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Sustainable & Responsible Investment Policy



DPAM

Contents

| | |
|---|-----------|
| I. DPAM: A Responsible Investor Since 2001 | 5 |
| A responsible investor | 6 |
| Scope of the policy | 7 |
| Objectives of the policy | 7 |
| Responsibilities | 8 |
| II. Summary | 9 |
| III. DPAM: a Committed Sustainable Actor | 11 |
| Signatory of UN PRI in 2011 | 12 |
| Principles for Responsible Investment | 13 |
| Advance and Spring initiatives | 13 |
| Signatory of the Net Zero Asset Management Initiative (NZAM) inspired by the SBT protocol | 14 |
| Net Zero Asset Management Initiative (NZAM) | 15 |
| Membership of international forums that advocate sustainable investment | 16 |
| Supporter of ambitious engagement initiatives | 17 |
| DPAM Stewardship - Active ownership | 20 |
| Shareholder responsibility – Proxy voting | 21 |
| Engagement | 21 |
| Conflicts of interest policy | 21 |
| Controversial Activities Policy | 21 |
| Governance | 22 |
| DPAM's Board of Directors responsible for the ESG oversight | 23 |
| Governance and steering bodies | 25 |
| The Sustainable and Responsible Investment Steering Group (the SRI Steering Group) | 25 |
| ESG Risk Steering Group | 26 |
| The Country Sustainability Advisory Board (CSAB) | 26 |
| The SFDR Steering Committee | 26 |
| The Voting Advisory Board (VAB) | 27 |
| The TCFD Steering Group | 27 |
| People, resources and capabilities | 28 |
| The Responsible Investment Competence Center | 30 |
| Integration in research and portfolio management teams | 31 |
| ESG performance assessment | 32 |
| External resources | 33 |
| IV. DPAM: a Committed Sustainable Investor | 35 |
| ESG: DPAM's definition | 36 |
| Environment | 37 |
| Social | 38 |
| Governance | 39 |
| ESG factor integration: integration principles | 40 |
| Risk return optimisation | 41 |
| Time horizon | 41 |
| Materiality of ESG criteria | 42 |
| Sector specific ESG factors | 43 |
| Engaged dialogue and promotion of best practice | 43 |
| Continuous improvement | 44 |
| Holistic and transversal approach | 44 |
| Sustainable and Responsible investment offering | 45 |

| | |
|--|----|
| ESG factor integration: integration by asset class | 46 |
| Integration in listed equities | 47 |
| Integration in Corporate Bonds | 49 |
| Integration in Sovereign Bonds | 49 |
| The special case of ESG-labelled bonds | 51 |
| Integration in third-party funds | 53 |
| Integration in impact investing in private equity | 54 |
| Sustainability risks integration | 55 |
| ESG profile assessment | 56 |
| ESG risks analysis | 58 |
| Integrating sustainability risks in the investment process | 59 |
| Integration of environmental and social risks | 59 |
| Statement on the priorities to integrate the Principal Adverse Impact indicators (PAI) | 63 |
| Sustainability risks and potential impact on financial performance of products | 65 |

V. Sections Applied Specifically to Investment Funds 68

| | |
|--|----|
| DPAM's methodology and investment Process for investment funds | 69 |
| The starting framework: PRI signatory and Net Zero commitment - ESG integration, active ownership and GHG emissions commitments | 72 |
| DPAM is committed to reduce the negative impact of its investment decisions – promotion of E/S characteristics in investment funds – investments in equities and corporate bonds | 73 |
| Defending fundamental rights and ensuring minimum social and governance safeguards | 73 |
| Pragmatism and dialogue in controversial activity screening – Do Not Significantly Harm Principle (DNSH principle) | 74 |
| Rigor, in-depth analysis and dialogue in controversial behaviour screening – Do Not Significantly Harm Principle (DNSH principle) | 74 |
| DPAM: committed to increase the positive impact of its investment decisions – promotion of E/S objectives in investment funds - investment in equities and corporate bonds | 79 |
| Promotion of environmental and social best practice to encourage best in class and best efforts | 79 |
| Identification of sustainable instruments through a revenue-aligned approach | 81 |
| Impact measurement and assessment – sustainability outcomes | 82 |
| The special case of private initiatives regarding labels | 83 |
| DPAM is transparent on the aim of its investment funds – SFDR classification | 84 |
| Promoting environmental and social characteristics | 86 |
| Sustainable investment as a contribution to environmental and/or social objectives | 86 |
| Transition funds – steps 1 to 8 being Transition | 86 |
| Sustainable funds – steps 1 to 8 being Sustainability themes (SDG) | 87 |
| Impact funds – steps 1 to 6 and ‘impact’ step 9 | 87 |
| How Principal Adverse Impact indicators are taken into account in the investment process | 90 |
| How is the Do Not Significantly Harm (DNSH) principle guaranteed for investment funds? | 93 |
| DPAM is transparent on the aim of its investment funds – SFDR classification – the specific case of government bond investments | 95 |
| DPAM is committed to reduce the negative impact of its investment decisions – promotion of E/S characteristics | 96 |
| DPAM is committed to increase the positive impact of its investment decisions or recommendations – promotion of E/S objectives | 96 |
| Methodology to identify the environmental and social objective of government bonds | 97 |
| How are Principal Adverse Impact indicators taken into account in the investment process? | 98 |
| How is the Do Not Significantly Harm (DNSH) principle guaranteed? | 98 |

VI. Sections Applied Specifically to Mandates 99

| | |
|---|-----|
| DPAM is transparent regarding sustainability – relevant aspects in relation to MIFID for clients | 100 |
| DPAM is committed to offer investment methodologies meeting the suitability-related expectations of its clients | 101 |
| How are Principal Adverse Impact indicators taken into account in the investment process of mandates | 102 |
| How is the DNSH principle guaranteed? | 102 |

VII. DPAM: A Committed Sustainable Partner Reporting, Disclosure, Transparency and Education 103

| | |
|---|-----|
| Transparency and confidence-building measures | 104 |
| Committed to transparency – transparency of ESG methodologies | 104 |
| Content and frequency of reporting | 105 |
| Disclosure requirement | 105 |
| Education | 105 |

VIII. Lexicon And Abbreviations 106

IX. Summary of Responsibilities 110



Active. Sustainable. Research.



Our vision

is to be your reference partner in sustainable investment solutions.



Our purpose

is to advance to thrive, generating growth that benefits clients and society.



Our aim

to deliver robust investment performance and best-in-class expertise in alignment with DPAM's shared values and culture

The background is a dark green, slightly blurred image of a plant stem with several water droplets. The stem runs diagonally from the bottom left towards the top right. There are three prominent water droplets: one near the bottom left, one in the middle left, and one near the top left. The overall lighting is soft, creating a natural and fresh atmosphere.

I. DPAM: A Responsible Investor since 2001

Being a responsible investor goes beyond offering responsible products; it is a commitment at company level translated into a coherent approach. To ensure growth that benefits clients and society, we advance to thrive, aiming for long-term outperformance.



A responsible investor

As a responsible investor we raise key questions about the consequences of DPAM's investment activity and look beyond pure financial profit, taking into account all stakeholders when considering the consequences of an investment. DPAM professionals are encouraged to raise questions, use experts, share information and engage with a positive, yet critical, mindset.

As a shareholder representative and economic player, DPAM accepts its corporate responsibility. We manage our assets according to key governance principles, as follows:

- Scientific evidence cannot be ignored. The status quo is a synonym for unwanted outcomes.
- The regulatory authorities should scrutinise investors and investees alike, in a balanced way.
- Climate scenarios should guide the intensity of regulation and the commitment of asset managers and institutional investors.
- Technological evolutions can only occur with proper funding.

Integrating sustainability in investment processes is not straightforward. The objective is that portfolio managers, analysts, and risk managers routinely apply the same processes for ESG factors as they use to assess opportunities and risks across business and financial parameters.

To uphold best practice for corporate governance and ESG, DPAM refers to various reputable sources including:

- The International Corporate Governance Network (ICGN),
- The 10 Principles of the UN Global Compact,
- The OECD guidelines for multinational enterprises,
- The Sustainable Development Goals set up by the United Nations,
- The OECD Due Diligence Guidance for Responsible Business Conduct,
- The Principles of Responsible Finance,
- The recommendations of the Task Force for Climate-related Financial Disclosure (TCFD), etc.

DPAM is committed to sustainable investing and therefore adopts a view on corporate responsibility that is consistent with the political agenda and aligned with the Paris Agreement and with international standards and conventions.

This policy is the first pillar of a set of sustainable and responsible investment related policies, including our Voting Policy, Controversial Activities Policy and Engagement Policy.



Scope of the policy

The Policy is applied to public investment funds which are managed by DPAM, by designation or delegation (to the extent agreed between DPAM and the delegating management company) (the 'DPAM Funds') and to discretionary portfolio management mandates DPAM manages on behalf of institutional asset owners/investors, as agreed between DPAM and its clients. This policy is also one of DPAM's considerations when providing investment advisory services to its clients. It describes the sustainable approaches we adopt including: ESG integration, best-in-class, sustainability themes and norms-screening, for example that DPAM can apply to all asset classes. DPAM is convinced about sustainable and responsible investment and this has been ingrained in our approach, since 2001. Non-public funds for which DPAM acts as management company may also apply this policy to the extent foreseen in the offering document.



Objectives of the policy

This sustainable and responsible investment policy aims at describing and explaining DPAM's choices regarding investments with environmental and/or social characteristics and investments with sustainable objectives, in alignment with the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (hereinafter called 'SFDR regulation'). First, it explains how DPAM is committed to being a sustainable actor through the initiatives it has joined to contribute to sustainable finance worldwide alongside other asset owners and managers.

Second, it describes how DPAM is a sustainable and responsible investor by explaining the philosophy, approach, and methodologies DPAM has adopted to implement a pragmatic and ambitious approach to sustainable and responsible investment. Over the last 20 years, DPAM has been applying different methodologies including: norms screening, negative and positive screening, engagement and impact.

The policy also explains what DPAM stands for when it refers to active, sustainable and research. The description of DPAM's philosophy and approach to sustainable and responsible investment includes the way DPAM identifies sustainability risks and ESG factors, which are integrated in its investment decision making process.

In addition, it describes DPAM's philosophy and approaches in comparison to the various existing approaches regarding sustainable and responsible investment. DPAM's approaches include: ESG integration, transition investments, sustainable investments and impact investments. Through these different approaches and methodologies, DPAM's aim is to optimise its positive net impact on society and to reduce, as much as possible, the negative impact of its investments by systematically integrating the question of the harmful impacts of investments. As all investment is impactful, we share our vision regarding impact measurement.

Finally, the third part of the policy is dedicated to DPAM as a sustainable partner, including our responsibilities in terms of transparency, disclosure and sharing knowledge with stakeholders.



Responsibilities

The integration of Environmental, Social & Governance (ESG) factors is the shared responsibility of the investment professionals at DPAM including portfolio managers, fundamental analysts and responsible investment specialists.

In terms of governance, the SRI Steering Group oversees strategic positioning and implications for the product offerings. In addition, the ESG Risks Steering Group monitors sustainability risks globally. Both report directly to the Management Board of DPAM, under the oversight of DPAM's Board of Directors.

These groups are assisted by a variety of technical bodies including the Country Sustainability Advisory Board (CSAB), the TCFD Steering Group or the Impact Committee.

The Voting Advisory Board (VAB) is responsible for the voting policy. It reports to the Management Board of DPAM and the Board of Directors of the investment funds which have delegated their voting rights.



II. Summary

The policy describes the choices that DPAM has made to optimise its positive net impact to create a thriving society and to reduce the negative impact of its investments. Advocating for sound corporate governance, tackling environmental challenges and operating in way that respects society are an integral part of **DPAM's mission and value statement**:

“

Our aim is to perform and to be best-in-class in our expertise and guardian of DPAM's shared values and culture.

We thrive on the conviction that actively managed, sustainable, research-based client solutions or portfolios offer the best opportunities for sustainable investment results.

This is the reason why Environmental, Social and Governance (ESG) considerations are integrated into our value proposition, our fundamental research and our investment processes.

As an active manager, we combine financial objectives with our pioneering role as sustainable actor, at the service of our clients, our people and society.'



Ophélie Mortier
Chief Sustainable Investment Officer



III. DPAM:
a Committed
Sustainable
Actor



Signatory of UN PRI in 2011

'By integrating climate change risks and opportunities in its investment decision process, DPAM has continuously assessed the impact of climate change on its investments and considered the impact of its investments on climate change. So-called climate-related transition risks are continuously increasing. Hence, assessing our investees' readiness via Net Zero commitments has become key in the investment case. As an investor, it is now time to take the next, natural step and commit to NZAM'

Peter De Coensel, CEO DPAM





Principles for Responsible Investment

In 2011, DPAM, at the time Petercam Institutional Asset Management, signed the United Nations Principles for Responsible Investment ('UN PRI') to foster the integration of ESG factors in the investment decision-making process. In 2016, following the merger between Degroof and Petercam, DPAM reiterated its commitment to adopt and implement the UN PRI's six guiding principles.

Over the last 7 years, DPAM has achieved the top rating for its assessment report which shows DPAM's commitment to implementing the six principles of the UN PRI. The assessment report is used every year to upgrade our approaches and methodologies and to inform best practice.

DPAM is an active member of the Global Policy Research Group and of the Sustainable Systems Investment Managers Reference Group.



Advance and Spring initiatives

In addition, DPAM is an active member of specific engagement initiatives led by the UN PRI such as Advance and Spring.



Signatory of the Net Zero Asset Management Initiative inspired by the SBT protocol

In 2022 DPAM joined the Net-Zero Asset Managers (NZAM) Initiative. This requires asset managers to commit to support investing aligned with net zero emissions by 2050 or earlier. Although the initiative is currently put on hold (see below), DPAM remains committed.

After joining DPAM aligned its methodologies with the approaches endorsed by the Network Partners¹. This includes the Science-Based Targets Initiative for Financial Institutions, which provides companies with a clearly defined pathway for reducing their emissions².



¹ Network Partners of the NZAM initiative include AIGCC, CDP, Ceres, IIGCC, IGCC, PR

² Source: Companies taking action – Science Based Targets

Net Zero Asset Management Initiative (NZAM)

To become part of the NZAM Initiative, DPAM committed to several key goals:

- To work in partnership with asset owner clients on 'Net Zero by 2050' decarbonisation goals;
- To set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions;
- To review targets at least every five years to eventually cover 100% of AuM;
- To fulfil these commitments, DPAM will abide by the ten-point action plan³ of NZAM.

NZAM ensures oversight is provided by a supporting member organisation. As such CDP validated DPAM's initial target, now IIGCC is in charge of oversight of DPAM's target setting and annual progress reporting.

The commitment covers all DPAM's assets under management for which credible methodologies are developed – hence all investment decisions portfolio managers take are made in the context of this framework which targets net zero GHG emissions by 2050 or earlier. To achieve this, intermediary milestones have been defined alongside a methodology.

DPAM's methodology for corporates is based on **the Sciences Based Target (SBT) protocol**, which is a forward-looking approach. The methodology combines the concepts of two approaches described under **SBTi guidance** 'FI-C17.2 – SBT Portfolio Coverage Targets' and 'FI-C17.3 – Portfolio Temperature Rating Targets'.

Moreover, the approach distinguishes between high-impact climate sectors (carbon intensive ones, so-called 'TCFD sectors') from low-impact climate sectors (so-called 'other sectors'). An intermediate target for 2030 has been set, with the commitment to reach 100% by 2040.

To achieve these targets, corporate engagement will be crucial, through collaborative initiatives like the CDP and SBT campaigns but also through individual engagements benefitting from all DPAM's fundamental approaches.

Update from the NZAM initiative, 13.1.2025

The NZAM initiative exists to help investors mitigate the material financial risks of climate change and to realise the enormous benefits of the economic transition to net zero.

