities and behaviour, explicitly excluding sectors like tobacco, thermal coal, and nuclear weapons. The controversial activity policy also discusses DPAM's stance on other activities, such as unconventional and conventional oil and gas, GMOs, palm oil and democratic requirements, for example.

Means

Periodic controversial behaviour review

Conducting an in-depth analysis of important controversies is essential to ensure informed investment decisions while identifying broader investment risks for both sustainable and traditional portfolios. This process may involve engaged dialogue with company executives, either before or after the assessment, to gain additional insights or foster knowledge exchange.

Following the completion of the ESG controversy analysis, a report is presented to the SRI Steering Group. The report adheres to a structured template to ensure all relevant aspects are addressed and a clear outcome is communicated.

- **In case of ineligibility**, all investment professionals at DPAM are informed on the issuer and details of its ineligible status within sustainable funds and so-called article 8 funds. The company might be notified of its ineligibility.
- **In case of eligibility with an engagement,** engagement letters are written in collaboration with portfolio managers, buy-side analysts and responsible investment specialists. The goal of sending the engagement letters is to better understand the controversy that the company is facing, as well as its response to the issue.

Typically, DPAM conducts individual engagements as the primary approach. However, if collaborative initiatives related to the issuer and the controversy have already been identified, DPAM assesses the potential to participate in these joint efforts to enhance effectiveness. The **engagement process** commences with an initial contact, during which DPAM raises questions, expresses concerns and outlines a preliminary list of expectations and objectives for progress.

The issuer is then invited to acknowledge these concerns and respond with answers and guidance regarding the expectations and objectives.

Ad-hoc controversial behavior 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.)

Names under review are highlighted during the monthly SRI Steering Group meetings, in addition to the periodic review.

Promoting ESG best practices through voting

DPAM's voting policy offers an overview of the guidelines that are applied to the bulk of cases. Additionally, the annual voting activity report provides an overview of major voting trends.

The Voting Advisory Board, the official body overseeing DPAM's strategic framework for responsible ownership, has implemented an engagement process with voted companies to both inform them about our voting instructions and influence them by raising awareness of DPAM's voting policy principles, namely:

- **Safeguarding shareholders' interests** to foster long-term value and uphold equal treatment of shareholders, with a focus on protecting minority shareholders according to the principle of 'one share, one vote, one dividend';
- **Advocating for sound corporate governance**, emphasising efficient and independent management and monitoring systems;
- **Promoting transparency and integrity of information**, with an emphasis on reliability, clarity, comprehensiveness, and timely communication;
- **Encouraging social and environmental responsibility** in companies, ensuring that human capital is prioritised and that the global environment is respected in their operations.

Priorities

- **The independence of the board of directors** is not guaranteed if its composition lacks balance. DPAM encourages companies to increase the level of independence of its committees and board of directors;
- **CEO / Chairman separation:** DPAM will systematically vote against combining the roles of CEO and Chairman of the Board;
- **Anti-takeover defenses (poison pills):** DPAM rejects any initiative that may harm the rights of minority shareholders;
- **Multiple voting rights:** DPAM is a staunch advocate of the principle 'one share, one vote, one dividend', and is therefore opposed to any initiative curtailing this principle;
- **One-share, one-vote, one-dividend principle:** Shareholders of a company must be treated equally by respecting the principle of 'one share – one vote - one dividend' in particular. In line with this principle, any measure aimed at limiting shareholders' rights (for example creating share classes without voting rights or shares with special rights) will not be supported, except if in the latter case, the proposed measure is duly documented and justified in the long-term interest of the company, to safeguard its own benefit.
- **Remuneration – Say on Pay:** DPAM believes that remuneration policy should contribute to the company's business strategy, long-term interests and sustainability. It should also explain how it does so. Long-term interests refer to alignment with long-term value creation and sustainability (ESG) as defined by the UN, OECD, the EU or local regulations. DPAM considers it necessary for companies to be transparent about their remuneration policy.
- **Say on Climate:** DPAM relies on best practice which has been previously identified by the Institutional Investors Group on Climate Change (IIGCC), for example: a net zero commitment or ambition; medium term targets aligned with 1.5° or a verified Science-Based Target, decarbonisation plan and external TCFD report. An overview of all criteria to assess climate transition plans and progress reports, covering both climate as well as transition alignment/readiness, can be found in our voting policy.

Means

DPAM conducts its engagement autonomously by means of a **letter sent to company executives and investor relations managers**. This increases its impact on investees' corporate governance, beyond proxy voting instructions.

Objectives and expectations

These letters have **three major objectives**. First, they aim to inform companies about DPAM's approach and raise awareness of its principles. Second, they aim to show that applying sound governance practice can reduce the risk of a company becoming dysfunctional and may improve its performance. They also highlight social, environmental and governance challenges as well as the added value of sustainable development.

Board independence:

- The functions of Chairman and CEO are distinguished;
- The appointment (or renewal) maintains a balance between executive and non-executive/independent directors on the Board of Directors;
- The candidate is presented by an independent appointment committee;
- Sufficiently detailed information is available on the candidate's profile to assess the independence of the candidate;
- The length of the mandate does not, ideally, exceed six years.
- The candidate does not hold in total more than five director mandates in listed companies (or three in the case of an executive mandate)

Commitment to greater transparency and integrity of information:

DPAM urges companies to improve **transparency in the nomination process** for directors and the **composition** of the Board of Directors to ensure balanced governance. **Timely and reliable** information before General Meetings is essential for clarity and completeness.

DPAM opposes multiple voting share classes, advocating for shareholder equality and protection of minority rights through the principle of '**one share, one vote, one dividend**.' Key recommendations include:

- Capital increases must respect the 'one share, one vote, one dividend' principle:
- Preferential subscription rights: increases should not exceed 50% of existing capital unless justified.
- Without preferential rights: increases should not exceed 10% of existing capital.
- Authorised share capital must respect the principle, with a maximum five-year authorisation period and clear justifications.
- Capital increases and share buybacks should not be used for anti-takeover purposes.
- Share buybacks must be time-limited (maximum five years) and capped at 20% of the company's shares.
- Conditions for share buybacks must be transparent and justified.

DPAM advocates for **remuneration policies** that align with a company's strategy, long-term interests, and sustainability, emphasising transparency in executive and board member compensation. Disclosure should allow shareholders to evaluate the fairness, costs, benefits and performance impact of remuneration plans.

Key elements of a remuneration policy include:

- Specific performance targets, metrics, and pay-out structures with at least two performance metrics.
- Conditions for payments to board members for extra-board activities.
- Terms for holding, trading company stock and granting/re-pricing options.
- Recovery provisions (malus and claw-back) to address managerial fraud.
- Disclosure of executive share ownership guidelines within a set timeframe.

Environment – Climate Risk

Almost all countries have committed to achieving carbon neutrality in the coming decades, which has significant economic and financial implications. From an **operational viewpoint**, this commitment would require a **complete phase-out of fossil fuels by 2050**, next to a **tripling of renewable energy** and a **doubling of energy efficiency**. From an **investment viewpoint**, it requires **considerable financing**, as global clean energy spending will need to rise **from USD 1.8 trillion in 2023 to USD 4.5 trillion annually by 2030**.

With climate-related risks and opportunities increasing, **climate change has become a focal point in current debates**, commitments, and regulatory actions, resulting in implications for investees and hence investors.

Effective corporate management entails evaluating and managing key or material environmental and social risks. Proper, transparent and integrated reporting of these ESG risks by corporates helps investors gauge their potential investment impacts, since as an investor, it is our fiduciary duty to consider these risks within the investment decision making process. Hence, it is our firm belief that companies should identify and communicate these risks to shareholders in their annual, integrated disclosures and ensure consistency between the identified risk and the financial disclosure as this allows proper integration.

This view is shared by regulators globally and is visible in strengthened national climate targets and carbon pricing mechanisms worldwide. Of particular importance is the increase of **mandatory Corporate Climate Transition Plan disclosure requirements** across various regions and countries including the EU (Corporate Sustainability Reporting Directive), US (California ahead with CA SB 253 and CA SB 261), China, and the UK (Transition Plan Taskforce). These disclosure requirements aim to ensure stakeholders receive sufficient insight into the **climate alignment** and **transition alignment/readiness** of corporates. These requirements impact the financials of corporates directly or indirectly through demand and supply dynamics.