However, recent developments in the U.S. and different regulatory and client expectations in investors' respective jurisdictions have led to NZAM launching a review of the initiative to ensure NZAM remains fit for purpose in the new global context. Signatories will be consulted throughout the review process and informed of any updates in a timely and transparent fashion.

As the initiative undergoes this review, it is suspending activities to track signatory implementation and reporting. NZAM will also remove the commitment statement and list of NZAM signatories from its website, as well as their targets and related case studies, pending the outcome of the review.

As a voluntary initiative, NZAM has successfully supported investors globally as they have sought to navigate their own individual paths in the energy transition in line with their fiduciary duties and clients' long-term financial objectives. NZAM looks forward to continuing to play this constructive role with investors globally.



³ Source: Net Zero Asset Manager Initiative, 2020



Membership of international forums that advocate sustainable investment

DPAM has signed up to organisations which share DPAM's aim of advocating for responsible investment. DPAM's membership of international collaborative initiatives ensures that it gains continuous insight into the challenges and opportunities that responsible investment entails. In addition to its commitment to the UN PRI, DPAM is an active member of national forums for responsible investment in: France (FIR), Italy (Finanza Sostenibile), Netherlands (VBDO Vereniging van Beleggers voor Duurzame Ontwikkeling) and the German-speaking countries (FNG).



Supporter of ambitious engagement initiatives

We believe in sharing our knowledge and working with external partners and collaborators. As a result, we are signatories to organisations that improve knowledge and impact in the field of sustainability.



DPAM has **supported the TCFD** since 2018. In 2017, the United Nations adopted the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures (commonly referred to as the 'TCFD Recommendations'), primarily on environmental and climate change issues. These are a pragmatic instrument for the implementation of the fiduciary duty of investors to take ESG factors into account.



DPAM also joined the collaborative action **Climate Action 100+** in 2019.

Climate Action 100+ is an initiative led by investors to engage with systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. Investors are calling on companies (currently 170 companies) to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

The initiative has been developed to build on the commitments laid out in the 2014/2015 Global Investor Statement on Climate Change, supported by 409 investors representing more than US \$24 trillion.



The same year, DPAM joined **FAIRR**, a collaborative engagement initiative aiming to decrease the environmental impact of the food value chain by encouraging the use of sustainable proteins within food products. DPAM joined this initiative given its involvement in agro-food related companies and shared insights. Furthermore, DPAM contributes to their research by providing expert insights from its analysts, portfolio managers and responsible investments specialists.



In June 2020, DPAM joined the **Investor Alliance for Human Rights**, its membership is currently comprised of over 160 institutional investors, including asset management firms, trade union funds, public pension funds, foundations, endowments, faith-based organisations, and family funds.

The Investor Alliance for Human Rights is a collective action platform for responsible investment that is grounded in respect for people's fundamental rights. The initiative focuses on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct and standard-setting activities that push for robust business and human rights policies.



DPAM has supported the **Finance for Biodiversity Pledge** since December 2020. This Pledge calls on global leaders to reverse nature loss and signatories commit to protect and restore biodiversity through their activities and investments.



At the end of 2022, DPAM joined the PRI-collaborative initiative on human rights and social issues, **Advance**, which seeks positive outcomes for people through investor stewardship.



In 2023, DPAM joined the **Institutional Investors Group on Climate Change (IIGCC)**, a UK-based organisation that works with investors across Europe and is a partner organisation to **CA100+**. In addition, DPAM joined the **Emerging Markets Investors Alliance (EMIA)** which promotes engaged dialogues with sovereigns, **Spring**, the UN PRI's stewardship initiative for nature and **Nature Action 100**, a PRI-led collaborative initiative to tackle nature loss and biodiversity decline.



In 2024, DPAM became an early adopter of the **Task Force on Nature-related Financial Disclosures**, which aims to enable investors to integrate nature related risks in investment decisions.



DPAM is additionally a member of the **World Benchmarking Alliance**, which enables us to engage with companies on salient human rights issues and a passive member of the **Investor Initiative on Hazardous Chemicals**, which encourages manufacturers to increase transparency and stop producing harmful chemicals.

More information is available in our [engagement report](#) and [engagement policy](#).



DPAM Stewardship - Active ownership

Our active ownership approach involves our detailed processes and methodologies. These are summed up in our range of ESG related policies. These policies are meticulously aligned with current regulations and best market practice to ensure governance and accountability.



Shareholder responsibility – Proxy voting

DPAM acts responsibly and taking part in shareholders' meetings is an important dimension of DPAM's social responsibility. DPAM's [Voting Policy](#) shows our vision of corporate governance within listed companies, our expectations and our approach as a responsible investor. A yearly activity report is also published.



Engagement

DPAM adopted an engagement program in 2014. Since then, we have leveraged on our experience and knowledge to adopt the latest [Engagement Policy](#). Please see this policy for further information on how we engage.



Conflicts of interest policy

DPAM has a comprehensive [Conflicts of Interests Policy](#). DPAM ensures that the rules stipulated in this policy are enforced by Internal Audit, Risk Management and Compliance.



Controversial Activities Policy

Please read our [Controversial Activities Policy](#) to find out more about screening and exclusions.



Governance

A clear governance structure is in place to implement ESG oversight and our active ownership approach.

DPAM's Board of Directors responsible for the ESG oversight



Governance/strategy: ESG board oversight

- Governance validation, strategy formulation, key objectives, pragmatic action plans, implementation trajectory and monitoring process. ESG assessment becomes part of the DPAM Risk Committee and the DPAM Board agenda
- Identification of ESG risks and opportunities
- Validation by the Board

Research & Investment Process

- ESG integration efforts carried out by all departments through the whole investment value chain.

Risk management

- ESG risks dashboard of the Risk Committee to ensure a global overview and monitoring of the sustainability profiles of all investments and the E/S/G risks of all investments of the company.

Compliance

- To evaluate that all required controls are efficiently implemented to ensure that every investment decision is aligned with the specific sustainable objectives of the managed funds and mandates.
- As such the compliance department will exercise a complementary role to the risk department by monitoring the process at transaction level.
- The compliance department is a member of the ESG Risk Committee.

Metrics & Targets

- SMART metrics and targets fully aligned with the company's ambition, for example, to be an impactful sustainable actor and sustainable investor (NZAM, SFDR positioning, engagement priorities).

Following best practice promoted by the TCFD framework, DPAM ensures that sustainable investments are governed by a comprehensive framework.



Governance and steering bodies

DPAM's governance bodies, bolstered by external experts, use their expertise to make ESG research relevant. As members of DPAM's scientific boards (the Voting Advisory Board and the Country Sustainability Advisory Board) or as invitees to 'Responsible Investment Corners' external experts play an important role in enhancing DPAM's processes and methodologies.



The Sustainable and Responsible Investment Steering Group (the SRI Steering Group)

This group is the initiator and guardian of DPAM's identity as active, sustainable and research-driven and its mission to be a leading responsible investor.

The SRI Steering Group oversees the implementation of DPAM's mission statement with regard to responsible investment. The SRI Steering Group is both the pioneer and the guardian of the coherence, consistency and credibility of DPAM's investment process in light of its strategic commitment to responsible investing. Its role is: (1) to promote responsible investing and to spread ESG knowledge within DPAM and beyond; and (2) to enhance responsible investment and ESG expertise internally and externally. Among other tasks, the SRI Steering Group ensures the integration of ESG issues into investment analysis and decision-making processes by developing ESG-related tools, metrics and analyses.

It ensures transparent, consistent approaches, methodologies, products, solutions and services. The SRI Steering Group validates initiatives related to sustainable and responsible investment. As a guardian of the UNPRI, the SRI Steering Group informs and educates in-house stakeholders and raises awareness of ESG issues among all professionals at DPAM, notably the research, portfolio/fund management, risk and compliance entities.

The SRI Steering Group meets every month. Decisions are taken by consensus and when a consensus cannot be reached, members are required to vote and the decision is taken by simple majority, provided 50% of the members are present. Only members of the SRI Steering Group have voting rights. In case of no majority, the Chairman has a double voting right.



ESG Risk Steering Group

The ESG Risk Steering Group meets on a quarterly basis. The Group oversees and guides the firm's approach to manage ESG related risks across its investment portfolios, business operations and corporate governance. Its primary purpose is to ensure that ESG risks are properly identified assessed, managed and integrated into investment decision making processes and corporate strategy, aligning with regulatory requirements and industry best practices.



The Country Sustainability Advisory Board (CSAB)

The board consists of seven voting members, including external experts and meets twice annually. The members complementary backgrounds provide expertise and knowledge for the proprietary country model, used to assess country sustainability, developed by DPAM in 2007.

The role of the CSAB is:

- To select the criteria to assess the sustainability of countries;
- To determine the weights attributed to these selected sustainability criteria;
- To critically and accurately review the model and the resulting ranking to ensure continuous improvement;
- To validate the country ranking, this may serve as an eligible investment universe for sustainable portfolios.



The SFDR Steering Committee

The Committee monitors ESG regulation and proposes frameworks and processes for compliance with ESG regulations throughout the company.



The Voting Advisory Board (VAB)

This board consists of external and internal members, who meet two times a year. This Board is responsible for establishing and upholding a robust framework for responsible ownership (the voting policy) and is guardian of the implementation of the highest standards of integrity and transparency in voting policy. Its role is to:

- Review the Voting Policy on a regular basis and adapt it according to legal and regulatory requirements and best practice evolutions in terms of corporate governance;
- Ensure that the Voting Policy - in particular the adopted guidelines - is applied when exercising the voting rights attaching to shares;
- Discuss practical issues that may have arisen during the ordinary and extraordinary general assembly season and define, when required, relevant guidelines for future cases;
- Decide on the voting approach to adopt when an event of a conflict of interest is raised in a meeting;
- Adopt recommendations and engage in dialogue with companies' management to promote the four principles of the Voting Policy and best practice in terms of corporate governance;
- Study ad-hoc cases which could deviate from the Voting Policy and its guidelines and give appropriate voting guidelines;
- Validate the yearly activity reports and voting processes.



The TCFD Steering Group

The role of this group is to comprehensively evaluate and guide the integration of climate related risks and opportunities across all investment decision-making processes, eventually serving the SRI Steering Group, including:

- to advise and execute the TCFD recommendations, in particular strategy and risk management;
- to advance the NZAM commitment and taxonomy implementation; and
- to spearhead decarbonisation strategies and solutions.



People, resources and capabilities

At DPAM the Responsible Investment Competence Centre provides a steering role at group level for ESG expertise, interacting with both internal teams and external resources.

Sustainable and Responsible Investment Steering Group





The Responsible Investment Competence Center

The **Responsible Investment Competence Center** ('RICC') is headed by the Chief Sustainable Investment Officer (CSIO) and comprises five additional full-time ESG specialists. The RICC guides initiatives, methodologies and projects related to DPAM as sustainable actor (corporate purpose), investor (products and investment solutions) and partner. The CSIO reports directly to the Management Board of DPAM.

The activities of the RICC are threefold.

As a sustainable actor, the RICC realises DPAM's ESG commitment through the membership of international regulatory and topical organisations and through the development of DPAM's proxy voting and engagement activities. The RICC acts as the privileged contact point for matters pertaining to the UN PRI and provides a steering role at group level.

As a sustainable investor, the members of the RICC focus on increasing the ESG expertise of DPAM. This includes analysing new developments and monitoring internal ESG strategies as well as active involvement in the construction of and quality of strategies. The ESG specialists support the investment teams (both the portfolio managers and buy-side analysts) in gathering detailed qualitative information on specific themes or sectors from a top-down perspective⁴. The ESG specialists challenge the analysis of extra-financial research providers and engage with targeted companies to fact-check and to reach the best possible conclusions. In general, the RICC acts as the internal point of contact for questions relating to DPAM's ESG strategy and investment approach. They initiate the monthly controversial reviews, validate scorecards and use-of-proceeds bond frameworks and analyse the output of TCFD analysis.

The RICC are in the driving seat regarding the decision making and advisory groups DPAM has set up (see above: the CSAB, the TCFD Steering Group, the SRI Steering Group and the VAB).

In relation to DPAM's role as a sustainable partner, the RICC acts as the ESG specialist for external client activities, mainly for collaborative engagement initiatives but also as expert speakers at conferences and other initiatives promoting ESG and sustainable investment.

⁴ ESG analysts could be directly active in buy-side research teams to assist analysts and portfolio managers in the specific implementation requirements on issuers and instruments from a bottom-up perspective.



Integration in research and portfolio management teams

Committed to the first principle of UN PRI, DPAM integrates responsible investment indicators in buy-side investment research - regardless of the sustainability mandate of the investment portfolios. Responsible investment expertise revolves around the RICC, which includes specialists working in each of the investment competences: fixed income fund management, credit research, equity management and equity buy-side research.

DPAM employs a team of both credit and equity buy-side analysts with experience across sectors. By combining the sector expertise of its analysts with the ESG-analysis from the RICC, DPAM can identify the key sustainability drivers for each sector and can assess companies ESG performance accordingly. DPAM's buy-side recommendations include at least a general overview of the company's ESG performance. The buy-side recommendations are supplemented with specific sector or criteria-related ESG research and/or engagement initiatives when the ESG information available on the company is insufficient. When the research teams require more in-depth research on a particular stock or industry, they reach out to the RICC for further analysis. The portfolio managers (across asset classes) are involved in managing sustainable portfolios for which they also integrate ESG-considerations in their bottom-up stock selection.

The role of the ESG analyst within the buy-side research team is to support buy-side analysts in their integration of ESG aspects into their issuer and sectorial analysis.

In practice this covers a wide range of activities such as:

- looking for available ESG related information and providing it to **buy-side** analysts;
- conducting ESG analysis for integration into fundamental analysis, in collaboration with **buy-side** analysts;
- assessing bond issuers climate risk preparedness by writing TCFD assessments of the top-5 carbon-emitting bond issuers for all funds;
- challenging issuer exclusions that are based on external data providers scores and assessments (if and when deemed justified);
- writing ESG scorecards whenever needed;
- conducting engaged dialogue with issuers;
- filling in templates on issuers for sustainable impact theme funds and providing investment ideas to PMs (in collaboration with sector analysts and the RICC);
- representing the credit team through active participation in sustainability committees (the SRI Steering Group, the TCFD Steering Committee) and dedicated working groups including on engagement.
- attending sustainability conferences, meeting with issuers' designated ESG teams and reporting on the outcome of the discussions to the fixed income team.

Assessing the ESG profiles of individual companies and working closely with DPAM's investment teams to integrate ESG information and data into their investment process are the main roles of the ESG buy-side analysts.

ESG integration in the buy-side research process is the common responsibility of the ESG analyst and the buy-side analyst. **The integration of ESG analysts in the buy-side research team provides the desired ESG integration by both ESG analysts and buy-side analysts in their day-to-day work.**

The buy-side ESG analyst has a bottom-up approach to ESG topics - looking at those topics from an issuer and sectorial perspective. The work of the ESG analyst is related to the top-down sustainability approach of the RICC which defines the applicable framework and policies within which the buy-side research team and PMs are working.

ESG performance assessment

A performance assessment is carried out at the end of the performance period by one of the line managers, based on **financial, non-financial, individual and collective criteria**. At the start of the performance period, the colleague and the head of the department to which the control function belongs mutually establish a set of performance objectives.

Respect for the interests of investors, the quality of services provided to clients and compliance with internal procedures and regulatory requirements are integrated into the performance evaluation process.

We also integrate ESG factors in the end of year appraisal process in a variety of ways:

- ESG integration in research analysis, based on external providers data and on own critical analysis to actively contribute to sector related ESG debates and to the development of a customised ESG framework for the (sub) sectors;
- Active participation in ESG specific tasks such as: controversies review, co-operation in collaborative/individual engagement cases, TCFD templates, scorecards generation and other ESG related topics;
- Strong interaction, when relevant, with the ESG dedicated employees;
- Ability and knowledge to explain and educate clients and prospects on ESG topics and to integrate ESG focus during client and prospects meetings;
- Knowledge of DPAM's approach regarding sustainability methodology and process during clients and prospects meetings;
- Fulfilment of all required training on ESG related subjects.

Additionally, all DPAM staff are assessed on a **sustainability awareness index program** that might impact each staff member's variable remuneration.

To encourage interaction, the investment and research teams and the RICC share the same floor. Our investment teams are trained to signal potential ESG issues, to comply with and to understand the construction of DPAM's eligible universe and to interpret external extra-financial research on specific companies or industries. In case there are specific controversies or questions, the investment teams interact with the RICC in order to support their analysis and decision-making. Meanwhile, the RICC regularly participates in the investment teams strategy meetings in order to better understand their views and expertise and to encourage a daily dialogue on the ESG aspects of potential investments.



External resources

DPAM's external resources include extra-financial, company-specific and industry-wide research from the two leading extra-financial rating agencies **Sustainalytics** and **MSCI ESG Research**. In selecting providers their corporate governance is taken into account alongside the relevance of their information, their coverage and their responsiveness on controversies and market events (for instance how long it takes for them to cover a security that enters the universe).

As a supporter of the TCFD recommendations that is committed to assess environmental risks accurately, data from the specialist in **environmental data**, **Trucost**, is a key input.

To complement these resources and to ensure full alignment with the net zero initiative, two additional sources specialised in environmental data were added: the Carbon Disclosure Project's temperature rating tool and the Carbon Earnings at Risk product from S&P. Furthermore, the open database from Science Based Target protocol is also a source of information.

Besides the extra financial data providers, DPAM has access to a large amount of ESG data produced by various international sources of reference and a **wide range of brokers** that provide specialised research on selected ESG-related topics, which helps DPAM to continuously develop its in-house ESG assessment methodologies. Both the RICC and the investment teams have access to these sources. DPAM's analysts can also access a large number of ESG-related data points on external analytics platforms.

In addition, DPAM relies on publicly available information to bolster its analyses. This information can be categorised as being from two different sources. The first type is derived from reputed entities such as the World Bank or the Economist Intelligence Unit. This information tends to inform our proprietary country model. The second type tends to be publicly disclosed information from NGO's and organisations focussing on specific ESG topics. Examples include Ranking Digital Rights, the World Benchmarking Alliance, or Business-Human Rights. We use these sources as an input in our analyses and we do not blindly adopt rankings.

Finally, DPAM teams up with external experts and engages in dialogue with other key players in the market. The RICC organises responsible investment corners where experts share their knowledge with DPAM's employees. DPAM also hosts experts in its topical working groups on subjects such as the climate transition and the role of international treaties in countries with severe human rights/democracy issues, for example.

DPAM Resources All Sources Interconnected

Internal Expertise

External Expertise

Strategy & Steering

Sustainable and Responsible Investment Steering Group

Board of senior experts chaired by the Chief Sustainable Investment Officer and approval of specific cases

Country Sustainability Advisory Board

Steering of the country sustainability models

Voting advisory board

Steering the implementation of the voting policy

Memberships

PRI signatory, member of international SIF's, ...



Daily Management

RI competence center

Expertise, monitoring & in-depth analysis



Analysts & portfolio managers

Integration in the investment case



Sustainalytics

ESG Ratings & controversies research – 200+ analysts

MSCI ESG research

ESG Ratings & corporate governance – 185+ analysts

Trucost

Carbon and environmental data

Ivox glass lewis

Engagement: Proxy voting & corporate governance

Broker research



Companies

Voting & Engagement

Clients

Extensive reporting functionalities



IV.DPAM: a Committed Sustainable Investor

DPAM is convinced of the risk/return optimisation of the integration of ESG factors. It considers sustainability challenges as risks as well as opportunities. ESG factors are used to assess the sustainability risks and opportunities of investment decisions.

DPAM is committed to offer solutions aligned with the European Commission's 2030-2050 **Program**⁵ for sustainable and inclusive growth and to put its portfolio management expertise to the service of key ESG priorities. This is also the reason why DPAM decided to join the Net Zero Asset Management initiative (see above).

⁵ This includes notably the EU Strategic Plan for sustainable finances, the Green Deal, the Fit for 55 package, etc.



ESG: DPAM's definition

ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or corporate.



Environment

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 in addition 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.

DPAM considers a wide range of environmental issues in its investment process, notably **climate change and its impact on resource scarcity - food security, water security, energy security and land security**.

Having joined NZAM and as a supporter of the TCFD recommendations, it is important to define climate-related priorities and targets and to focus on material factors.

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.

DPAM has defined as a priority that the portfolios it is managing are assessed for their **alignment with a below 1.5° scenario**. High emitting companies within all portfolios are assessed in depth. Based on this assessment, DPAM's TCFD Steering Group will develop possible actions for the portfolios or investees which fail the exercise. Actions will include, but are not limited to, engagement with the companies which are falling behind in the transition, with a focus on integrated and comprehensive transition plans as well as **scope 3 emissions**⁶. This indicator helps to assess the materiality of environmental risk at portfolio management level.

The TCFD analysis is explained below.

⁶ Scope 3 emissions: other indirect emissions, linked to the supply chain (upstream) and the use of the products and services during their life cycle (downstream)

Focusing on those climate risks, DPAM integrates in its investment process several environmental Principal Adverse Impact indicators as defined by SFDR⁷. Please read more, below, on how these are integrated in our methodology and investment process.



Social

The 'S' in ESG encompasses various social aspects, all of which relate to social relationships. Broadly, the term 'social' reflects the positive and negative interactions between corporations and their stakeholders, as well as the impact businesses have on the societies in which they operate. This concept is often referred to as the 'social license to operate.'

Companies influence three primary stakeholder groups through their activities:

- Employees – including direct and indirect workers.
- Consumers – those who use a company's products and services.
- Communities – particularly those affected by business operations.

Each social topic can be classified according to the impact it has on a distinct stakeholder group. Naturally, topics might have a spillover on another type of stakeholder group. However, the common foundation when analysing social factors is the respect for human rights and associated freedoms. These rights are fundamental and inherent to all individuals simply by virtue of being human.

Corporate responsibility in this regard is based on internationally recognised frameworks, including but not limited to:

- The UN Global Compact
- International Labour Organization (ILO) instruments
- OECD Guidelines for Multinational Enterprises (MNE Guidelines)
- UN Guiding Principles on Business and Human Rights
- And the underlying conventions and treaties.

Employees (Direct and Indirect Workers)

We ensure that companies implement fair labour practices, monitor and uphold fundamental workers' rights throughout their supply chains, and maintain appropriate health and safety measures. Additionally, we assess how workers' representation is safeguarded.

Consumers

Evaluating a company's impact on consumers is essential. Businesses must ensure their products contribute to end-user well-being while considering product responsibility throughout the product lifecycle. Risks in this area include digital rights, product safety, labelling and marketing practices and accessibility.

⁷ The '**Principal adverse impact indicators**' (or PAI) are a list of indicators/metrics provided at EU level which can be used to assess the negative impact of an issuer/a portfolio on environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery.

Communities

Companies must assess their impact on the communities where they operate, particularly indigenous populations and individuals in conflict-affected and high-risk areas. Social responsibility also includes fair competition and mitigating the risks associated with monopolistic or anti-competitive behaviour.

DPAM, with the support of its investment professionals, has identified: digital rights, due diligence on social risks in supply chains, conflict-affected and high-risk areas, and workers' representation as key engagement priorities. These topics address human rights concerns across different stakeholder groups and reflect the most significant risks within high-risk sectors. Further details on these focus areas can be found in DPAM's Engagement Policy. For more information on the dedicated social risks analysis developed internally, please refer to our [Social Due Diligence Policy](#).

This dedicated analysis and focus on social issues enables DPAM to integrate the social Principal Adverse Indicators as defined by the SFDR.



Governance

Governance covers the impact that a company's management and processes have on the long-term interests of the business, on its investors and on the community in which it operates. It complements the required standards of governance as mandated by the regulatory framework.

Governance is a key criterion in DPAM's research. Companies' behaviour comes in at the top of the list of governance topics. Governance is in the 'DNA of DPAM' when it comes to assessing management sustainability, as it is the key driver of longer-term investment performance. By meeting with a company's top management, an analyst can form an opinion on the quality of the management team and the credibility of its objectives, with a view to determining whether the management can succeed in implementing a business plan strategy and in generating sustainable value creation.

Corporate governance data, however, tends to be qualitative by nature, which can be a challenge for ESG analysis, making it more difficult to measure the impact on financial performance. DPAM's approach consists of collecting corporate governance data and converting it into a score reflecting the quality of business management. More precisely, the governance criteria we monitor includes:

- Board of directors – independence, diversity and skills;
- Audit and internal controls – non-audit fees;
- Executive remuneration;
- Business management controversies;
- Shareholder dissatisfaction;
- Protection of minority shareholders.

Governance also involves **business ethics**, primarily issues related to **bribery and corruption** or **anti-competitive behaviour**. Corruption is key as it leads to a lack of transparency, uncertainty and therefore volatility.



ESG factor integration: integration principles

Our philosophy and approach are based on pragmatism and dialogue. DPAM is convinced that today's global challenges are tomorrow's opportunities.

It is DPAM's fiduciary responsibility, as a research and financial expert, to map the business, financial and ESG risks and opportunities associated with any specific investment. The analysis of ESG factors is part of the process applied to identify the investments that are most appropriate in reaching the funds' and clients' objectives and guidelines.

ESG factor integration – ingrained in DPAM's DNA

1. Risk return optimisation
2. Time horizon
3. Materiality of ESG criteria
4. Sector specific ESG factors
5. Engaged dialogue and promotion of best practice
6. Continuous improvement
7. Holistic and transversal approach



Risk return optimisation

Over the **mid- and long-term**, ESG awareness pays back. For a company understanding its impact on its stakeholders is a pre-requisite for its sustainability and therefore its profitability and ability to create shareholder value. ESG considerations are **increasingly integrated** into corporate strategies. ESG performance is part of a complex picture and anticipating ESG challenges can generate a competitive advantage for companies. In the same way a financial business plan covers a **3 to 5-year time horizon** in order to anticipate key corporate developments and to make appropriate plans, ESG challenges should also be identified so they can be anticipated and planned for.



Time horizon

The question of time horizon regarding ESG factors is challenging as it is dependent on other factors such as long-term objectives, instrument maturity, refinancing, cash flows and frequency, for example. In regard to ESG factors, some issues may emerge gradually and become more relevant over time, others will unexpectedly become evident. Long term risks may become short term whilst others may never materialise.

Furthermore, ESG factors tend to rely on static information, which leads to retro-active analyses rather than pro-active ones. **Forward looking data** enables proactive analyses. This is why DPAM has focussed on **data monitoring** (evolution over time) and **developing scenarios** to ascertain the plausibility of specific risks.

ESG factors are defined according to **structural trends**, which are by their nature long term. Nevertheless, environmental risks, and in particular climate risks, are urgent and should be considered in the short term as well.

According to a survey published by MSCI in June 2020⁸, governance factors seem to have more direct impact on valuation and reputation in the short term than environmental or social ones which have more of a medium-term horizon.

It is therefore the responsibility of the research and portfolio management teams to define the ESG factors which are the most **relevant according to the time horizon of the investment decisions and circumstances of the portfolio's construction**.

⁸ Deconstructing ESG ratings performance, June 2020



Materiality of ESG criteria

DPAM focuses on criteria that could affect the core drivers and most important financial metrics of each company.

As a first step, we identify strategic challenges regarding ESG issues. These challenges are dependent on the context of a corporate's activities. Factors such as the specific sub-industry, geographical scope, defined activities, target group, or geo-political context all impact the identification of these challenges.

The second step of the approach focuses on the materiality of these ESG issues, this, for example involves identifying medium-term risks and opportunities and how the companies or countries are preparing for them. Whilst DPAM assesses a range of ESG criteria, its focus is on identifying issues which have a material impact on the sustainability of a company's activity and therefore its profitability and creation of shareholder value.





Sector specific ESG factors

ESG covers a wide range of issues. To keep the analysis process efficient and to avoid diluting the most relevant ESG topics for each sector, DPAM has defined **key ESG issues for each particular industry**. Within each sector and sub-sector, a number of specific sectorial ESG criteria have been retained with a view to reflect sector-specific drivers and identify companies which are in a better position to face the challenges identified. The key ESG factors for each sector are reviewed regularly since they can become more or less relevant and material over time and are decided by the research teams according to the sectors' challenges.



Engaged dialogue and promotion of best practice

Dialogue with the companies and other stakeholders is central to our research and investment process. Engaging with a company through proxy voting or direct dialogue is a means **to fine-tune fundamental research-driven investment decisions and to spread best practice and innovative solutions to ESG challenges**.

Company meetings foster communication and are a way to assess the ESG involvement of the companies in which DPAM invests or may invest. During meetings with senior management, DPAM's professionals raise questions on ESG issues and engage with the company to promote ESG best practice.

Engagement goes beyond existing investments as it also applies to investment opportunities and collaborative engagement initiatives on various ESG issues that DPAM supports where DPAM is not a shareholder of the engaged companies. In other words, engagement is used as a due diligence process, integrated in DPAM's commitment to be active, sustainable and research driven.



Continuous improvement

The integration of ESG factors in the investment process is a **permanent learning** process. ESG issues are frequently medium-term while valuations are driven by short- and long-term factors and there can be tensions between these different considerations. The challenge of sustainability integration is reconciling the interests of all stakeholders while creating value for shareholders. While the analysis of tangible assets has existed for a long time, with well-known standards and measures, largely accepted and used worldwide, this is not the case for the valuation of intangible assets. The value of intangibles such as brand image or innovation is closely linked to ESG factors. Challenges include assessing materiality and comparability, for example.

Nevertheless, DPAM is convinced that a long-term view pays off and that **considering ESG issues in the medium term can make it easier to anticipate signals of strength and weakness**, which could, sooner or later affect valuation and stock performance. Corporates attuned to ESG responsibility are adapting their risk control and management practices and intensifying their innovation efforts, which contributes positively to their competitiveness and stock-value in the long run.

Integrating ESG factors in portfolio management and research is a continuous process. DPAM adopts a dynamic and pro-active approach to improve its knowledge, research process and methodology and involves discussion and debate with external experts, sector and macro analysts.



Holistic and transversal approach

We aim to integrate ESG factors in the investment process, beginning in the research phase all the way through to the final decision-making phase, by integrating key factors in all asset classes.

This **holistic approach** covers sectors which are inherently unsustainable and considered ESG-unfriendly, such as metals and mining or oil and gas, which are still vital in the transition.

Up to now, oil, gas and mining played a necessary role in economic development. Rather than adopting a negative approach via exclusion of these sectors - which could lead to distortions in terms of sector underweighting and overweighting - DPAM prefers to apply a positive approach. DPAM selects the companies which are on track in transitioning to a low carbon economy and those promoting best practice within their economic and social spheres of influence. DPAM's Controversial Activities Policy details DPAM's vision and engagement on that topic.

DPAM is committed to a responsible approach towards the climate transition and is conscious of the leverage it has on investee companies. This leverage includes engagement or proxy voting. Additional information on these approaches can be found in the respective policies.



Sustainable and responsible investment offering

DPAM's sustainable and responsible investment strategies commit to invest in companies which offer solutions to ESG challenges.

Over time, DPAM has broadened and diversified its sustainable and responsible investment offering.

Currently, our approach identifies four categories of sustainable and responsible investments dependent on the extent to which ESG factors are integrated, as follows:

The first is **ESG integration** where sustainability risks and material ESG factors are integrated in portfolio construction on an equal footing to other investment information.