DPAM has committed to **support the climate transition** and, since November 2018, has endorsed the **TCFD recommendations** and the subsequent **GFANZ 'Financial Institution Net Zero Transition Plan' framework**. DPAM issued its first TCFD report in 2020 (covering 2019) and has published an annual update since then, disclosing the way climate-related risks and opportunities are governed, integrated in strategy and risk management and monitored through metrics and targets.

An essential part of its integration approach is engagement. DPAM is an **active participant in collaborative initiatives** such as **Climate Action 100+, the Carbon Disclosure Project (CDP)** and the **IIGCC** and through these it has started to lead and join engagement cases on climate disclosure and performance, join collaborative working sessions and engage with stakeholders on climate-related topics.

To further elevate its commitment and align its engagement priorities with global initiatives, DPAM has joined the Net Zero Asset Managers initiative (NZAM) and enhanced its transparency through the reporting of environmental metrics. Its fifth TCFD report, detailing the progress made towards the implementation of the TCFD recommendations, is available on our website.

Priorities

Climate and environmental factors and associated risks can impact companies in various ways, either directly through operations or indirectly through supply chains or end markets. Furthermore, companies can be impacted differently under different scenarios and timeframes, something inherently linked to climate risks. Hence, sufficient climate ambition via credible reduction targets and an aligned, resilient and viable business strategy under different scenarios are key.

DPAM, with the support of all its investment professionals, has defined **science-based emissions target setting** and **corporate climate transition plan disclosures** as the focus topics to represent its environmental/climate convictions and to ensure alignment of its engagement priorities with its broader commitments.

Science-based emissions-reduction targets

Different organisations identified an ambitious climate scenario, closely aligned to a 1.5°C scenario, as most positive for the global economic health of our society (GDP impact). DPAM's TCFD Steering Committee decided to join the **NZAM initiative** and committed to support investing aligned with net zero emissions by 2050 or earlier. Hence, **science-based target** setting by investees will be the **key performance indicator DPAM prioritises** when engaging with investees on environmental matters.

Investor initiatives targeting 'net zero' portfolios can apply a variety of methodologies. Regardless of the chosen methodology, the performance of individual investees impacts the portfolio's climate performance. Hence, active ownership or corporate engagement to **incentivise investees to embark on credible, science-based emission-reduction paths** is considered key when committing to net zero. As stipulated in the NZAM 10-point commitment plan, investors commit to:

'Implementing a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition to have all assets under management achieve net zero emissions by 2050 or sooner.'

To increase credibility, emissions targets must be externally validated. Although preference is given to the Science Based Targets initiative (SBTi), given its international recognition, any target validation process indicating alignment with the Paris Agreement (i.e., 1.5°C scenario) and sectoral decarbonisation pathways (if available), is deemed relevant and appropriate. This also entails credible scope 3 targets when deemed material for the company:

The focus on scope 3 emissions reinforces the disclosure of the portfolios' carbon footprint and allows for better control and monitoring of the climate risk exposure of DPAM's portfolios.

Note that DPAM has committed to systematically calculating the net zero alignment of the SFDR article 8 and 9 investment funds. Sovereign bond investments are excluded due to the absence of a target methodology. Mandates are not yet part of the scope as these are subject to client agreements and dependent on clients and managers' regulatory environments. Based on this, DPAM's TCFD Steering Committee will develop possible actions for the portfolios or investees which fail this exercise. Actions could include but are not limited to: engagement with companies which are falling behind in the transition, with a particular focus on both science-based target setting and scope 3 emissions as described above.

Corporate climate transition plans

For the last few years, companies have been stepping up their climate ambitions, notably by **moving from self-declared climate targets to validated science-based emission reduction targets**. However, according to CDP assessments covering 2022 disclosures, of all companies with a validated science-based target, only one fifth is on track to meet its target, and many have not provided a clear roadmap to reach the target. Setting time-bound, science-based targets is a step in the right direction, **but real-economy, absolute emissions reductions must be the focus**. Climate change impacts how companies operate due to the shifting environmental landscape (i.e., physical climate risks) and evolving (consumer) expectations, technological developments and regulations surrounding climate related issues (i.e., transition risks). Therefore, climate change presents financial, reputational and regulatory risks. Furthermore, these risks can shift under different scenarios and timeframes, something inherently linked to climate risks. Hence, as investors we need to assess if our investees are aligned with these evolving expectations and regulations, and to what extent they have resilient and viable business strategies under different scenarios.

Disclosure criteria to **assess the credibility and feasibility** of companies' reduction pathways are key to assess broader investment risks.

Note that transition plan disclosure expectations and regulations have been evolving significantly throughout the world, such as the disclosure requirements within the CSRD regulation.

Means

Our engagement actions on science-based target setting, including climate-related supply chain risks (i.e., scope 3) and corporate climate transition planning are guided by the RICC in close collaboration with the relevant portfolio managers and/or buy-side sector analysts. To facilitate the process and to define appropriate engagement expectations, DPAM relies on internal and external sources, including but not limited to:

Internal DPAM **TCFD assessments and dashboards** (issuer & entity level) to track the performance of investee companies and to define priority companies. Scope of the dedicated climate-risk assessments which might result in targeted engagement or engaged dialogues:

- Top 5 emitters of each SFDR article 8, 8 with partial investment in sustainable investments and 9 fund.
- Top 30 positions in terms of DPAM NAV.
- Top 20 positions in terms of DPAM ownership.

Snapshot investee level framework, combining SBT with transition plan disclosures:

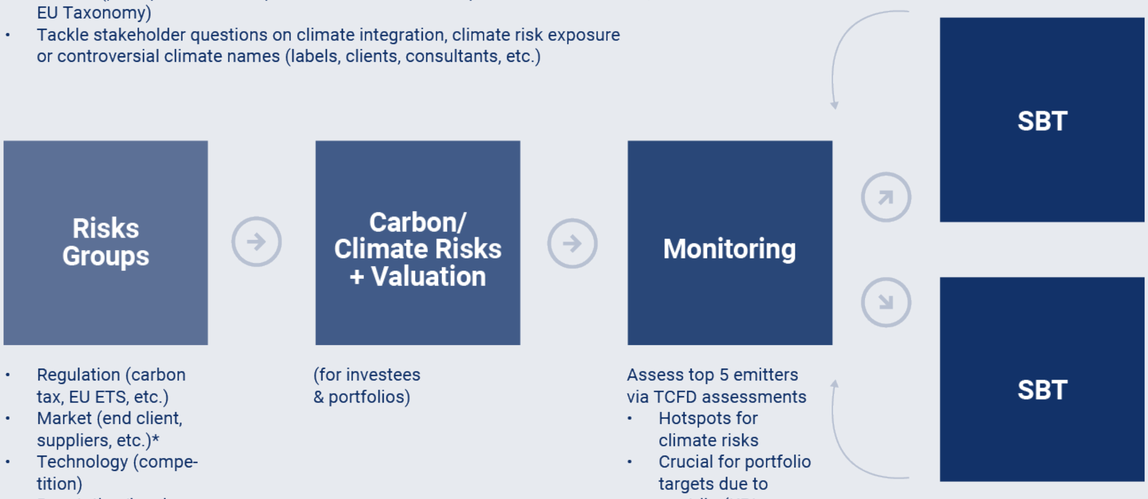
Research

- Enhancing integration in fundamental research in a standardized manner
- Assessing/quantifying the intangible ‘climate risk’ by combining different data sources/points, ultimately with clear outcome for PMs (reputational risk, financial risk, strategic positioning, outcome)

Portfolio Management

- Making the link with carbon/SBT KPI in Prospectus (art. 8+/9 funds) and Net Zero commitment
- MiFID ii (principle adverse impact consideration ▸ multiple climate-linked KPIs, EU Taxonomy)
- Tackle stakeholder questions on climate integration, climate risk exposure or controversial climate names (labels, clients, consultants, etc.)