The second is **transition** where investments are selected for their sustainable features taking into account their contribution to the transition to a sustainable and low carbon economy.

The third is **sustainable investments** where the portfolio is constructed with the aim of sustainable performance (the investments are selected for their sustainable features and their contribution to the sustainable development goals).

Finally, **impact investments** aim to make sustainable impact the priority - the investments are selected based on their undisputed contribution to sustainable themes as defined by DPAM's framework aligned with the Global Impact Investing Network framework.

Further information is provided in the following sections.

DPAM's approach aims to be pro-active, dynamic and to support ESG best practice with limited exclusion of economic sectors. It includes dialogue with companies and organisations. To be constructive, we enter into dialogue with an open and critical mind-set aiming to achieve a real exchange of ideas focused on making tangible progress towards more sustainable corporate practice.



This is why DPAM's process is focused on best efforts. We aim to gradually and continuously progress towards enhancement and refinement. The Sustainable and Responsible Investment Policy aims to be pragmatic, rational and consistent with our business and strategic development while remaining ambitious and cutting edge. It is developed in the context of an evolving and improving framework, like ESG.

DPAM accepts that it operates in a dynamic and complex environment and embraces the associated investment challenges and commitments, notably because qualitative data precedes quantitative customised research integration. A truly comprehensive understanding requires qualitative analysis, controlled for data accuracy.



ESG factor integration: integration by asset class

We are convinced that investing in financial instruments issued by companies and states which integrate ESG considerations into their business models or do their best to ensure the long-term welfare of their citizens, expose shareholders and bondholders to fewer 'tail risks'⁹.

Top-down

ESG risks and opportunities are identified in a top-down way and integrated in asset allocation mainly through sector or sub-theme allocation.

Bottom-up

Thanks to internal and external data and the in-depth analysis of fundamental research, bottom-up risks and opportunities are integrated by investing, by preference, in issuers who anticipate ESG risks and opportunities and which consequently constitute sustainable franchises.

The objective of ESG integrated research is to map all the risks and opportunities of an investment. It is not a filter reducing investment opportunities but rather a way to focus on the best sustainable opportunities - the objective of the financial analysis.

It is broadly agreed that the current economic, social, environmental and governance models are no longer sustainable in the long term. Technological disruptions and new paradigms in corporate governance models are changing our ecosystems and adaptation from companies and states is required.

The way that sustainability risks are integrated in the investment decision making process can differ according to asset classes and financial instruments. According to the UN PRI, it is best practise to have distinct approaches to the different asset classes which are within DPAM's portfolio management and advisory expertise.

⁹ Tail risk is a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution. Tail risks include events that have a small probability of occurring and occur at both ends of a normal distribution curve.



Integration in listed equities

Buy-side research follows a three-step framework, as follows:

- Each sector is divided into several relevant subsectors and each subsector is analysed from a top-down perspective, with the aim of mapping its value chain.
- A decision is made on where to invest in the value chain and companies that operate in that part of the value chain are identified.
- A bottom-up, fundamental company analysis, integrating ESG analysis is undertaken.

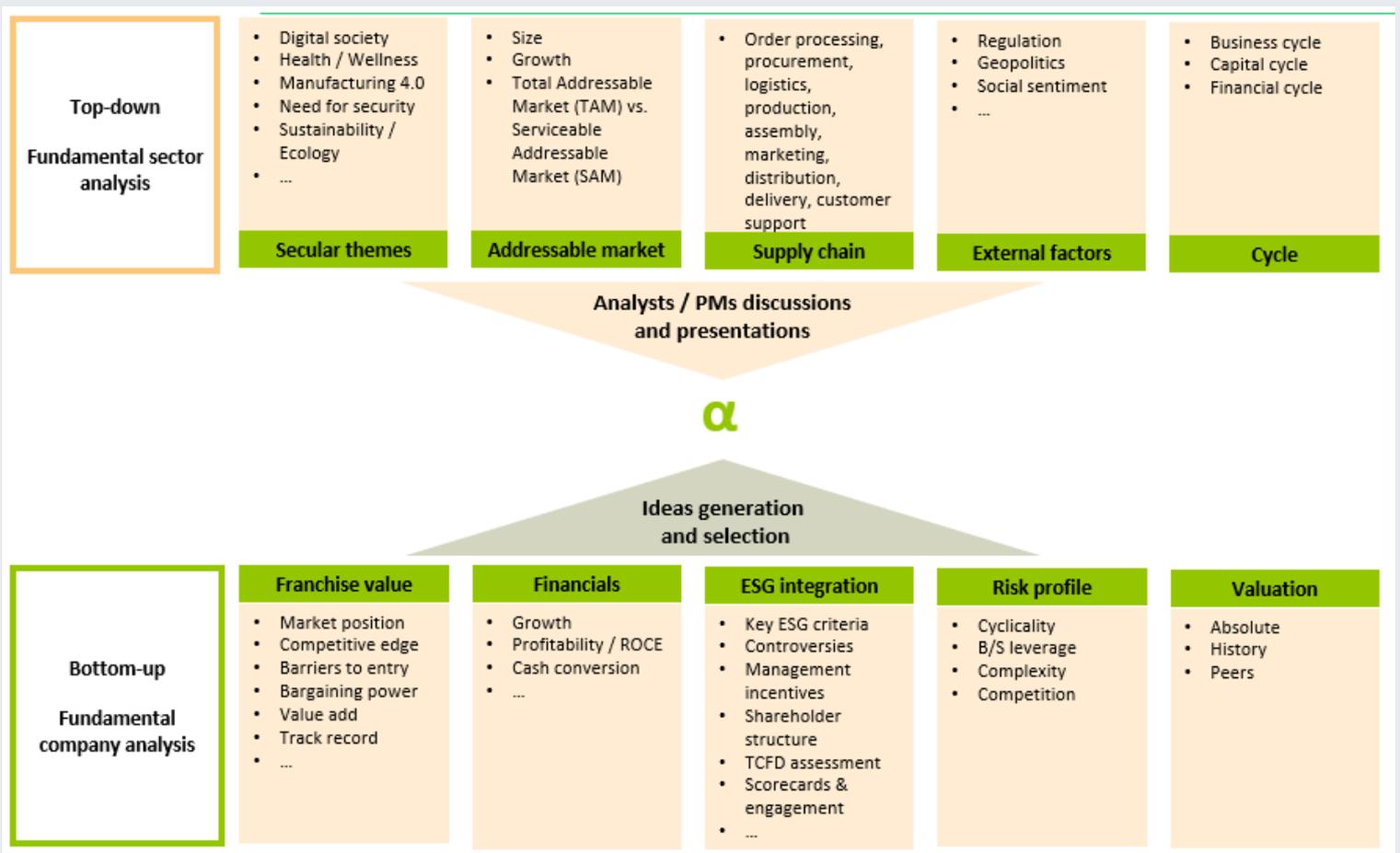
ESG analysis is integrated throughout the fundamental equity research process (using a combination of qualitative and quantitative data) which ultimately influences the formal recommendations provided by analysts to the portfolio managers. ESG factors across the three dimensions of environmental stewardship, social responsibility, and governance are considered in the process.

Equity research analysts, supported by the RICC team, consult various different data sources in conducting their ESG analysis. This may include, but is not limited to, third-party ESG data providers (for example, MSCI ESG Research, Sustainalytics, Trucost, Carbon Disclosure Project), self-reported company data (for example, annual reports, ESG reports, case studies), news and press, broker research, other data aggregation providers (for example, Glassdoor and LinkedIn for employee satisfaction) and direct interactions with company staff, investor relation managers and management teams. Drawing information from a variety of sources ensures that the analysis is as comprehensive and objective as possible. Ideally, we collect such data at various different points in time to assess the company's relative historical performance (for example, has the company improved or deteriorated) and we consider its future potential. While the emphasis of the analysis is on the risks the company faces relating to ESG factors, ESG-related opportunities are also considered.

Some of the key questions that the research analyst strives to answer in the analysis are as follows:

- Are we comfortable with the ESG profile of the company?
- What are the key sustainability challenges for the sector and its future development?
- Has the company integrated those sustainability challenges into its corporate strategy?
- Is the company involved in controversies?
- What are the main elements of the ESG analysis (risks and opportunities)?
- How is the business managing its stakeholders?

While quantitative data plays a key role in the ESG analysis, the process ultimately relies on the expert critical judgement of the research analyst, supported by the RICC team.





Integration in Corporate Bonds

Credit analysts' recommendations are driven by fundamental analysis.

The analysis of a company's ESG strategy is embedded in the fundamental analysis performed by our credit research team and from the ongoing collaboration between the credit and ESG analysts.

Our fundamental credit analysis is based on several pillars, namely the assessment of a company's business risk profile, its ESG risk profile, and its financial risk profile. In addition to an analysis performed at company level, our assessment is also done at the security/bond level to evaluate structural risk, how thorough the documentation is and relative value, for example. For climate-specific strategies, an additional and comprehensive review is conducted to evaluate the quality of the issued sustainable debt instrument and its financing framework, adhering to the principles of materiality, intentionality, and additionality.

Through this process, we form a comprehensive, substantiated opinion on a company, and we are then able to provide a clear-cut view on the attractiveness of its bonds.

We approach our ESG analysis with a critical mindset using the information published or provided by the company itself, as well as the research, data, and scoring/rating issued by our external providers (Sustainalytics, MSCI ESG, Glass Lewis, CDP, TruCost, Bloomberg, for example). More importantly, to maintain a pragmatic perspective, we look beyond a company's past performance and consider the underlying trends shown in their ESG strategy (for example the efforts put in place to achieve their targets and KPIs). This assessment allows us to forge an objective opinion on the company's ESG risk profile, and its potential impact on the other pillars of our analysis, such as business and financial risks.



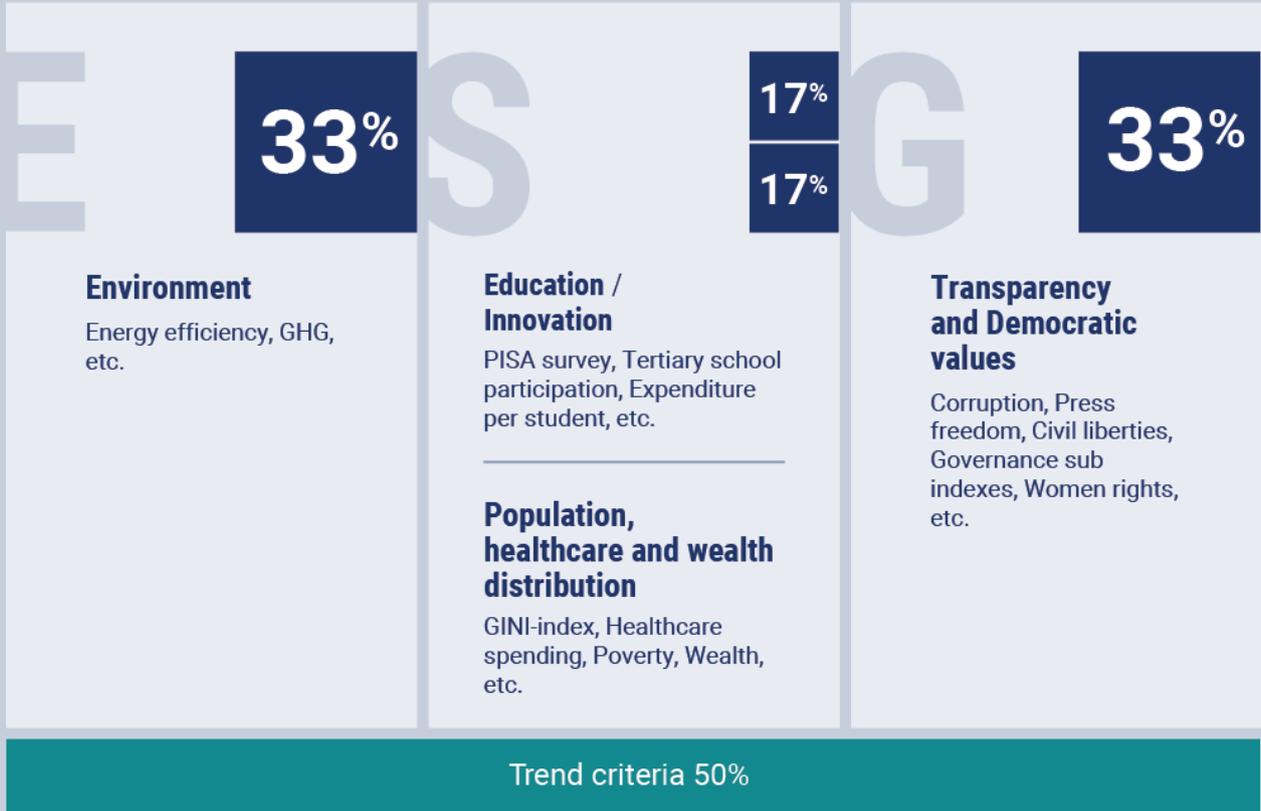
Integration in Sovereign Bonds

Looking at a country's commitment on environmental, social, and governance responsibilities allows us to identify leaders in sustainable development, which will have a positive effect on creditworthiness. This approach allows us to distinguish countries able to provide bonds issues which can make interest payments and redeem the principal, from other countries.

By investing in education, by promoting research and development to solve the key challenges of the future and by ensuring citizens can access information to exert their rights in full freedom, states build the foundations for positive economic development, good living conditions and future development - the key for the future success. Our philosophy is based on the conviction that decent, sustainable governance at a country level has indirect positive impacts on the financial performance of the country's government bond issuances.

Our proprietary country model focuses on the environmental, social and governance challenges at the level of a country. It has four sustainable dimensions, namely: transparency and democratic values (1), environment (2), population, health and wealth distribution (3) and education and innovation (4).

The approach is dynamic as our selected criteria are reviewed twice annually, with the support of the Country Sustainability Advisory Board, with the intention of selecting the most appropriate criteria for each domain. An indicator may be replaced, adapted or omitted after such review. New indicators can enter the model and the allocation of the weightings may also vary. In addition to the proprietary country model, DPAM has also defined a framework to assess use-of-proceeds bonds issued by countries.



33%

Environment

Energy efficiency, GHG, etc.

17%

Education / Innovation

PISA survey, Tertiary school participation, Expenditure per student, etc.

17%

Population, healthcare and wealth distribution

GINI-index, Healthcare spending, Poverty, Wealth, etc.

33%

Transparency and Democratic values

Corruption, Press freedom, Civil liberties, Governance sub indexes, Women rights, etc.

Trend criteria 50%



The special case of ESG-labelled bonds

ESG-labelled bonds continue to gain importance in the global investment landscape. Investors seeking to integrate sustainability commitments into their portfolios or align financial goals with ESG objectives are increasingly drawn to this expanding segment of the fixed income market.

The ESG debt market consists of many different types of labelled bonds including 1) green bonds; 2) social bonds; 3) sustainability bonds; 4) sustainability-linked bonds; 5) transition bonds; and 6) blue bonds.

While there are many different labels, the ESG-labelled bonds can be broadly categorised into two types:

- Activity-based (use-of-proceeds) bonds: Designed to finance projects with clear environmental and/or social benefits.
- Behaviour-based bonds: General-purpose instruments where funds are not tied to specific projects, but the bond's financial terms are linked to achieving defined sustainability performance targets (SPTs).

For all activity-based bonds, we conduct a double check, fully aligned with our active, sustainable, research framework, namely that these instruments shall comply with an appropriate framework (ICMA/CBI/EU GBS/LMA) and be subject to independent external review.