YES, but achievable?
(Rep./ligit. Risk**), no techn.
or market risk due to transition?



- Regulation (carbon tax, EU ETS, etc.)
- Market (end client, suppliers, etc.)*
- Technology (competition)
- Reputation/legal (litigation)

(for investees & portfolios)

Assess top 5 emitters via TCFD assessments
- Hotspots for climate risks
- Crucial for portfolio targets due to contrib. (KPI prospectus + Net Zero target + EU Tax)

NO, but carbon risk managed?
Issue for reaching KPI in Prospectus and Net Zero target***? EU Tax. exposure?
MiFID II concern? Valuation concern? ****

How do we define our engagement list?

The engagement list is derived from our monitoring list

Monitoring list

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

Companies from the monitoring list that do not meet the criteria below, are put onto the engagement list

Engagement list

- No SBTi.
- Carbon performance OFF track.
- Collaborative engagements.
- **CDP questionnaires** (climate, water, forests) and **campaigns** (for example, the annual 'Non-Disclosure Campaign' and 'Science-Based targets Campaign');
- **Climate Action 100+** and **IIGCC supporting material, working groups** and **engagement actions** (for example, the Net Zero Corporate Benchmark engagement and Investor Expectations of Corporate Transition Plans);
- **Thematic research providers and NGOs** (for example, FAIRR, Transition Pathway Initiative, FollowThis);
- **Extra-financial data providers** (Trucost, Sustainalytics, MSCI);
- **Broker research**.

More information on the monitoring and assessment framework applied at issuer, portfolio and entity level can be found in DPAM's TCFD report, available on our website.

DPAM will engage through written correspondence, conference calls or in-person meetings, following the process detailed in the 'Engagement for a Better Understanding of the Sustainable Profile of Companies' section.

Voting activities

We defined an approach to apply a more targeted approach within our voting activities. Following internal assessments and dashboarding tools to assess the performance of our investees on the principles of proper climate risk management, integrated accounting, aligned remuneration and executive oversight and accountability, case-by-case voting escalation actions can be taken:

Topic	General (overall)	Accounts	Remuneration	Oversight/ expertise
Rationale	Escalation due to general unsuccessful engagement or progress (collab & indiv)	Escalation due to unsuccessful engagement or progress concerning capital alignment or risk management (insufficient disclosure/consideration)	Escalation due to unsuccessful engagement or progress concerning linking remuneration with climate target or climate-conflicting incentives.	Escalation due to unsuccessful engagement or progress concerning Board or executive oversight or expertise on climate
Voting cascade	1. Chairman* 2. Directors*	3. Chair Audit Committee* 4. Annual Report/Accounts 5. Auditor*	6. Chair Remuneration Committee* 7. Remuneration policy 8. Remuneration report	9. Chair Nomination Committee* 10. Chairman** 11. Directors££
Follow-up	-Letter to Board -Letter to company	-Letter to Audit committee Letter to Auditor Letter to Board Letter to company	Letter to Remuneration Committee Letter to Board Letter to Company	Letter to Nomination Committee Letter to Board Letter to company

*Only re-election votes
**New nominees in case already missing expertise in Board + no additional insights.

Refer to the voting policy for further information.

Objectives and expectations

The objectives of engagement are mainly:

- To **increase awareness** and **formulate concrete expectations regarding SBT** setting by investees, and to ultimately increase the number of investees with validated SBTs or the equivalent. In addition, our engagements aim to facilitate research to gain insight into companies' approaches and plans to reach these targets;
- To **increase awareness** and **formulate expectations regarding the importance of scope 3 disclosure, monitoring** and **reduction** actions (in support of and in addition to our engagement actions via Climate Action 100+ and the CDP's Non-Disclosure Campaign). This includes, but is it not limited to:
- Scope 3 emission reduction targets, where material;
- Disclosure of scope 3 emissions;
- Monitoring and measuring of supply chain emissions;
- Including environmental (emissions) criteria in supplier selection and supplier engagement;
- Substituting and/or reducing carbon-intensive supplies and replacing these with other, low-carbon solutions; public commitments to tackle deforestation.
- To **increase awareness** and **formulate expectations regarding the importance of credible Corporate Climate Transition Plan disclosures**. Aligned with international regulation and investor expectations, this includes, but is not limited to:
    - **Ambition**, including short-, medium- and long-term target setting with external validation and broader supply chain commitments;
    - **Action**, including a detailed decarbonisation plan with associated capital allocation and accounting practices under different scenarios and timeframes in addition to performance disclosures;
    - **Accountability**, including governance oversight & responsibilities, remuneration alignment, policy engagement calibration and integrated reporting.

Environment - Biodiversity

The interplay between ecosystem health and the planet's capacity to address climate challenges underscores the urgency of addressing biodiversity loss. Therefore, biodiversity is increasingly seen as a key pillar of global sustainability, with halting and reversing biodiversity loss becoming a central focus of investment strategies. The Kunming-Montreal Global Biodiversity Framework (GBF), adopted at COP15 in 2022, establishes an ambitious global roadmap to achieve harmony with nature by 2050. Often referred to as the Paris Agreement for Nature, the GBF includes 23 actionable targets for 2030. Some targets directly refer to the private sector and emphasise the urgency of integrating biodiversity considerations into financial decision-making.

This growing focus on biodiversity is also reflected in adopted regulatory frameworks, such as the European Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), particularly ESRS E4 where companies will need to report on Biodiversity and Ecosystems. These standards align with the Taskforce on Nature-related Financial Disclosures (TNFD), offering a voluntary disclosure framework to assess and act on nature-related dependencies and impacts.

DPAM acknowledges the material risks and opportunities presented by biodiversity loss and has committed to adopting TNFD recommendations, with the first TNFD-aligned disclosures planned for the financial year 2025. As an Early Adopter of the TNFD framework, DPAM seeks to expand its reporting on nature-related risks and dependencies, thereby providing a comprehensive view of its environmental impact.

Recognising the critical role of the financial sector in reversing biodiversity loss, DPAM became a signatory of the Finance for Biodiversity Pledge in December 2020. As a signatory, DPAM commits to:

1. Collaborate and share knowledge with peers to advance biodiversity practices.
2. Engage with investees to assess and manage biodiversity risks and opportunities.
3. Set and disclose biodiversity targets in line with science-based approaches.
4. Align investments with biodiversity goals, including the Kunming-Montreal GBF targets.
5. Publicly report on progress made toward biodiversity commitments.

Priorities

Double materiality considerations are crucial when determining priorities for addressing biodiversity loss. Businesses must consider both their dependencies on biodiversity loss to determine potential financial impacts on their operations. On the other hand, businesses have a responsibility to minimize harm to ecosystems and contribute to their restoration. After selecting a data provider to facilitate the exercise of measuring impacts and assessing dependencies, DPAM has performed an initial assessment to identify exposure to sectors with significant nature-related risks derived from impacts and dependencies. This assessment forms the starting point for risk identification and the prioritisation of specific industries. The impact assessment is based on four drivers of biodiversity loss (climate change, pollution, resource depletion and land use) and the dependencies assessment is based on 24 ecosystem services.

Means

DPAM's engagement strategy on biodiversity is guided by the RICC in collaboration with portfolio managers and sector analysts. Leveraging internal and external resources, DPAM adopts a data-driven and collaborative approach to define priorities and monitor progress.

Key resources and tools:

- Data providers and thematic research (e.g., ISS, CDP, FAIRR, Planet Tracker, Forest 500).
- Collaborative initiatives such as Nature Action 100.
- NGO campaigns and extra-financial data from VBDO, Planet Tracker, PRI
- Broker Research

Objectives and expectations

Assessment and disclosure of nature-related impacts and dependencies: Investee companies are expected to assess and publicly disclose their nature-related dependencies, impacts, risks, and opportunities at the operational level and across their entire value chain. These disclosures should align with the Taskforce on Nature-related Financial Disclosures (TNFD) framework and ESRS E4 guidelines, ensuring transparency and comparability.