When analysing the issuance, analysts specifically add two dedicated sections to the use-of-proceeds of the issuance as follows:

1. The analyst mentions which second party opinion provider has drafted the second party opinion (for example, Sustainalytics, ISS, Cicero, Vigeo Eiris, DNV). In case no second party opinion exists, this will be mentioned as well.
2. The analyst mentions what framework has been used as a basis (International Capital Markets Association (ICMA), Climate Bonds Initiative (CBI), EU Green Bond Standard). The framework that the bond adheres to is usually described in the introductory text of the second party opinion and the investor presentation of the issuance. In case the second party opinion mentions another framework, the framework is checked by a member of the RICC team who reverts back to the credit analyst.

The analyst attaches the second party opinion to the issuance analysis.

Use of proceeds bonds for controversial sectors for corporate portfolios: some labelled bonds issued by companies need to be excluded from sustainable strategies due to the sector they are active in but might still be eligible in case the proceeds contribute positively to the energy transition and/or to the mitigation of climate change risks. This is again aligned with chapter 17 of DPAM's controversial activity policy.

This applies to companies that pass all the necessary checks (global standards, controversies, potential quantitative screening), but fail on the controversial activity check of thermal coal, unconventional oil and gas, oil and gas, generation of power/heat or nuclear power AND issue a green use of proceeds bond (green bond, transition bond or sustainability bond).

It is the responsibility of the relevant portfolio manager to ensure that green use of proceeds bonds issued by companies active in sectors with an activity threshold (as set out in the controversial activity policy) are subject to a proceeds analysis by the RICC. Concretely, the RICC sets up an analysis to ensure that the proceeds of the bond contribute positively to the energy transition and/or to the mitigation of climate

change risks. Only after receiving a positive analysis can the portfolio manager invest in the type of bond issued by an issuer that does not satisfy the activity thresholds set out in the controversial activity policy for thermal coal, unconventional oil and gas, oil and gas, generation of power/heat or nuclear power. The RICC will use the input of the financial analyst in the decision.

For specific strategies, an in-depth qualitative assessment of the bond will complement the double check of alignment with an external framework and the availability of a second party opinion. For DPAM it is important to formulate our own opinion on whether a green bond, for example, is truly green, aligns with sustainable values and has a positive impact on the environment or society. This is why the RICC independently assesses GSS frameworks and whether these meet the expected targets and ambition level.

This qualitative assessment is based on a methodology that outlines the best market practices for ESG labelled bonds and includes the delineation of climate targets based on science-based emission reduction pathways. Our in-house screening goes further than a simple alignment with international standards and principles, like the ICMA standards.

In the analysis we also investigate alignment with the principles of materiality, intentionality and additionality.

- **Materiality:** this principle ensures that the projects are aligned with the key risks and opportunities the issuer is facing.
- **Intentionality:** issuers must be intentional about how their financed projects will create environmental benefits. Projects must therefore be ambitious and adhere to the latest internationally recognised standards.
- **Additionality:** the financed projects must present additional environmental benefit compared to a business-as-usual scenario. Key elements here are the proportion of refinancing, the look-back period and the capital expenditures.

The ICMA Principles seek to support issuers in financing sustainable projects with clear environmental or social benefits that foster the climate transition and create positive externalities for society. The ICMA recommends that issuers report on how the proceeds of use of proceeds bonds will be used to promote transparency, which will facilitate the tracking of funds to environmental or social projects, while simultaneously aiming to improve insight into their estimated impact.

For these specific strategies, a bond is only considered an eligible GSS bond if both the issuer and the GSS bond are internally validated. The entire in-house assessment for GSS criteria is independently carried out by the RICC, to validate whether bonds are truly sustainable.

This in-house assessment will result in a list of DPAM validated bonds which adhere to internationally accepted standards and for which DPAM is convinced there will be an impact. Green bonds failing this internal assessment will therefore not be counted as green investments.



Integration in third-party funds

To diversify, the management teams may select investment funds managed by third parties.

As with any investment, our teams pay attention to varied sustainability criteria when making their selection, including the quality and track record of the third-party fund manager, its commitment to sustainable investment, notably its policies and rules regarding sustainability factors and risks and compliance with the do not significantly harm principle. The different policies regarding ESG integration and climate risk and the engagement of the third-party fund manager are reviewed to generate a good understanding of whether and how systematically it integrates sustainability risks. Finally, at product level, the SFDR classification and the linked methodology are used as key information to assess sustainability risks globally and at product level in particular.

It is important to make a distinction between actively managed third party funds and ETF and indexing strategies, where the third parties track indices.

In order to evaluate the integration of ESG in actively managed third-party funds, each fund is screened on an annual base on its holdings. This way, for each fund, all holdings are checked in a consistent manner and according to DPAM's rules and definitions on sustainable instruments. Depending on the outcome of the screening, a fund's SFDR classification might be revisited. When an underlying fund does not meet the criteria on sustainable investment put forward by DPAM (min 80% of E/S promoted for article 8 funds or min 50% of sustainable investments for Art 8+) the fund is reclassified and considered as an article 6 fund according to the SFDR. A tolerance of 5% is maintained in order to acknowledge that sustainability definitions might vary across managers. Nevertheless, an engagement discussion will be conducted in case of reclassification.

For ETFs and indexing strategies, we use a different method to ensure proper adherence to ESG principles. As the funds often track an index, carrying out an active engagement with the asset manager is not possible, as it won't change its holdings. To ensure that DPAM's ESG angle remains when investing in indexing strategies and ETFs, we developed a more quantitative approach to screening these products. DPAM uses data from an external data provider to understand these third-party funds' exposure to controversial activities. These figures are calculated for managed products globally using Morningstar's portfolio holdings' database. Additional information on this approach can be found in the Sustainability Policy of Degroof Petercam.

On top of this, principle adverse indicators (PAI) are evaluated at fund level too.

First of all, there is an engaged discussion with the third-party funds' managers in case of exposure to excluded activities/issuers as specified by our controversial activities policy according to the SFDR level category.

If the engagement is positive i.e., there is an agreement on exiting the controversial issuer, the third-party fund can be considered as article 8 SFDR.

If the engagement is not concluding, the third-party fund will not be considered as an article 8 SFDR despite its classification as such.

Beyond aligning with the exclusions defined by the controversial activities policy, DPAM checks the sustainable instrument threshold and PAI integration at the fund level as well.

Based on this check, the fund might be reclassified as article 6 (if it does not meet the exclusion rules) or article 8 (if it does not meet the threshold of SI 50%).

The review is annual and dependent on the transparency of the individual lines and on the European ESG Template.

Integration in impact investing in private equity

Management teams may select private equity linked to impact investing or projects. Due to the nature of such assets, DPAM believes that the integration of ESG factors is intrinsic to the securities. Please refer to the above description of third-party funds for the integration of ESG factors.



Sustainability risks integration

Sustainability risks are covered by the ESG Risk Committee. In addition, the ESG risk dashboard is presented to the quarterly risk committee, which reports to the Board of Directors.

The ESG risk dashboards focuses on sustainable investments and their ESG profile assessment (1) and on ESG risks (2).



ESG profile assessment

To assess the sustainable quality of DPAM's investments, DPAM refers to a proprietary classification model, which synthesises in one single metric the results of the different ESG filters and analyses namely:

- compliance with the Global Standards, notably the ten principles of the UN Global Compact;
- involvement in ESG controversies (from non-existent to the most severe ones);
- the ESG risk rating (management score).

As a result, five company profiles are identified: laggard, subpar, follower, explorer and champion, as defined in the table below:

| | |
|-------------------------|---|
| <p>Laggards</p> | <p>Laggards are companies that do not respect the minimum fundamental values. These are companies that are classified as non-compliant with the Global Standards or that have been found to be implicated in the most severe ESG controversies (level 5 on a scale of 1 to 5).</p> <p>These profiles are forbidden in article 8 and article 9 products.</p> |
| <p>Subpars</p> | <p>Subpars are companies that have an ESG risk management score that is situated in the fourth (worst) quartile of their industry or that are facing serious allegations of controversial behaviour (level 4 on a scale of 1 to 5). Both classifications are treated equally as severe controversies reveal information about the effectiveness of a company's potentially high ESG score and linked policies and programs.</p> |
| <p>Followers</p> | <p>Followers are companies with a below average ESG risk management score (situated in the third quartile of their industry) but that do not face serious allegations of controversial behaviour (maximum level 3 on a scale of 1 to 5).</p> |
| <p>Explorers</p> | <p>Explorers are either: 1) companies with a good ESG profile (ESG risk management score between the 50th and 75th percentile of their category) that do not face any severe allegations of controversial behaviour (level lower than 4 on a scale of 1 to 5); or 2) companies with a superior ESG profile (ESG risk management score between the 75th and 100th percentile of their category) but which face moderate allegations of controversial behaviour (level 3 on a scale of 1 to 5).</p> |
| <p>Champions</p> | <p>Champions are companies with a superior ESG profile (ESG risk management score between the 75th and 100th percentile of their category) and which do not face any moderate or severe allegations of controversial behaviour (below level 3 on a scale of 1 to 5).</p> |

ESG risks analysis

Focus on sustainability risks – environment and climate risk

Based on the work done in the TCFD group, a dashboard has been developed to assess risks in terms of:

- **Fossil fuel exposure and stranded asset risks:** by focusing on the total fossil fuel exposure of DPAM's investments, the objective is to monitor and manage the financial and reputational risk associated with it. Since fossil fuel exposure may go beyond the Global Industry Classification Standard energy sector classification, several indicators are retained as there is no unique indicator to assess 'exposure'.
- **Physical climate risks exposure:** three physical climate risk scenarios are applied, based on different time horizons and temperature estimates. These are linked to seven physical risk estimates, which are aggregated and range from the physical asset level of an issuer to an aggregated issuer level score provided by an external data provider.
- **Climate transition risks (carbon earnings at risk):** transition risks are quite broad and range from regulatory risks to market or technology risks and can include fossil fuel risks. As a proxy for assessing transition risks in a standardised manner, it was agreed to monitor carbon pricing risk exposure using 'carbon cost as percentage of EBITDA' according to three scenarios, provided by an external data provider. It is however agreed to target the more stringent scenario, due to recent market evolutions notably under the EU Emissions Trading Scheme (more below).

Based on the above indicators, warning thresholds and escalation steps are defined to ensure follow up. Our TCFD assessments at investee level form the start of the escalation, since these rely on the insights of the analysts and portfolio managers. Since mitigation measures can be implemented by corporates to tackle the above risks, the TCFD committee initiated the inclusion of mitigation-related data in the dashboard.

- **Mitigation measures:** to assess the mitigation commitments and capabilities of issuers within the scope of the dashboard assessment, it was agreed to add information related to science-based target setting (to assess commitments), EU Taxonomy alignment (to assess performance and/or investments) and internal TCFD assessment coverage (to assess overall risk exposure).

The dashboard was further extended by adding target credibility scores, GHG emissions trend information and consideration of the target set by the investee to identify possible red flags and to allow for the mitigation of financial and/or reputational risks. In addition, financed emissions were added to gain insight into the weight of the issuers in DPAM's total financed emissions, allowing for more informed monitoring and final decision making.

In terms of **social and governance risks**, regulation is still vague and lacks standards and metrics. The social taxonomy is drafted but the framework still leaves room for interpretation.

The social principal adverse sustainability indicators, even when computed quantitatively, rely principally on qualitative assessment which makes monitoring and management of social risks challenging.

Initially, social and governance risks in DPAM's investments were assessed and monitored through an in-depth analysis of controversies linked to social and governance factors, namely:

- social: supply chain, society and community and customer and employee;
- governance: public policy, governance and business ethics.

The evolution of the exposure of severe controversies is monitored and discussed within the DPAM Risk Committee on a quarterly basis.

Since the end of 2023, the social risks exposure of DPAM investments is also assessed through the lens of human rights. Please refer to DPAM's [Social Due Diligence Approach](#).



Integrating sustainability risks in the investment process



A sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment, as specified in sectoral legislation, in Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/65/EU, (EU) 2016/97, (EU) 2016/2341, or delegated acts and regulatory technical standards adopted pursuant to them.

These are **closely connected with the ESG factors** DPAM has defined and are integrated at the asset level as explained above (PAI and engagement priorities).

For DPAM, the sustainability risks go beyond the SFDR defined PAI and are integrated from inception and at each step of the investment process within the research teams.

Different supporting screening tools¹⁰, described, in detail, in the 'Methodology' section enable us to integrate sustainability risks in investment decisions and risk management.

DPAM uses ESG data provided by extra-financial rating agencies (MSCI-ESG, Sustainalytics and Trucost, for example) and complements them with any other external sources deemed relevant as well as DPAM's internal ESG research.

It is also important to mention that in case of data not available for an issuer, DPAM may use data from a similar issuer within the same entity.

Integration of environmental and social risks

Environmental risk in-depth fundamental research

DPAM research and portfolio management teams pay particular attention to the TCFD recommendations in relation to environmental criteria that might have a negative material impact on the value of the investment. The financial risks related to climate change (such as carbon price risks or physical risks related to drought) are taken into account by the fundamental analysts in charge of the main sectors impacted by the transition (energy, transport, real estate and materials, agriculture/food/forestry) with the support of the Responsible Investment Competence Center.

DPAM also increasingly integrates physical risks (risks to corporate assets resulting from the increasing number of natural disasters and climate change), thanks to emerging data availability and our own internal research.

Climate risks are also taken into account on a sectoral basis. DPAM analyses these risks in the main transition sectors designated by the TCFD - energy, transport, building materials, agriculture/food/forestry, etc.

DPAM is committed to integrating climate change risks into its investments through a two-step approach:

¹⁰ Norms screening, controversies screenings, best in class.

- Measuring the impact of our investments on climate change (for example, in accordance with the Net Zero Asset Management ambition, reducing the carbon footprint of investment funds¹¹ to align with a 1.5 degree scenario);
- Measuring the impact of climate change on investments (for example, in accordance with the TCFD recommendations, integrating the consequences of droughts on a utility's hydropower production into its assessment).

The template we developed regarding the TCFD follows the structure recommended by the TCFD group.

The standard, industry-specific assessment template has evolved to become a **more detailed template including company-specific information**. The initial template was developed in close collaboration with our buy-side analysts and portfolio managers. The template is based on the 4 pillars of the TCFD and consists of several company-specific, customised fields (including material risks and opportunities), which allows us to assess the strategic positioning of a company on climate change and the transition towards a low carbon economy. The template requires input from multiple sources, including our external ESG/carbon data providers (for example, Sustainalytics and Trucost) as well as companies, NGOs, academic research entities and our own internal assessments. Areas it focuses on, for example, include compliance with the (preliminary) EU Taxonomy regulation and Transition Plan disclosure requirements. The focus is on analyst sentiment above externally provided data and information. The template has been revised to ensure several data points are automatically populated, which allows more time for qualitative review and assessment, beyond data collection. For all the TCFD sectors, we defined material risks, although in the new template, we rely on material risks directly reported by our investees to the Carbon Data Project. The template proceeds from identified risks, which include: an exposure assessment and quantification of costs and mitigation measures; time horizon and likelihood estimations; and an in-house outlook on the relevant risk. We believe this strengthens our approach as our analysis is founded on company-reported information, external information and analyst sentiment with an optional qualitative review. Furthermore, to identify and quantify opportunities related to the climate transition, the template has a dedicated section focusing on opportunities, which comprises elements linked to the company's strategic positioning (M&A activity, development of new products and services, for example) so the focus is not solely on risks.

Climate-related risks can have an impact on individual positions, but also at the aggregated portfolio level. To assess risk exposure at portfolio level, it was agreed to conduct the proprietary TCFD assessment for the most **GHG intensive positions (tCO₂/ USD mn sales)** of each actively managed investment strategy in order to have a representative view on the portfolio's overall climate risk exposure. This was a deliberate choice, since for our actively managed sustainable strategies, the top 5 emitters **based on scope 1, 2 and 3 emissions** contribute on average to over 50% of the portfolio's total carbon intensity.