Board oversight and management accountability: Companies should establish board-level oversight of biodiversity-related matters and disclose governance structures responsible for addressing biodiversity impacts, risks, and opportunities. Effective governance ensures biodiversity is embedded into long-term business resilience and strategies.

Science-based and time-bound targets: Investee companies should commit to measurable, time-bound biodiversity targets aligned with the Kunming-Montreal Global Biodiversity Framework and supported by methodologies such as the Science Based Targets for Nature (SBTN). Expanding on the Science Based Targets initiative (SBTi) for climate, the SBTN provides guidance to set measurable targets and for addressing impacts on biodiversity, freshwater, land, and oceans. Recent developments include pilot projects and tools to guide adoption, though challenges such as scaling, data availability, and integration remain.

Nature transition planning: Investee companies should develop Nature transition plans on how to achieve targets and to integrate nature-positive practices that align with global biodiversity goals. While progress is seen in corporate commitments and tools for nature-related assessments, challenges like consistent data and cross-sector collaboration remain.

Social and human rights infringement

DPAM's sustainable credit and equity strategies are assessed via compliance with global standards and non-compliant companies are excluded from investment.

DPAM applies the UN Guiding Principles on Business and Human Rights (UNGPs) to its investments. The **UNGPs** is a **set of 31 principles** represented in a framework. They are widely supported and adopted by states, regional institutions, and multilateral organisations, and are a focal point for policy convergence. Legislative proposals, both on national and international levels use the UNGPs to establish rules around disclosure.

The Guiding Principles are based on:

1. **The State's Duty to Protect Human Rights**: States are required to protect against human rights abuses by third parties, including businesses, through appropriate policies, regulation, and adjudication;
2. **The Corporate Responsibility to Respect Human Rights**: Businesses should respect human rights, which means avoiding infringing the rights of others and addressing the adverse human rights impacts with which they are involved. This principle emphasises the need for due diligence processes;
3. **Access to Remedy**: Both states and businesses must provide effective access to remedies when human rights abuses occur.

In addition to the UNGPs, the **OECD Guidelines** for multinational enterprises on responsible business conduct, is the second framework used as a source for DPAM's approach to human rights.

On the sovereign side, for DPAM's sustainable sovereign bond investments, non-democratic countries are ineligible for investment. Transparency and democratic values are at the heart of DPAM's proprietary sustainable country model.

Priorities

Social factors and human rights are broad topics and cover various activities and ways of operating.

DPAM, with the support of all its investment professionals, has defined digital rights, due diligence on social risks in supply chains, conflict-affected and high-risk areas, and workers' representation as the focus topics to represent its social convictions.

Digital rights

DPAM is convinced that data is an economic driver and resource for innovation. Personal data is becoming increasingly valuable for companies. It allows companies to get more feedback and broaden their scope to improve products and services. It is a key element of the fourth industrial revolution and requires full integration in companies' strategies. To ensure the responsible use of data, regulation is increasing over the world, not only with the GDPR Directive but also the EU's Digital Services Act and the Digital Markets Act, which have been a pioneering gamechanger in this regard. Businesses must take this issue seriously due to its impact on corporate reputation, finance and innovation potential as well as for regulatory reasons.

Assessing company practice on digital rights is still difficult due to a lack of standardisation. The emergence of new applications and the development of new technologies, such as facial recognition technology or the expansion of other AI applications, makes respecting these rights even more complex. Digital rights mean **all human rights in a digital environment**. This definition is quite broad, which is why these rights tend to focus on distinct issues. These include - among others - the rights to privacy, freedom of expression and internet access.

Due diligence on social risks in supply chains

The covid pandemic and emerging geopolitical pressures, have revealed the importance of resilience and sustainability. Supply chain resilience analysis focuses on a company's ability to face external shocks, while a sustainability analysis looks at the social impact of the product and service lifecycle and how best to align this impact with global sustainability challenges.

Supply chain sustainability management tends to be seen – erroneously – as the costs and risks relating to a company's operation. However, choices made at the level of the supply chain can impact the risks but also the opportunities for a company and unlock opportunities for innovation and greater labour productivity. Regulation on supply chain responsibility has increased over the last decade and includes: the recent German Supply Chain Due Diligence Act, the French Corporate Duty of Vigilance Law (2017), the UK Modern Slavery Act (2015) and the California Transparency in Supply Chain Act (2010) to name a few. At the end of 2023, the European institutions agreed on the details of the Corporate Sustainability Due Diligence Directive, which reiterated the responsibilities of corporates over their supply chains.

However, subcontracting has resulted in complex supply chains and diluted ESG risks. Yet, this is not an excuse for inaction - which is why DPAM makes this topic an engagement priority. Ensuring that companies have full knowledge of the impact on human rights and social risks when making supply chain decisions is our focus for managing social risks in supply chains.

Conflict-affected and high-risk areas

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. Indeed, conflict-affected and high-risk areas tend to be marked by systemic and widespread human rights abuses. These abuses might affect people residing, working, conducting business, and investing in these areas, and should receive greater scrutiny from companies active in these areas. 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, such as the UNGP's or OECD Guidelines.

Worker's representation

Companies that ensure their employees' voices are heard through proper representation, often see improved job satisfaction and productivity, leading to superior financial results. Moreover, incorporating worker representation into sustainability assessments allows companies to better manage social risks, such as labour disputes, which can significantly impact their reputation and investor appeal. This approach is increasingly important due to the global resurgence in the popularity of unions and collective bargaining. The International Labour Organisation, for example, has noted a renewed interest in unionisation, with countries like the United States witnessing a significant rise in union election petitions, which have increased by over 50% in 2021 compared to the previous year. Approval ratings for worker unions, in the US, are at their highest point over the last 50 years. This trend underscores a growing global movement towards greater worker rights and representation and these organisations are tools to mitigate social risks and channel worker dissatisfaction in a productive manner.

Means

DPAM employs a comprehensive approach, combining data-driven input and qualitative analysis to understand investee companies and engage effectively.

DPAM has defined five high risk sectors that are the most prone to human rights and social infringements. Every quarter, DPAM analyses companies in a sector and flags those that are in the bottom 40% of the WBA Human Rights Benchmark, or in the bottom 20% of an industry-specific ranking or which have a social controversy level above 2.

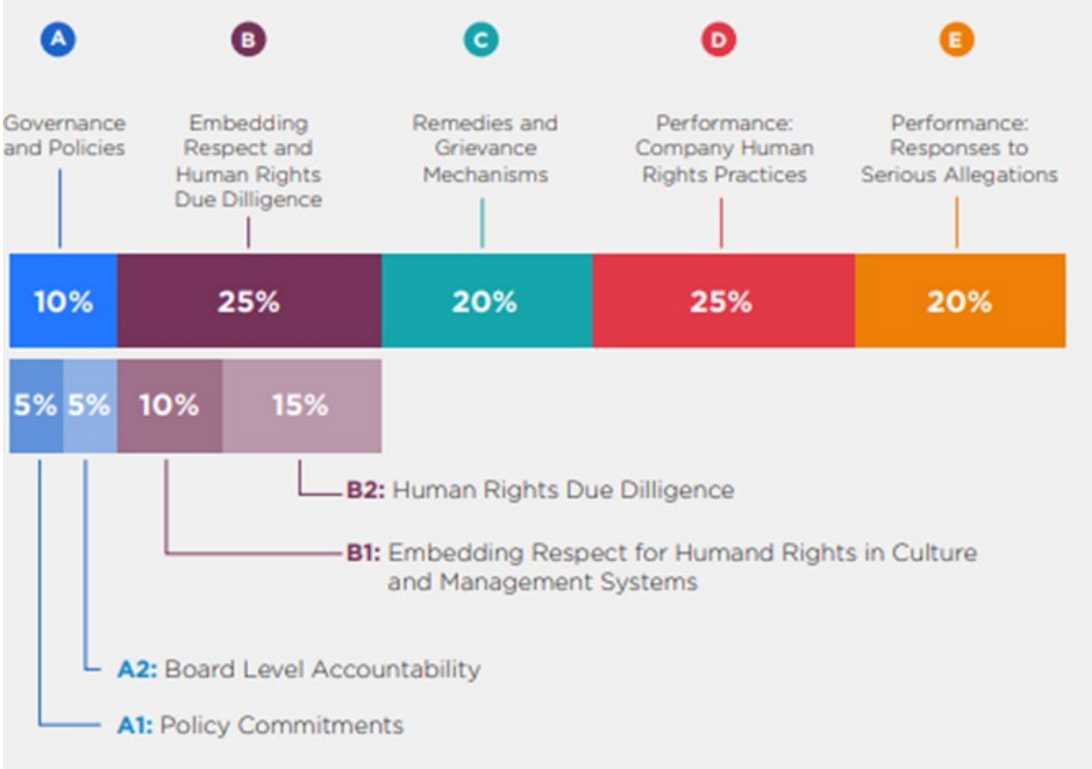
For all companies flagged, a **company specific scorecard** is drafted by the RICC. This scorecard will focus on two distinct elements. First, a **deep dive on the reason why the company was flagged**, be it either a controversy or a lack of disclosure. Second, **assess if a company effectively handles a controversy case** or should improve its business practices on due diligence. The scorecard is set up by the RICC, discussed with the relevant sector analysts, and presented to the portfolio managers with an exposure to the companies with a scorecard. After this discussion with the portfolio managers the scorecard can result in 3 different outcomes:

- The company's human rights risks are properly managed by the company
- The company's human rights risks are not properly managed by the company, an official engagement is needed
- The company's human rights risks are not properly managed by the company and therefore a divestment is warranted

Voting activities

As part of the engagement process, we can propose to vote against the CEO/Chairman and/or the compensation committee/remuneration report, and/or other relevant agenda items before considering divestment from the company.

Corporate Human Rights Benchmark



In addition to this method, we also steer our voting instructions based on the Corporate Human Rights Benchmark by the World Benchmarking Alliance (WBA). This benchmark receives an annual update and covers 200 companies. We consider pillar B2 of the analysis to be key, which focusses on Human Rights Due Diligence processes. These processes serve as the leading indicator for preventing major controversies and ensuring compliance with global standards. Hence, we will vote against the CEO/Chairman of the board and/or other relevant agenda items if the company scores a 0 on the B2 pillar of the Corporate Human Rights Benchmark analysis.

The WBA will change the scope of the Corporate Human Rights Benchmark and will carry-out a more in-depth analysis of its Social Benchmark. Therefore, DPAM will likely use the due diligence section of the Social Benchmark in the future.

ESG integration in sustainable and responsible investment strategies

Identify high-risk sector prone to human rights infringements

- Mining & extractives
- Agriculture & food retail and production
- Infrastructure & construction
- Textile & garment production and retail
- Digital platforms & telecommunication companies

Identify at risk companies for each high-risk sector

- Social controversy level above 2
- OR
- Bottom 40% of the World Benchmarking Alliance human rights benchmark
- OR
- Bottom 20% of a specific industry ranking

Deep dive analysis of at-risk companies

Consider that the company properly manages and mitigates the risk

OR

Engage with the company to encourage applying industry best practice to mitigate the social risk

- Divest due to decreased conviction
- Increased conviction after positive engagement

Engagement priorities

- Digital rights
- Supply chain due diligence
- Conflict affected and high-risk areas
- Workers' representation

Collaborative engagement that enforce the engagement priorities

Facial Recognition: Investors define best practice
World Benchmarking Alliance
Investor Alliance for Human Rights
PeaceNexus
Heartland Initiative
advance

High-risk sectors for human rights infringements

- Digital platofrms & telecommunication companies
- Mining & extractives
- Agriculture & food retail and production
- Infrastructure & construction
- Textile & garment production and retail

Sources to identify issues in high-risk sectors

Ranking Digital Rights
KnowTheChain
Sustainalytics
World Benchmarking Alliance
PLWF
Fashion Transparency Index

Objectives and expectations

Digital rights

- To raise awareness regarding company accountability in data privacy such as setting up a process to effectively check compliance and ensure protection for individuals with relevant policies and procedures, clear risk assessment and monitoring and verification mechanisms, for example;
- To address the increased expectations of individuals for transparency, control and the exchange of value;
- To consider data privacy experts and their positioning in the organisation;
- To be able to assess security processes and the robustness of company tools;
- To increase the culture of data privacy and cyber security in general, notably to get a view on training and best practice, on the implementation of dedicated programs and the adherence to international standards.

Due diligence on social risks in supply chains

- To commit to and implement the UN Guiding Principles on Business and Human Rights, adapted to the company context.
- To promote long-term and good relationships with suppliers;
- To help companies understand the ESG impact of the lifecycle of their products and to increase awareness regarding the integration of the lifecycle in the investee companies' responsible supply chain management;
- To increase prevention mechanisms against modern slavery;
- To encourage adoption of optimal systems to control the commitment to sustainability from suppliers;
- To encourage companies to conduct on-going impact assessments to identify human rights risks in their operations and supply chains and to address how these findings are incorporated into programs and remediation plans;
- To encourage companies to disclose regular reporting on adequate management of these risks including short and long-term anti-trafficking goals, timeframes for implementation, performance against these goals, an audit process and results, accountability measures and the percentage of high-risk factories and/or countries of operation within a company's supply chains (source ICCR).

Conflict-affected and high-risk areas

- Assess the legality of business operations in accordance with UN resolutions and international law, ensuring alignment with the principles of the UN Charter.
- Promote corporate accountability by urging companies to comply with international law and UN guidelines.
- Encourage companies to conduct heightened human rights due diligence, addressing potential violations as outlined in the UN Guiding Principles on Business and Human Rights.
- Emphasise the importance of companies respecting the internationally recognised borders and sovereignty of the occupied territory.
- Discourage companies from engaging in activities that exploit the resources or labour of the occupied territory.
- Encourage constructive dialogue between companies, local communities, and relevant authorities, fostering cooperation to address concerns and promote adherence to international law.

Unionisation and union busting

- **Promoting fair labour practices**: Advocating for fair treatment of workers and encouraging companies to establish and uphold ethical labor standards.
- **Ensuring employee representation**: Supporting the establishment of mechanisms for workers to voice concerns and working towards creating avenues for employees to be part of decision-making processes.
- **Risk mitigation**: Identifying and addressing potential labour-related risks within the supply chain and minimising the likelihood of labour disputes and disruptions.
- **Enhancing corporate reputation**: Aligning with socially responsible practices to bolster the company's image and demonstrating commitment to ethical and responsible business conduct.
- **Improving long-term performance**
- **Legal compliance**: Ensuring compliance with labour laws and regulations related to unionisation and collective bargaining and mitigating legal risks associated with potential violations.

Corporate governance and corporate taxation

Governance covers a broad range of corporate activities including board and management structures as well as a company's policies, standards, information disclosure, auditing and compliance.

DPAM is convinced that ESG factors present significant opportunities and associated risks. Companies that excel at identifying and **incorporating these issues into their strategy** have a competitive edge which creates sustainable value in the long term.

Priorities

It is essential that ESG is at the heart of the boardroom's discussion and debate.

In line with TCFD recommendations, and extending beyond a narrow focus on environmental risk, companies should be urged to **adopt a robust governance framework** to **assess and address potential risks and opportunities arising from ESG challenges**. This involves evaluating how ESG risks are integrated into the enterprise's risk management processes and how these risks are deliberated by the Board. The Board's proactive approach to anticipating ESG risks, including skill assessments, training initiatives and assigning specific responsibilities for ESG challenges, is essential.

This first requires an **agreement on the definition of the ESG factors** that shape the overall impact of the company's strategy. Through this exercise, the board can assess strategic ESG risks and opportunities relevant to the company and deliberate on their integration into the business strategy. Articulating the company's purpose beyond profitability and clarifying its role in society is crucial and should come from the board, which bears the responsibility of representing the intergenerational duty of the company.

DPAM, through board oversight, aims to ensure that the **board is appropriately composed and structured to oversee and monitor ESG aspects** within the context of its strategy and long-term value creation. In terms of governance, regulatory requirements to implement minimum safeguards have prompted us to enhance our scrutiny over controversies, incidents and scandals to which issuers may be exposed. Furthermore, the shift from a shareholder supremacy model to a stakeholder governance model underscores the concept of a company's 'mission' towards society, sparking valuable discussions on the delicate balance within the corporate governance landscape.