The issuers which are the top contributors to the carbon intensity of DPAM's investment funds are systematically assessed through a template developed in close cooperation between the RICC and the analysts and portfolio managers. This analysis is at disposal of the portfolio managers of mandates, which are generally invested in the same issuers as the investment funds.

This template systematically includes the following themes of the environmental principal adverse indicators: data regarding GHG emissions and carbon emissions (scope 1, 2 and 3 if relevant) as well as water data.

In addition to the quantitative data, the analysts have also defined the key material risks for each sector.

Please see the example of material risks identified, for three sectors, by analysts and portfolio managers shown below.

¹¹ DPAM signed the NZAM in March 2022 and all its article 8 and 9 SFDR investment funds are included in its commitment. DPAM is committed to convincing its clients to join the initiative for the portfolios it is managing on their behalf.

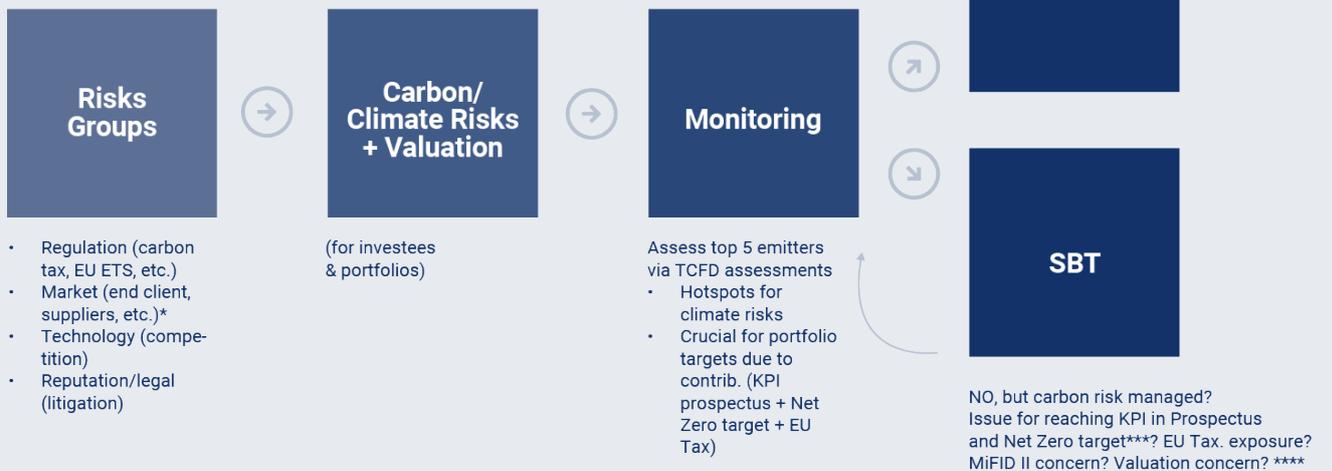
DPAM's TCFD assessment approach

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.)



| | Material Risk 1 | Material Risk 2 | Material Risk 3 |
|-----------------------|---------------------------------|-----------------------------------|---|
| Semiconductors | Carbon pricing (mainly F-gases) | Physical risks | Resource scarcity (minerals, water, gas (neon)) |
| Automobiles | Carbon pricing/fines | Affordability + consumer backlash | Technology (availability + substitution) |
| Utilities (non-power) | Changing customer behaviour | Extreme weather | Stranded Assets |

How is this further integrated in fundamental decision making?

Carbon reduction targets can be regarded over a somewhat longer time horizon, provided they are supported by enough medium-term milestones (for example, set as part of science-based targets). Like other financial and non-financial targets and data, the carbon reduction objectives of investees are critically analysed, for example using the TCFD aligned climate risk assessment, outlined above.

We also focus on climate alignment from a values perspective (see also our Engagement Policy for our values) and on transition alignment from a value perspective. This includes assessing the impact of target achievement on shareholder value creation and if necessary, engagement.

Much like accounting-based reporting helps us evaluate whether a company is 'on track' to reach financial targets, external carbon tracking data (from CDP/Trucost) helps us to anticipate and evaluate environmental risks in our analysis. In so doing we aim to detect potential 'misses' early.

Sector analysis, for example, shows decarbonisation paths in the materials processing industry depend heavily on new technologies that are not operational and economical today. We take this into account by integrating this risk into the overall modelling (capex/opex implications and the likely readiness of technology). This means that, in the materials sectors, we prefer companies with more tangible and profitable paths to emission reduction, for example those relying more heavily on more cost-efficient renewable energy sources. Following the European energy crisis in 2022 these companies were also financially less impacted.

Compiling the fundamental, bottom-up work leads to a more forward-looking reduction target at portfolio level that leaves a buffer for non-linearity and which is not too dependent on macro-economic fluctuations such as inflation and energy prices, for example.

Social risk in-depth analysis

For more information on how we conduct in depth social risk analysis please refer to our [Social Due Diligence Approach](#).

The specific case of government bonds – environmental and social risks in depth fundamental analysis of countries

The PAI are intrinsically linked to DPAM's commitment to reduce the negative impact of its investments by avoiding activities or behaviours that may significantly undermine sustainable and inclusive growth. This commitment is embedded in the research and investment process, from inception.

Please see our priority PAIs for government bonds below.



Statement on the priorities to integrate the Principal Adverse Impact indicators (PAI)

Principle Adverse Indicators – Priorities - Environment

GHG Emissions

The 6 mandatory PAI are systematically integrated in the TCFD analysis of the issuers that contribute the most to a portfolio's carbon intensity. Based on qualitative and quantitative analysis, the PAI levels could lead to engaged dialogues, engagements or negative investment recommendations¹².

Water

Water consumption is also part of the TCFD analysis and depending on the assessment, could lead to engaged dialogues, engagements or negative investment recommendations.

Waste

The hazardous waste ratio is included in ESG fundamental research and will lead to engaged dialogues with issuers when the indicator is material for the activity

Biodiversity

The biodiversity footprint is included in ESG fundamental research and will lead to engaged dialogues with issuers when the indicator is material for the activity. Furthermore, the assessment of the contribution to the Sustainable Development Goals 14 and 15, which are related to biodiversity, ensures systematic integration of this theme in the impact assessment of our portfolios.

¹² Please refer to our engagement policy for the escalation process according to engaged dialogues (improvement of research) and engagements (formal engagements with escalation process).

Principle Adverse Indicators – Priorities

Exposure to controversial weapons

In Belgium, the so-called Mahoux law forbids the direct and indirect financing of unconventional weapons (landmines, cluster munitions, depleted uranium).

Violation of UN Global Compact principles and OECD Guidelines for multinational enterprises

Norms screening, the first step for all our investment processes, is based on the 10 principles of the Global Compact.

The in-depth assessment of controversies related to the following matters: social, employee, human rights, anti-corruption and anti-bribery is also articulated around these key fundamental rights.

Board gender diversity

An adequate board is a key point of our voting policy and we consider gender, culture, experience and expertise diversity. We systematically vote against any proposal contrary to this principle.

Unadjusted gender pay gap

The criterion is included in ESG fundamental research and will lead to engaged dialogue with issuers when the indicator is material for the activity.

The specific case of government bonds:

Principle Adverse Indicators – Priorities – Environment

GHG Emissions

This PAI is integrated in the proprietary country model developed by DPAM and has an impact on the country's score.

Principle Adverse Indicators – Priorities - Social

Social violations

The countries which do not meet minimum democratic requirements are excluded.

The respect for civil liberties and political rights, the respect for human rights, the level of violence within the country, the commitment to major labour conventions, the issue of equal opportunities and the distribution of wealth are all indicators which could be related to social violations and are integrated in the proprietary model. These can therefore have an impact on the country's score.



Sustainability risks and potential impact on financial performance of products

The approach described above is applied by DPAM in the management of the funds for which it acts as designated management company and the discretionary portfolio management mandates. For these financial products the Sustainable Finance Disclosure Requirement obliges DPAM to assess the likely impact of sustainability risks on the returns of a financial product. As a result, we conduct the following assessment:

| Classification of the product as per SFDR | Likely impact of sustainability risk on the returns of the financial product | Rationale |
|---|--|--|
| Financial products which do not qualify as either 'article 8' or 'article 9' (so-called 'Other products') | High | Sustainability risk is considered material, as sustainability aspects are not systematically part of the fund's or managed portfolio's investment selection process, with the exception of investments in companies with exposure to controversial activities such as tobacco, the manufacture, use or possession of antipersonnel mines, cluster munitions, and depleted uranium ammunition and armour which are automatically excluded. The impact of adverse sustainability events may lead to material sustainability risks which could have negative effects on the performance of the product. |

Financial products which promote, among other characteristics, environmental and/or social characteristics in accordance with article 8 SFDR ('Article 8 products')

Moderate

The sustainability aspect is taken into account in the investment selection and screening process of the fund or managed portfolio, with environmental and/or social aspects being highlighted. The sustainability risk remains, however, as the integration of compliance with these rules is strongly advised but not binding for investment decisions, with the exception of normative screening on the Global Standards and negative screening on the severity of controversies that issuers may face. The impact of adverse sustainability events may lead to material sustainability risks which could have negative effects on the performance of the product.

Financial products with sustainable investment as their objective in accordance with article 9 SFDR ('Article 9 products') and financial products which promote, among other characteristics, environmental and/or social characteristics and invest partially in sustainable investments ('Article 8+ products')

Low

Sustainability considerations are an inherent part of the fund's or managed portfolio's investment process, with the product emphasising a partially sustainable objective. Potential sustainability risks are therefore mitigated by the sustainability screening and exclusion filters that are applied to the investment universe of the product.

Regarding third-party funds, DPAM will rely on the SFDR classification of the fund to assess the likely impact of the sustainability risks on its return, according to the following table:

| Classification of the third-party fund as per SFDR | Likely impact of sustainability risk on the returns of the third-party fund | Rationale |
|--|---|--|
| Other products | High | Sustainability risk is considered material, as sustainability aspects are not systematically part of the fund's investment selection process, as per the fund's documents. The potential ESG related research and integration does not present a binding element on the portfolio construction and the fund is not subject to specific exclusions except those that are legally binding. The impact of adverse sustainability events is likely to lead to material sustainability risks which could have negative effects on the performance of the fund. |
| Article 8 products | Moderate | The sustainability aspect is taken into account in the investment selection and screening process of the fund, as per the fund's documents, with environmental and/or social aspects being highlighted. The portfolio construction is subject at least to ESG integration completed by exclusions and/or ESG-related investment guidelines, which helps to reduce partially the sustainability risks. These risks remain however as investment guidelines do not necessarily go further in terms of ESG analysis. The impact of adverse sustainability events is likely to lead to material sustainability risks which could have negative effects on the performance of the fund. |
| Article 8+ products and Article 9 products | Low | Sustainability considerations are an inherent part of the fund's investment process, with the fund emphasising a partially sustainable objective. Potential sustainability risks are therefore mitigated by sustainability screening and/or constraints and/or exclusion filters that are applied to the investment universe of the fund. |

The background is a close-up photograph of a teal-colored leaf with several water droplets of varying sizes. The droplets are most prominent in the upper right quadrant, where they catch the light and show some internal reflections. The leaf's texture is slightly visible, and the overall color is a rich, dark teal. The text is centered in the lower half of the image.

V. Sections Applied
Specifically to
Investment Funds



DPAM's methodology and investment process for investment funds

DPAM has developed a methodology and an investment process, over the last 20 years, for sustainable and responsible investments.



This investment process progresses through different steps and which is aligned with the threefold objective on sustainable investing to:

- Defend basic and fundamental rights;
- Refrain from financing activities and behaviour which might affect the reputation of medium-and long-term investments;
- Promote best ESG practice and find solutions for ESG challenges.

The first two objectives are aligned with our willingness to reduce the negative externalities of all our investments, in line with the philosophy of the do not significantly harm principle of the SFDR regulation.

The third objective is aligned with the strategies pursuing a partially sustainable objective and seeking ESG impact.

The three-fold objective is implemented through a disciplined investment process, which is shown below. Each step is described in depth in the next chapter.

We adopt a strict and rigorous approach through the whole investment process and combine different ESG approaches such as norms screening, negative screening, positive screening, best-in-class, engagement and sustainability themes. This process ensures that:

- the minimum social and governance safeguards can be systematically ensured;
- the principal adverse indicators, through a rigorous fundamental analysis, are taken into account;
- the do not significantly harm principle is applied to sustainable instruments and portfolios; and
- the goal to provide impact through sustainable objectives, environmental and/or social, is captured.

SFDR Article



ESG integration



Active ownership



Basic negative screening



Normative Screening



Negative Behaviour Screening



Extensive negative screening



Positive screening Best in class



Sustainability Themes



Impact Framework

Article 8 Conventional



Article 8+ Sustainable & transition



Article 9 Impact





The starting framework: PRI signatory and net zero commitment - ESG integration, active ownership and GHG emissions commitments

As a signatory to the **UN's Principles for Responsible Investing** in 2011, our investment approach places responsible investment, ESG integration and stewardship principles at the core of the investment decision-making process.

After signing the PRI we applied the first two principles of the six to all our investments. In signing the PRI, DPAM committed: (1) to integrate ESG factors through all investment processes (**ESG integration step 1**); and (2) to be a responsible shareholder (**Active ownership step 2**). Voting and engagement are therefore at the core of DPAM's investment approach. We therefore systematically engage on key governance principles but also on climate related topics such as 'Say on Climate'. DPAM strongly supports ESG proposals and encourages issuers towards improved transparency.

Furthermore, committing to the **Net Zero Asset Managers Initiative** also had consequences for all the investments managed by DPAM in terms of achieving targets and intermediary milestones. Our net zero commitment has induced the decarbonisation of our portfolios and engagement processes with issuers to adopt science-based targets and to commit to the global effort of carbon reduction.

These two crucial initiatives are key for the positioning of DPAM as a sustainable actor and investor and form the basis of DPAM's entire investment approach.

In addition, there are some activities that DPAM does not finance for any actively managed financial product (**Basic negative screening step 3**).

As stated in the Controversial Activities Policy, these are:

- anti-personnel landmines, cluster munitions and depleted uranium munitions and armours;
- biological and/or chemical weapons;
- nuclear weapons;
- tobacco;
- thermal coal;
- electricity generation from fossil fuels and non-renewable energy sources;
- unconventional oil and gas: shale gas, shale oil, oil sands and Arctic drilling;
- minimum democratic requirements for sovereign bonds.

Please refer to the Controversial Activities Policy for the thresholds and rules on exclusion.



DPAM is committed to reduce the negative impact of its investment decisions – promotion of E/S characteristics in investment funds – investments in equities and corporate bonds

Defending fundamental rights and ensuring minimum social and governance safeguards

Through **systematic normative screening (step 4) and negative screening on behaviour (step 5)** companies are assessed on the basis of recognised Global Standards for example, UN Global Compact, ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UN Guiding Principles on Business and Human Rights and underlying Conventions and Treaties. The Global Standards aim to uphold four fundamental principles: to defend human rights, to defend labour rights, to prevent corruption and to protect the environment. Based on specific criteria stemming from the 10 principles of the Global Compact, ESG rating agencies assess the companies' compliance with these 10 principles. The analysis identifies companies which face incidents and severe controversies resulting in violations of these fundamental rights principles. The severity of the controversies and incidents is evaluated based on national and international legislation, but also considers international ESG standards, such as the recommendations of the Organisation for Economic Cooperation and Development for multinational companies, the conventions of the International Labour Organization and the Universal Declaration of Human Rights, for example. The assessment's results can be compliant, watch list or non-compliant. Article 8 and article 9 investment funds cannot invest in non-compliant issuers.

The Global Standards cover social and governance themes and ensure that the minimum social and governance requirements, as stipulated in the SFDR, are guaranteed.

Furthermore, the environmental theme is broadly covered. This first initial norms screening contributes to the objective of the DNSH principle, promoted by the SFDR and the Taxonomy. Certain Issuers, through their behaviour or activities, may be highlighted – and likely excluded – if they are seriously damaging the environment.

Pragmatism and dialogue in controversial activity screening – Do Not Significantly Harm Principle (DNSH principle)

A controversial activity refers to a business activity that stirs-up debate among various parties and that is contentious. For DPAM, three key elements are common to all controversial activities:

- There are diverging opinions on a particular topic or question, fuelling debate;
- There is discussion taking place among the parties over a period of time;
- The debate is lasting and can't be resolved easily. This illustrates the complexity of the topic discussed and the difficulty of settling diverging opinions.

In the context of sustainable finance, DPAM defines its position on each of these controversial activities in order to decide whether to fully divest from the companies involved in the controversial activity, or to only recommend a reduction of the investment funds' exposure. When deciding whether to exclude a controversial activity from portfolios or to make an investment recommendation, DPAM follows an approach based on dialogue, in-depth expertise and consistency. Our group's approach is to advocate best sustainability practices within each economic sector.

DPAM has a **dedicated policy for controversial activities (Extensive negative screening step 6)**, which details the activities which are by nature controversial and on which DPAM has expressed its view.

Rigor, in-depth analysis and dialogue in controversial behaviour screening – DNSH principle

The reputation of DPAM's investments might be affected by the type of economic activities it invests in but also by the **behaviour of the investee companies**. DPAM is committed to defend fundamental rights for example, human rights, labour rights, anti-corruption and environmental protection. Furthermore, DPAM is committed to reduce its negative impact by avoiding activities or behaviour which can significantly harm sustainable and inclusive growth as promoted by the European Commission's 2030-2050 Programme and endanger DPAM's commitment to the Net Zero Asset Managers initiative.

DPAM assesses companies based on the allegations they (might) face in relation to ESG controversies as controversies serve as an important indicator of the effectiveness of ESG-related policies and programs (**Negative behaviour screening Step 5**). The assessment of controversies starts from controversy ratings delivered by our extra-financial research provider Sustainalytics. The latter applies ESG filters and company identifiers on more than 55.000 daily news sources to track any relevant ESG controversy.

Daily News Analysis



Grouping of events per theme & subtheme
attribution of controversy scores per subtheme



| Environment | Social | Governance |
|----------------------------|---------------------|------------------|
| Products & Services | Customer | Business Ethics |
| Environmental Supply Chain | Employee | Publicity Policy |
| Operations | Society & Community | Governance |
| | Social Supply Chain | |

Impact – level of recurrence – exceptionality – company responsibility – company response – specific risks



Company controversy score
the highest identified controversy level of any sub-subtheme



Once a company is linked to a potential controversy, it will be sorted into the relevant controversy category (see figure above). For each category of controversy, Sustainalytics assesses relevant data and will attribute a severity score. The severity of an allegation or how controversial the activity of the company is, is determined based upon the impact, nature, scope and recurrence of the incident in addition to the response of the company, the responsibility of the management and the overall CSR policies and practices that are in place in the company. Depending on the degree of severity, the controversy category is ranked from none or category 1 (minor controversies) to category 5 (the highest level). This scoring is reviewed every two weeks.

As DPAM is an active, sustainable, research-driven investor, the RICC with the assistance of the research and portfolio management teams, performs an analysis of level 3 with negative outlook and level 4 controversies. It is essential to understand what is behind the controversy and whether other weaknesses, in terms of corporate governance for example, may undermine the sustainable growth of the issuer. For this, DPAM relies on additional sources of information available on the companies for example MSCI ESG Research, Sustainalytics and brokers, for example. Based on this information and discussion with the company and the research providers, the case will be submitted to the relevant governance body – the SRI Steering Group.

Systematic review of the controversial behaviour of companies – Universe: 15.000 issuers

The exposure of a company to controversial events can serve as an indicator to test the effectiveness of the company's ESG policies

Controversies are divided into **5 categories** by the well-known ESG research house Sustainalytics according to the **impact, the recurrence and the responsibility of the company**



Companies in category 3 and 4 (negative outlook) are thoroughly analyzed by our internal specialists



Companies that are involved in the most serious allegations (category 5) are excluded

Through this regular review of companies involved in severe controversies DPAM ensures that an additional check of the **'do not significantly harm'** principle, is actively monitored beyond initial negative screenings based on external information only. It can therefore decide to engage and/or divest, and by doing so to reduce its total negative impact. The SRI Steering Group systematically reviews companies exposed to severe controversies, sector by sector, with a view to proactively maintaining sustainable and responsible investments. In addition to the behaviour controversies, we review as well for the covered sector(s) every month the companies which are on watch list regarding the Global Standards. This enables us to enforce our control regarding the minimum social safeguards and the alignment with the principles from the OECD Multinational Guidelines or the Global Compact."

In addition to the controversial behaviour of companies, every month, for the relevant sector covered that month, we review the companies on the watch list for Global Standards. This enables us to enforce our control regarding the minimum social safeguards and to ensure alignment with the principles of the OECD's Multinational Guidelines or the Global Compact.

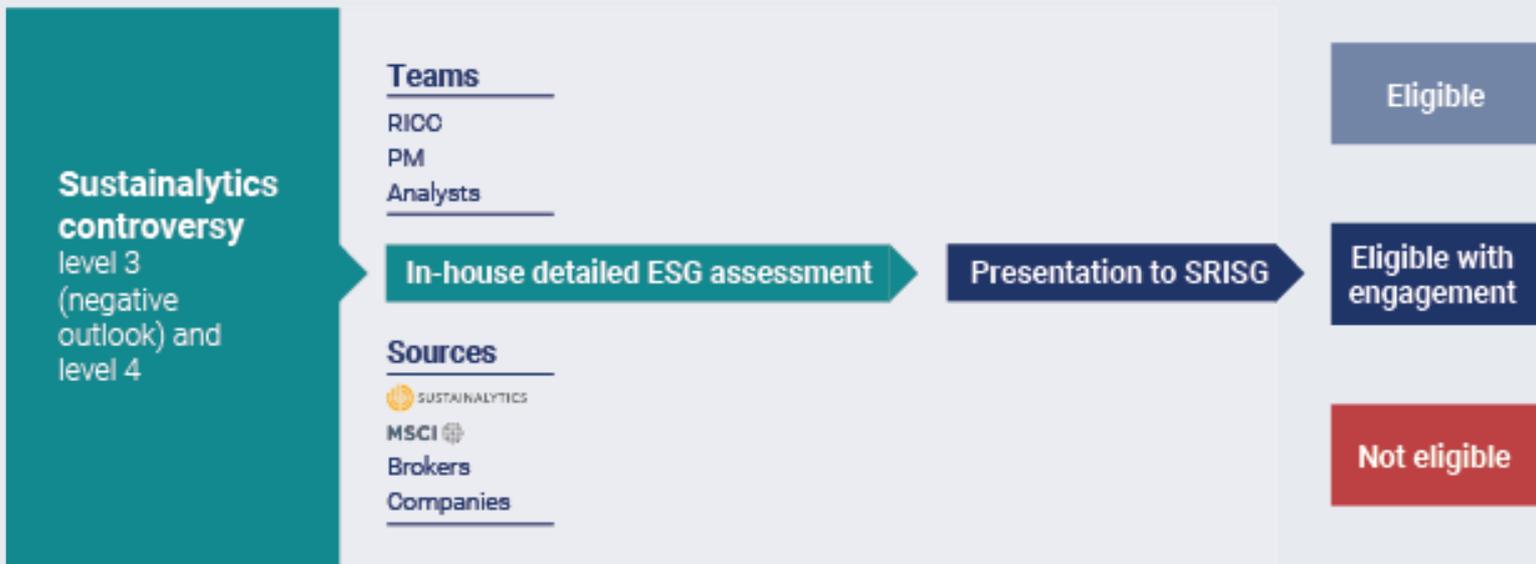
The review of specific sectors is defined each year to ensure that all economic sectors are reviewed systematically on an annual basis.

Systematic Review of Severe Controversial Behaviours – Sector Approach



Process of severe controversies review – sector approach

Controversial Behaviour Sustainable and Responsible Investment Steering Group Implications





DPAM: committed to increase the positive impact of its investment decisions – promotion of E/S objectives in investment funds - investment in equities and corporate bonds

Promotion of environmental and social best practice to encourage best in class and best efforts

When promoting best ESG practice (**Positive screening step 7**) in its investment funds, DPAM can apply either quantitative screening or the development of so-called proprietary scorecards.

With respect to the **quantitative screening** of companies, DPAM relies on ESG-scores calculated by our extra-financial research providers, which have developed specific scoring models for each relevant sub-sector of companies (peer group). For each peer group, there is an assessment of the key risks associated with the business activity and the management of these risks by the issuer (management). Each issuer receives a score between 0 and 100 that can be compared with other companies within each peer group. The higher the score, the better the ESG profile of the issuers.

However, biases in ESG score can affect certain investment funds or sectors like specific thematic strategies, smaller market capitalisations or issuers from regions where ESG information is still limited and less regulated. In such cases, DPAM relies on its long experience in fundamental and sustainable research and portfolio management expertise. By using **qualitative screening** and through the development of **proprietary scorecards**, the research and portfolio management teams can better assess material sustainability factors independently, where there is weakness in terms of coverage, disclosure or relevance.

The rationale for developing these scorecards is twofold. First, the investment universe for thematic strategies usually involves both large cap companies and companies with a smaller market capitalisation. The latter are often not covered or are poorly covered by ESG research providers. If covered, their scores can be low, since the scale of the organisation does not require or enable them to have a large set of internal policies or detailed public reporting on sustainability. Second, most trending themes often target a very specific set of activities. While ESG research providers develop distinct scoring models to capture the specifics of different sectors, these models are often not fine-tuned enough to capture the essential ESG risks and/or opportunities of these themes. This approach enables us to focus on the most relevant and material issues on which every company should be assessed in place of an approach where too many indicators dilute the impact of these key issues on the issuer's overall score.

When it comes to the qualitative ESG approach, bespoke thresholds are also put in place (in addition to the thresholds of normative screening, controversial activities, and controversial behaviour).

The scorecard includes three dimensions: sustainable impact, governance and key ESG risks. The sustainable impact dimension refers to the contribution of a company's products or services to sustainable development themes such as energy efficiency, education and health. Moreover, the sustainable impact section uses a two-dimensional approach where the impact performance of a company is compared to its subindustry and how its products and services generate a positive impact. The governance dimension refers to a standard grid that assesses the company on key corporate governance criteria such as board composition, shareholder rights and business ethics incidents. Finally, the key ESG risks dimension assesses the company on its key ESG risk themes and the linked KPIs. This could be quality of care for health care companies, data privacy and security for software platforms that use personal data, human capital management for highly innovative tech companies, and so on. Each dimension is analysed in detail according to the relevant KPIs after which each dimension is aggregated in a comprehensive scorecard which enables DPAM to assess the company's ESG criteria. The KPIs result from collaboration between ESG specialists, portfolio managers and research teams and are reviewed on an annual basis. Based on the public documents available, the teams will aggregate the issuer's ESG profile with financial criteria.

If a company scores in the bottom 20th percentile for at least three of the identified ESG risks or corporate governance areas compared to its subindustry peers, an official company engagement takes place. The alignment of the analyst with the relative subindustry is also considered. Where the engagement is deemed successful, the company is eligible for the portfolio. In case the engagement fails, the company is not eligible for investment. We deem engagement to be a success where a company has set a clear action plan, with short term targets, to remedy its lacking management practices on a certain ESG risk or in terms of corporate governance or if the company can provide us with additional information on how it tackles certain ESG risks. The engagement is considered a success where the company can provide tangible proof that it will no longer form part of the bottom 20% of its subindustry, in a reasonable timeframe.

If the scorecards result in one or two of the identified ESG risks or corporate governance indicators falling in the bottom 20%, compared to its subindustry peers, an engagement is encouraged. This means that at the next company meeting the issues identified will be raised and tangible action from the company requested. This softer type of engagement helps to mitigate the main ESG risks, while supporting companies to achieve improved sustainability profiles.



Corporate governance

E.G. Board independence, share classes, board diversity.



Key environmental social and governance risks for the company

Risks are identified based on the company's activities, subindustry, and geographical focus.



Impact assessment

The generated impact of the company compared to its peers. The impact generated due to the company's subindustry.

Identification of sustainable instruments through a revenue-aligned approach

A sustainable financial investment pursues an environmental and/or social objective. An investment is considered to have an environmental and/or social objective if pursuing an environmental objective linked to the six objectives set out in the Taxonomy or if it contributes to one of the UN's Sustainable Development Goals (SDGs). The SDGs have become a reference framework for all economic actors and have been adopted worldwide.

DPAM will consider an instrument as sustainable if it complies with one of the following four options:

- **Use-of-proceeds** instrument aligned with the reference standards: a use of proceeds instrument is recognised as such and therefore as a sustainable instrument provided it is fully aligned with the International Capital Markets Association principles and the DPAM monitoring methodology;
- **Taxonomy aligned** instrument: taxonomy alignment is calculated based on the technical screening criteria defined by the EU Taxonomy for the eligible activities of the issuer. To be considered as an instrument aligned with Taxonomy, alignment must be above 10%.
- **Environmental objective** as defined by the framework of UN SDG's. Several SDG's can be grouped together as being explicitly linked to the Environment: SDGs 6,7,9,11,12,13,14,15. The issuer must have a net positive contribution to these environmental objectives, on average, to be considered as an instrument with an environmental objective.
- **Social objective** as defined by the framework of UN SDG's. Several SDG's can be grouped together as explicitly linked to social factors: SDGs 1,2,3,4,5,8,10,16,17. The issuer must have a net positive contribution to these social objectives, on average, to be considered as an instrument with an environmental objective.

This will enable DPAM to identify whether the investment can be considered sustainable. It is important to note that this screening comes at the end of the investment process after all minimum social and governance safeguards, principle adverse indicators, sustainability risks and DNSH principles have already been implemented. As a result, the universe will have already been reduced.

Currently, the market recognises data challenges on ESG disclosure, including impact measurement and contribution to the SDGs.

The main challenges are availability, coverage, quality, relevance, accuracy and historical data. Over the last two decades DPAM has developed several tools and methodologies in addition to knowledge and expertise to correct different biases through in-depth, fundamental, qualitative research. We believe forward looking metrics should become more popular to lead to a shift in focus from pure green companies to transition stories. Reporting in terms of CAPEX alignment rather than revenue alignment is an alternative. That's why DPAM has worked on an impact framework for its impact product range.



To correct the persisting biases in ESG research and to adopt a transition approach, DPAM uses a qualitative, fundamental approach alongside engagement with issuers. This enables us to include, in the eligible universe, issuers which are not at the front line of ESG challenges but which enable the front-line issuers to achieve their positive impact. This is why DPAM is convinced that stewardship and engaged dialogue with issuers play an important part in identifying sustainable instruments.

Impact measurement and assessment – sustainability outcomes

All investment decisions shape positive and negative outcomes in the world. The Sustainable Development Goals can act as a guide in the transition to an SDG-aligned world.

Our sustainable portfolios can create a positive, economic impact in alignment with DPAM's third commitment to promote issuers that propose solutions to ESG challenges.

The identification of ESG opportunities takes place through the whole investment process. First, DPAM identifies the value chain of the sustainability theme DPAM wants to promote (for example, when identifying the sustainable trend towards the electrification of mobility, DPAM analyses the whole value chain and identifies where to best position for long term, profitable sustainable investment). Second, we focus on the sustainable impact that each actor in the sub-theme identified can generate.

DPAM has set up three profiles for portfolios with a sustainable objective:

1. The Transition portfolios

The transition portfolios share the following threefold commitment: (1) to defend fundamental rights; (2) to refrain from financing controversial activities that could affect DPAM's long-term reputation; and (3) to promote best practice and best-efforts regarding the transition.