Another crucial governance aspect highly valued by DPAM is the matter of **tax equity and avoidance**. Despite some limited initiatives from sustainable finance actors, it remains a complex and challenging topic.

Over the past few years, efforts at OECD, G20, and EU levels have started yielding results. By the end of 2021, a landmark agreement was reached by 136 countries, imposing a minimum tax rate of 15% on corporate profit. At the EU level, the EU public Country-by-Country Reporting Directive took effect in June 2024, making it more challenging for large multinational companies to optimise their tax basis within the EU. While many countries grapple with reducing fiscal deficits, the mitigation of tax optimisation will remain a governmental priority in the coming years. **Tax transparency and fairness are high-priority concerns for DPAM**, its portfolio managers, and research teams due to their significant materiality. DPAM has established a progressive and evolving approach designed to track companies' progress in these areas, based on the belief that engagement can promote responsible practice in the tax domain.

DPAM employs **various metrics to gauge tax transparency,** involvement in tax controversies, the estimated corporate tax gap, and the level of confidence in the estimates. This helps DPAM **identify companies engaged in aggressive tax optimisation**. DPAM consistently verifies the rationale behind the inclusion of companies on the list and retains the right to add or remove companies when identifying a taxation risk or detecting incorrect estimates used to compile the list. Subsequently, DPAM formulates engagement questions to be directed to company management, aiming to encourage good practices in tax transparency and fairness. In this process, DPAM refers to the **GRI 207: Tax 2019 standard**, the first globally applicable public reporting standard for tax transparency, setting expectations for the **disclosure of tax payments on a country-by-country basis**, along with tax strategy and governance. This standard is designed to enable organisations to better understand and communicate information about their tax practices publicly. When framing engagement questions, DPAM checks whether the company has published a Tax Strategy document, whether it is already reporting on taxes using the GRI 207: Tax 2019 standard, and/or whether this Tax Strategy is already aligned with these standards.

By highlighting the gaps between companies' practices and good practice and engaging with them, DPAM encourages companies to enhance their practices regarding tax transparency and fairness.

Means

The engagement actions on governance will be guided by the RICC, in close collaboration with the relevant portfolio managers and/or buy-side sector analysts. To facilitate the process and define appropriate engagement expectations, DPAM relies on a variety of internal and external sources, including:

- Internal DPAM assessments;
- OECD guidelines;
- International Corporate Governance Network, ECGN;
- Extra-financial data providers (Trucost, Sustainalytics, MSCI);
- Broker research.

DPAM will engage through written correspondence as well as conference calls and in person meetings.

DPAM expects from invested companies that they have a proper Tax Control Framework and that they comprehensively present detailed information on the company or group's tax position, in line with the GRI Tax Standard 207, including:

- the effective tax rate calculation;
- nature of deferred taxes;
- tax strategy;
- ongoing tax litigation;
- major tax risks; and
- the new Pillar II global minimum tax calculation.

Companies should regularly update and clearly summarize this information to make it accessible to non-tax experts.

Furthermore, they should describe how their tax policies align with overall business strategy and with the economic value generated and should have a strong tax governance and management framework to oversee tax-related matters.

If not compliant with DPAM's tax framework, we will vote Abstain on the re-election of the chairman of the board in the first two years and engage with the invested company.

Voting activities

Through strategic voting at general assemblies and ongoing engagement with companies, we strive to ensure that boards prioritise strong oversight of Environmental, Social, and Governance risks and opportunities. This includes encouraging boards to take proactive measures on critical environmental issues, such as developing comprehensive climate strategies and minimizing their impact on biodiversity. On social matters, we advocate for robust board oversight in safeguarding digital rights and addressing social risks within supply chains.

Voting allows us to directly support boards that demonstrate accountability in managing ESG risks and opportunities. Simultaneously, our engagement efforts provide a platform to raise concerns and drive improvements where board oversight falls short. By combining our shareholder influence through both voting and engagement, we aim to hold boards accountable for implementing well-structured, mid- to long-term strategies that fully integrate ESG considerations.

Objectives and expectations

- **ESG board oversight** to ensure that the **board has identified the material ESG issues that are strategically significant** for example, key for the long-term, sustainable viability and profitability of the company. This should also include the alignment and buy-in across the enterprise through the right culture and incentives.
- To ensure that **management of ESG risks and opportunities is embedded in business processes**. The impact of mega trends and challenges like technological disruption, radical changes in consumer behaviour and resource scarcity, for example needs to be analysed alongside the impact on the company's long-term value creation needs.
- To expect that the **issuer understands how climate change and the energy transition can influence its activities** and how it can act on this.
- To encourage the issuer, if possible and relevant, to **contribute positively to the energy transition and achieve the goals of Paris Agreement**.
- To **increase awareness and formulate expectations** regarding management and board level oversight of ESG issues based on sector best-in-class examples, regulatory evolutions (in particular the EU Green Deal) and collaborative engagement resources, for example. This includes, but is not limited to:
    - Acknowledgment of management and board level oversight of ESG matters (in own reporting and via support/membership of relevant organisations);
    - Integration of ESG matters in the overall business strategy;
    - Remuneration linked to ESG targets (including disclosure and quantification);
    - Disclosure on stakeholder engagement activities (for example, lobbying).
- To ensure that **appropriate communication on ESG is provided to all stakeholders**. There is a significant demand for ESG data; the board should encourage management to appropriately inform its stakeholders on the role of ESG in the strategy. Integrated reporting and the use of existing standards on ESG reporting are encouraged. It is also worthwhile to encourage longer-term communication with shareholders and to use, for example, the earnings guidance communication to explain progress on ESG targets and discuss how these targets are contributing to the global sustainable performance of the company.
- To **make the board responsible for involving middle management in ESG priorities**. The middle managers in charge of products and services developed by the company need to be involved in the definition of ESG risks and opportunities that impact the business. To ensure buy-in, individual performance should be evaluated and rewarded by taking into account both financial and ESG performance.

II. How do we engage - engagement types

Engagement can be a long process and tangible outcomes can take years. As a result, prioritising certain engagement themes can optimise impact and efficiency. DPAM recognises that ‘overnight’ changes will not occur - accordingly, monitoring both countries and companies, and engaging regularly helps us understand their responsiveness. In cases where engagement has limited impact, the investment case for the underlying security will be reviewed.

DPAM embraces engagement in various forms, including formal engagement with defined targets and escalation programs, voting at shareholder meetings and providing specific voting instructions. This engagement could also involve dialogue with companies or countries during meetings to understand their ESG practices and vision. The overarching goals remain enhancing the investment decision-making process and increasing DPAM’s net positive impact. Recognising engagement as a management tool, DPAM uses it to assess global risks, uphold values and best practice, evaluate opportunities and encourage sustainability. The approach is proportional, considering the level of engagement based on investment exposure and issue materiality. DPAM may engage on a case-by-case basis, guided by policies such as the Proxy Voting Policy, Controversial Activities Policy, and Sustainable & Responsible Investment Policy. DPAM maintains an open-minded attitude, favouring dialogue and collaboration through formal or collaborative engagements. Additionally, DPAM actively participates in professional organisations, working groups, and national sustainable investment forums, contributing to the development of sustainable finance. To enhance its ESG knowledge, DPAM collaborates with external experts, involving them in investment groups and educating colleagues on relevant topics.

Engaged dialogue

With	**Corporates** **ESG Rating agencies**
Why	**To clarify / gather missing ESG information**

Materiality

This involves discussing ESG considerations internally with investment professionals. We enter into dialogue with companies rating agencies and have constructive debates on ESG topics. DPAM promotes best practice, and engaging with corporates and ESG rating agencies helps to:

- clarify ESG concerns
- strengthen convictions and add value to the investment process
- identify new opportunities and mitigate risks
- recommend corrective measures and best practice
- encourage companies to report on their efforts to incorporate ESG challenges into their strategies and adopt best practice
- make better informed investment decisions based on better understanding of the global sustainability picture
- demonstrate long-term commitment instead of short-termism

Objectives And Means

A better understanding of certain risk factors and opportunities

For companies in relevant business sectors or with identified issues, DPAM arranges calls or meetings to address key KPIs and sector-specific concerns. Analysts and portfolio managers are urged to incorporate ESG considerations in interviews with corporate management to foster awareness and gather information. Meeting notes are consistently shared among teams.

Supporting disclosure of material and relevant ESG information

There may be insufficient ESG information about smaller companies which are often overlooked by ESG rating agencies which may lead to lower ESG scores and potential exclusion. DPAM addresses this by asking targeted questions to correct biases and ensure fair scoring. DPAM's investment professionals collaborate with ESG specialists, to engage with companies on the disclosure of key ESG information.

Engaging with ESG ratings agencies

ESG rating agencies have significant influence in global financial markets, impacting indexes that integrate ESG factors in their investment methodology. As ESG information is mainly coming from ESG rating agencies, DPAM, as an active, sustainable actor, scrutinises and challenges their research to ensure complete, correct relevant ESG information.

Outcomes And Escalation

In case of insufficient information or a low score on the scorecards, DPAM sets a timeframe of six months, from the date of initial engagement, to reach a conclusion on an issuer. Within this period DPAM will: send questions to the issuer; send several reminders, analyse the answers from the issuer, possibly ask additional questions, analyse the situation, assess escalation steps and decide whether to remain invested, to continue the escalation, to divest and/or to put the issuer on the exclusion list.

In exceptional cases the engagement might continue beyond the six-month period, if there is a legitimate reason for the engagement to exceed this period (for example in case an important report is about to be disclosed by the issuer).

Engaged dialogue

With

Countries

Why

Mutual learning

Materiality

Countries – Engaging as a bondholder

We favour funding countries that are managed sustainably and we inform countries on how and why we make these sustainability decisions.

DPAM has been a pioneer in developing a sustainability model at the country level (since 2007). Sovereign bond portfolio construction relies on in-depth country research which involves several trips to meet with authorities, central banks, government officials, employers' associations, and supranational entities such as the IMF, the World Bank or the OECD. This provides an opportunity to raise awareness about sustainability approaches in government bond investments and to discuss ESG challenges positively.

Objectives And Means

DPAM's sovereign bond portfolio managers engage in discussions with national debt management agencies about DPAM's sustainability model, discuss expectations for a sustainable country and highlight the national strengths and weaknesses identified. The goal is to use their outputs for:

- Explaining DPAM's approach and its impact on investment decisions;
- Raising awareness about model outcomes, delivering a clear message to policymakers on the significance of country sustainability for investor appetite;
- Constructive feedback to improve the models.

Country engagement involves a two-step approach: (OECD: gradual rollout by mid-2023 reaching 90% of portfolio; Emerging Markets: gradual rollout by mid-2024 reaching 90% of portfolio)

- Creation of a Country Sustainability Scorecard (CSS): A concise 1–2-page document outlining a country's sustainability score compared to peers. This scorecard is updated with every country model refresh.
- Utilising the CSS for Engagement: This involves reaching out to relevant entities in the national treasury or equivalent, sharing the CSS, seeking feedback on government department scores, fostering dialogue on strengths and weaknesses, and discussing alignment with DPAM's Green Social & Sustainability (GSS) sovereign bond framework. The GSS Government Bond Policy is presented, and feedback on GSS debt issuance versus total debt issuance is discussed.

Engaging with labelled bonds, we conduct thorough ESG analysis using our internal scorecard system. We contact issuers for clarification and emphasising sustainability. We qualitatively assess new bond types to ensure adherence to standards. Our goal is to select bonds with a positive impact, raising the sector's environmental standards. If a bond's framework is not up to our standards, we communicate the reasons we did not invest to encourage improvement.

Outcomes And Escalation

Assessing engagement outcomes can be complex, especially within the government bonds sphere. Nonetheless, DPAM reports annually on its country engagement. Engagement outcomes will be assessed as follows:

- Level 0, i.e., no feedback/reaction was provided by the issuer (following a reminder).
- Level 1, i.e., issuer was open to feedback/engagement, no actions or new commitments undertaken.
- Level 2, i.e., issuer provided structural feedback on the model/ESG profile and/or GSS issuance and new commitments or actions were taken (e.g., forwarding to relevant department).

Formal individual engagement

With

Corporates

Why

To discuss serious ESG concerns

Materiality

Objectives And Means

Corporates – engaging as a shareholder

Individual engagements are triggered by DPAM's investment convictions and its desire to optimise its net positive impact. These engagements are determined by a review of controversial activities, which is described in more detail in the engagement for reducing the harmful effects of our investments, by TCFD dashboards and TCFD assessment results, by ESG scorecards and DPAM willingness to defend specific convictions, values, and priorities when deciding on individual engagements.

Corporates – engaging as a shareholder

Engaging with a company as a shareholder is essential as it enables investors to influence how the company addresses environmental, social, and governance issues. Active engagement encourages better practices, helping to manage risks and enhance long-term financial performance. It also fosters greater transparency and accountability, ensuring that corporate strategies are aligned with sustainable value creation. Effective engagement not only protects investments but also contributes to positive societal and environmental outcomes, aligning financial objectives with sustainable development.

Corporates – engaging as a bondholder

Engagement with corporates often takes place in the context of the issuance of labelled bonds, such as sustainability-linked bonds or green bonds. During the issuance period, multiple calls take place to enhance communication between future bondholders and the issuing corporate entity. These calls provide an opportunity to explain our expectations regarding labelled bond frameworks, the delineation of the use of proceeds instruments or reporting. Our climate strategy incorporates a rigorous process to screen labelled bonds, and DPAM views it as essential to share its findings on bond quality with issuers, even if we deem the investment unviable due to a weak framework. Sharing our findings enables issuers to improve their labelled bond frameworks in the future.

Outcomes And Escalation

The success of an engagement is broadly assessed through five key points:

(1) Willingness of the company to engage in dialogue; (2) Acknowledgment of the significance of the ESG issue(s) raised; (3) Willingness to improve its ESG performance; (4) Active implementation of a policy or a target; (5) Evidence of tangible improvements.

The scope of the escalation process covers engagement on: Controversies, TCFD dashboard and TCFD assessment results, ESG Scorecards (if engagement is necessary), and defending our values and convictions. Note that the corporate governance relies on a separate, customised approach. The escalation process refers to DPAM's roadmap in case of unsuccessful engagement. This means that the issuer was not open to dialogue, the dialogue was not constructive, or the escalation steps (see below) were deemed to be insufficient.

DPAM escalation steps:

1. Formal engagement letter with requests; **2.** Identification of supporting investors via private/public letter; **3.** Proxy Voting (resolutions, directors, remuneration, for example); **4.** (Co-)filing of resolution; **5.** Public statement; **6.** AGM stance; **7.** Litigation

Timeframe for divesting: 3 consecutive years (in which different escalation steps can be taken) of 'no/unsatisfactory progress' defined as:

- Letters: no implementation of the requests; and/or,
- Support: no identification of key investors/initiatives; and/or,
- Proxy Voting: no change of Chairman, no remuneration rejection or board/nomination committee opposition;
- AGM stance: no slot offered at AGM; and/or,
- Resolutions: No flagging of resolution, no solicitation of proxy providers, no (co-)filing possible, no significant increase in shareholder support for the resolution (if filed), no implementation of shareholder proposals receiving majority vote.

Formal individual engagement

With	**Corporates**
Why	**Following proxy voting**
Materiality	Taking part in shareholder meetings of our investee companies is a tenet of our social responsibility. It is an efficient way of showing our commitment to a more sustainable financial industry, advocating for sustainable growth and a long-term risk management approach. General meetings are also a good venue for exchanging ideas between shareholders and company executives. This allows well-informed investors to address specific issues in a more detailed manner or to raise pertinent questions. By adopting this approach, DPAM advocates a vision that shows greater respect for all people and their environment in the long term. As investment horizons become constantly shorter, it is important that the shareholder is central to the company as a co-owner who places its longevity above short-term profits.
Objectives	**Protecting all shareholders** • A sound balance between enhancing entrepreneurship and financial results and integrating sustainability criteria • All shareholders (controlling and minority) treated equally, one-share one-vote on-dividend, provision of all relevant information, for example. **Ensuring sound corporate governance** • The board of directors is responsible for setting a clear and sustainable corporate governance strategy in accordance with laws and regulations; • The board of directors acts in the best interests of the company. Our assessment includes: independence of directors, CEO/chairman separation, mandates not exceeding 6 years, no conflicts of interest; • The existence of a remuneration and/or nomination committee and an audit and/or risk management committee, with two or three independent members **Ensuring transparency & integrity of financial and extra-financial information** • Information should be clear, transparent, reliable, complete and to the extent legally required, properly audited and provided in due time before the company's general meeting; • Remuneration policy should contribute to the company's business strategy, long term interest and sustainability and should explain how it does so. **Good ESG responsibility of the invested company** ESG proposals should be in line with the UN Global Compact, ILO Conventions, OECD MNE guidelines, UN PRI, TCFD recommendations, OECD recommendations, NZAM initiative, UNGPs and Underlying Conventions and Treaties.
Outcomes	Engagements to defend our corporate governance values follow a specific escalation process. First, this process is strictly limited to our equity investments. Second, the voting activity is overseen by the Voting Advisory Board (VAB), and the escalation process is clearly outlined in the engagement letter. In the event of repeated engagement letters to a company's investor relations team on the same issue, without any noticeable progress, DPAM reserves the right to address the letter to the Chairman of the Board of Directors.

Collaborative engagement

With

Corporates

Why

To discuss serious ESG concerns

Materiality

While DPAM usually pursues individual engagements as the main approach, it also evaluates opportunities to join ongoing collaborative initiatives for increased effectiveness, when relevant to the issuer and the controversy at hand.

DPAM actively engages with multiple companies through collaborative initiatives by sharing expertise with other investors and by working on dedicated thematic strategies.

Objectives And Means

Environment

Social

Investors participating in collaborative initiatives typically hold multiple meetings throughout the year to:

- Identify and assess the key environmental, social, and governance (ESG) issues and controversies facing the company.
- Establish priority engagement topics for in-depth exploration.
- Conduct a detailed analysis of the company's publicly disclosed information on the topic, highlighting key data, and identify areas where additional disclosure is needed or action from the company is necessary to tackle the controversy/issue.
- Collaboratively draft an engagement letter, seeking approval from all involved investors.
- Forward the engagement letter to the company and arrange a follow-up call to discuss the proposed engagement.

Outcomes And Escalation

Escalation is often defined in agreement with all the engaged investees.

This can take the form of:

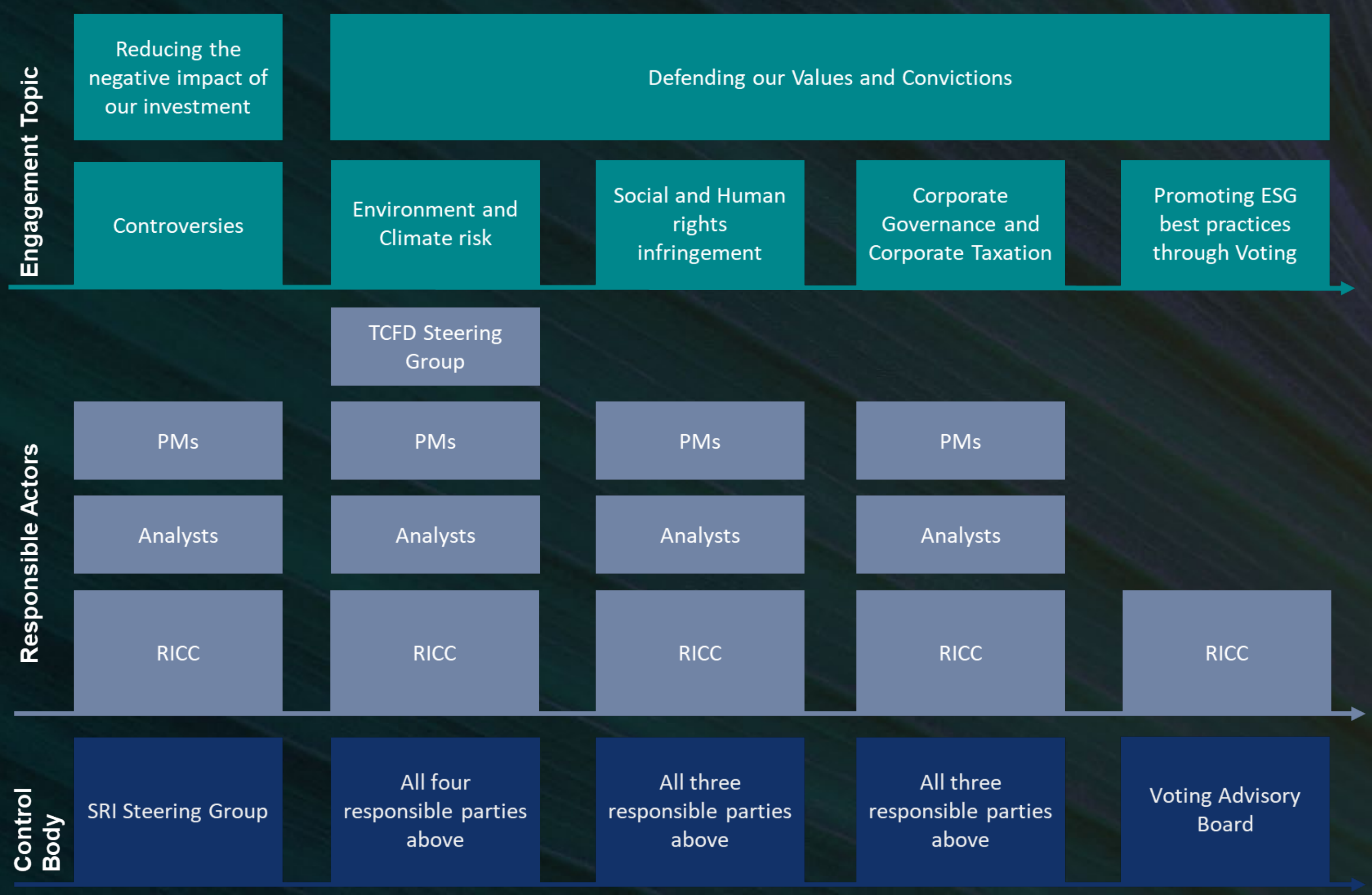
- Proxy Voting (resolutions, directors, remuneration, etc.);
- (Co-)filing of resolutions;
- Public statements;
- AGM stance; and
- Litigation

Engaging with companies and countries is the shared responsibility of the investment professionals at DPAM, such as portfolio managers, fundamental analysts and responsible investment specialists.

Three governance bodies are involved in monitoring ongoing engagements and determining suitable strategies and topics: the SRI Steering Group, the Voting Advisory Board and the TCFD Steering Group.

The graph below depicts the governance bodies and responsible actors per type of engagement.

The governance of DPAM's engagement activities



PMs: *Portfolio Managers*

RICC: *Responsible Investment Competence Center*
Analysts: *Fundamental buy-side analysts*

III. Engagement transparency – reporting and consistency

This Engagement Policy is publicly available on the **DPAM website**.

Documentation and the progress of engagements conducted by the research and investment teams and the responsible investment specialists is tracked in databases which are available to all investment professionals.

Committed to transparency, DPAM also publishes an annual engagement report (this includes the: number of companies engaged with, number of issues raised, objectives and progress on engagement milestones). Some engagements tend to be more effective when kept confidential, however the report is as detailed and exhaustive as possible without sacrificing the efficacy of ongoing dialogues.

With respect to transparency, it is also important for DPAM to be consistent with its convictions and values across its activities. This is the reason why DPAM conveys its values and convictions in all communication with its partners and stakeholders through seminars, conferences and articles, for example. DPAM is convinced that education is among the most efficient ways of promoting best practice and mutual learning.

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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 their engagement policy.

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