Through this triple commitment focused on environmental and social objectives these portfolios contribute, through the majority of their investments, to a positive impact in environmental and social terms. In particular the focus is on companies related to the transition (for example, those companies that have set ambitious and credible decarbonisation targets (for example, SBTi target set, SBTi committed or CDP 1.5°C) or those energy companies and other carbon-intensive companies lacking ambitious decarbonisation targets but with whom the portfolios have active formal engagement on their energy transition).

As these funds pursue a sustainable investment objective, they aim to invest primarily in companies that provide solutions to environmental and social sustainability issues through their products and services. Active engagement on the energy transition with invested companies belonging to carbon-intensive industries ('TCFD' industries) has the goal of supporting them in the achievement of their climate targets or of encouraging them to set ambitious targets where appropriate. These goals are also at the core of the investment portfolio's construction.

2. The Sustainable portfolios

The transition portfolios share the following threefold commitment: (1) to defend fundamental rights; (2) to refrain from financing controversial activities that could affect DPAM's long-term reputation; and (3) to promote best practice and best-efforts regarding sustainability. These portfolios seek to have a positive impact in environmental and social terms, through the majority of their investments.

These portfolios might be invested in varied areas including: access to drinking water and water purification, use of renewable energies, responsible consumption, climate change mitigation, the protection of aquatic and terrestrial biodiversity, the eradication of poverty, the fight against hunger, access to health care, access to quality education and the reduction of social inequalities. Therefore, their reference framework is the UN Sustainable Development Goals (SDGs). The SDG framework is a global initiative, adopted by all UN member states, in 2015, as part of the 2030 Agenda for Sustainable Development. It consists of 17 goals designed to address a wide range of global challenges, including poverty, inequality, climate change, environmental degradation, peace, and justice. The SDGs aim to create a better and more sustainable future for all by 2030, promoting prosperity while protecting the planet. They have become a universal reference in terms of sustainable objectives.

As sustainable portfolios pursue a sustainable investment objective, they aim to invest primarily in companies that provide solutions to environmental and social sustainability issues through their products and services. The contribution of each investee's turnover to the UN Sustainable Development Goals is a key element in the investment decision process.

3. The impact portfolios

The impact portfolios share the threefold commitment of the sustainable and transition portfolios, specified above.

This triple commitment is fully integrated in the impact framework defined internally on the basis of the Global Impact Investing Network reference framework which covers health products and services, education-related services, water saving and access solutions, energy efficiency solutions, services enabling digitalisation, and sustainable mobility services, for example.

All companies invested in must make a significant positive contribution to the impact themes defined by DPAM, inspired by the GIIN Iris+ impact taxonomy, and included in DPAM's impact thematic framework. The companies must provide products and services positively and significantly aligned with one or more of the impact themes. For each company, this significant positive contribution is calculated in terms of sales exposure, or capital expenditure exposure, or by means of quantitative indicators relevant to the companies' sector of activity. Each company is validated by a dedicated internal committee based on quantitative thresholds and qualitative justifications. The impact metrics of invested companies are monitored over time, and all portfolio positions must be validated annually. As a result, only companies whose corporate behaviour is judged to be good are eligible for investment. DPAM therefore applies its corporate behaviour filter more strictly to positions held in impact funds. As these portfolios pursue a full sustainable investment objective, the contribution of the investee companies to the impact themes as defined by DPAM is the key element in the investment decision process.



The special case of private initiatives regarding labels

DPAM is conscientious to investors' needs for transparency and better understanding of sustainable products. It is therefore attentive and open to private label initiatives which might be developed in some countries. These labels can enhance transparency, as they define their own frameworks of what can be considered a sustainable product according to specific requirements which might be different from one country to another. DPAM collaborates with two private initiatives namely the ESG Luxflag label in Luxembourg and the Towards Sustainability label in Belgium. The specific requirements of the latter can be found through this [link](#).

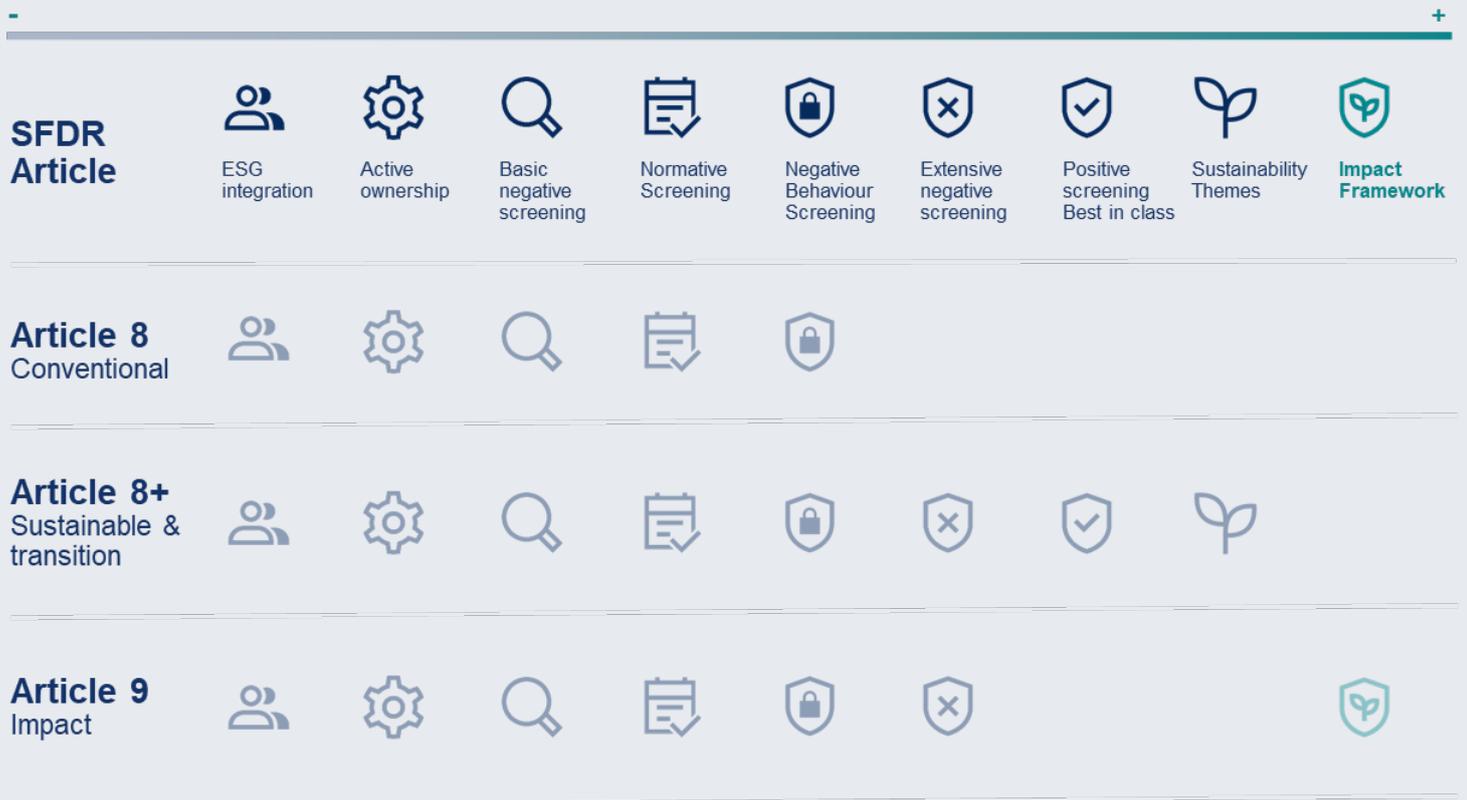
The Towards Sustainability label was granted from June 2024 with an annual compliance review of the relevant portfolios. The label can lead to additional rules which must be respected for the granted label period. For strategies focusing on smaller market capitalisations, euro-denominated corporate issuers and global thematic equities which enjoy the label, DPAM applies a reduction of 15% of the GHG emissions compared to the GHG emissions of the reference universe.



DPAM is transparent on the aim of its investment funds – SFDR classification

We have over 20 years of SRI experience which allows for structured, credible SFDR alignment.

Depending on the SFDR classification, DPAM's investment funds will apply the different screening steps, described above and summarised in the following chart.



The chart demonstrates how DPAM through its disciplined 9-step process integrates a variety of screening requirements in its different portfolios including: minimum social and governance safeguards, principal adverse indicator inclusion, the do not significantly harm principle and sustainable positive screening.



Promoting environmental and social characteristics

DPAM does this using the following methodologies:

- The norms-based screenings (step 4);
- The controversies and exclusions methodology (steps 5 and 6);



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

The contribution to environmental and/or social objectives follows different methodologies:

- The norms-based screenings (step 4);
- The controversies and exclusions methodology (steps 5 and 6).
- The positive screening through either quantitative best in class or proprietary scorecards screening (step 7)
- These investments also seek an impact through sustainable themes (step 8)

Transition funds – steps 1 to 8 being transition

The transition funds are built on the 8 above-described steps. They have a particular focus on the energy sector and the commodities sector in general. These are generally carbon-intensive sectors, which are the ones that can make the most significant contribution to the energy transition and help us to advance towards a zero-carbon world. Instead of excluding all investment in these segments, these funds will focus on energy companies with the most credible sustainability and energy transition strategies and will seek to enter engaged dialogue with them to ensure that their strategies and capital allocation are aligned with net-zero engagement and offer a credible route to achieving that goal. Our framework for dialogue with energy companies and for monitoring progress will be closely aligned with the ten principles of the CA 100+ Net Zero Benchmark, notably:

- 1) Governance criteria: The companies concerned will be expected to adopt a strategy aimed at reducing the negative impact of their activities and increasing their contributing activities, where appropriate.
- 2) A commitment to the energy transition, which can include any of the following: Having an SBTi target set well below 2°C or 1.5°C, or having a an SBTi 'Business Ambition for 1.5°C'; or allocating more than 10% of their CAPEX to contributing activities on a consolidated basis while engaging with companies to disclose CAPEX on an economic basis (the underlying logic is to focus on integrated energy companies that are best-in-class on this economic measure, a benchmark of 15% on an economic basis being a relevant

ambition (based on the limited information currently available); or less than 15% of CAPEX is spent on activities related to oil and gas and is not aimed at increasing revenues.

These funds must also limit non-conventional hydrocarbons: a maximum of 10% of 'dirty' oil and gas production (for example, fracking, oil sand, coalbed methane, extra-heavy oil); and a maximum of 10% of oil and gas production from Arctic drilling.

Sustainable funds – steps 1 to 8 being sustainability themes (SDG)

The sustainable funds are built on the 8 above-described steps.

These focus on the SDG's which are used as a reference framework to assess the positive impact of the portfolios to finance the real economy and ESG challenges and opportunities.

Because DPAM's aim is to increase its positive net impact, the exercise includes both the positive impact and the negative effect products and services from one company might have.

For this reason, the methodology looks at:

- Revenue-impact alignment (for example the percentage of positive revenue aligned to each SDG/sustainability theme in terms of positive and negative contribution);
- Product impact intensity namely whether the impact is very positive, positive, neutral, negative or very negative.

Impact funds – steps 1 to 6 and 'impact' step 9

The Impact funds are built on the first 6 steps described above and the impact themes framework (step 9).

Issuers are mapped using the DPAM Sustainable Impact Themes framework. This is a list of nine defined sustainable impact themes, divided into more than fifty subthemes. For each subtheme, clear sustainable impacts and KPIs have been defined (for example, based on an issuer's % of revenue exposure, % of CAPEX exposure, or an alternative KPI), to provide guidance on whether an issuer is aligned or not with the subtheme.

The DPAM Sustainable Impact Themes framework is largely based on the Global Impact Investing Network (GIIN)'s IRIS and thematic taxonomy. The lists of themes, subthemes and KPIs has been defined by DPAM's Responsible Investment Competence Center (RICC) together with DPAM's team of sustainable portfolio managers and fundamental analysts (SITOC) and validated by the SRI Steering Group. DPAM's Sustainable Impact Themes framework is open-ended, since DPAM reserves the right to add new sustainable impact themes or subthemes in the future. To benefit from the expertise of external experts in impact investing, an advisory group, the Sustainable Impact Themes Advisory Committee (SITAC), has been set up to organise meetings to challenge and enrich the process. Its purpose is to provide an external view on the Sustainable Impact Themes framework as well as on the issuers validated as Sustainable Impact Themes issuers.



Sustainable Transportation & Infrastructure

Sustainable Agriculture & Land Management



Sustainable Manufacturing

Education & Employment



Sustainable Nutrition

Sustainable Energy



Sustainable Cities/ Living

Sustainable Finance



DPAM's 9 Sustainable Impact Themes



Healthcare

Sustainable Impact Themes Operational Group (SITOC)



SRISG validates the Sustainable Impact Themes framework

List of Sustainable Impact Themes
KPIs for an issuer to qualify as a Sustainable Impact issuer



Sustainable Impact Themes Operational Committee (SITOC) implements the Sustainable Impact Themes framework

Ensures that there is a convincing Sustainable Impact story behind each line in portfolio
Ensures that the Sustainable impact issuers are not too controversial (reputational risk)
Checks whether issuer meets the KPIs as defined in Sustainable Impact Themes Framework.



Whitelist of Sustainable Impact Themes issuers

Applying for all DPAM Sustainable Impact Articed 9 products

Mission: a small operational committee to decide whether a given issuer can be considered a sustainable impact issuer for any DPAM Article 9 Impact strategy (= decision applying at Issuer level and for all DPAM article 9 strategies, regardless of whether they are equity, fixed income or balanced strategies).



How Principal Adverse Impact indicators are taken into account in the investment process

Whether the principal adverse impacts (PAI's) are defined as negative, material or potentially material depends on sustainability factors that result from, worsen, or are directly related to investment choices or advice performed by DPAM.

These are intrinsically linked to our willingness to reduce the negative impact of our investments, which is ingrained in the whole research and investment process, from inception.

First, the environmental PAI's, and more particularly those related to greenhouse gas emissions and energy performance are analysed and monitored at the issuer level¹³ and at the portfolio level.

Second, the social PAI's are systematically screened through the three-step, research and investment process as follows:

1. global standards compliance filter: the global standards compliance filter is articulated around human rights, labour rights and prevention of the corruption. exclusion filter for companies involved in controversial activities; and
2. exclusion filter for companies involved in major ESG controversies screening.

The integration of PAI's into the investment process is done with a primary focus **on understanding the importance** of the indicators in terms of **risk and time horizon**. The objective is to balance these risks and their evolution with our expectations in terms of risk and ESG profiles of the products.

The prioritisation of PAI's depends on several elements: the availability of data, its quality and coverage and its importance in terms of sustainability risk.

For this reason, the integration of the topics covered by the PAIs includes, on the one hand, **public quantitative** data from the company and/or specialised companies and, on the other hand, **qualitative assessments** by analysts specialised in the sector, particularly based on their dialogues with the companies they cover.

¹³ through notably all our research set up in the framework of the TCFD recommendations

Once the PAI's have been calculated, beyond their absolute level, the most important thing is to understand their origin and to take the necessary actions to influence them in the right direction. Thus, **dialogue, engagement and voting** can be important levers for change.

Environmental PAI's such as carbon emissions, greenhouse gas emissions, waste or water consumption, are among the topics for engagement, whether collaborative or individual.

The same applies to social PAIs such as human rights and employee rights via collaborative or individual initiatives.

These topics remain in the minority on the agenda of shareholder meetings on which we, as shareholders, can vote. However, we do not hesitate to use this lever to put pressure on companies by voting against certain agenda items, to, in general, support ESG resolutions or to express our dissatisfaction with the board of directors as an overall result. Our voting policy outlines the approach taken on ESG resolutions and shareholder resolutions.

Following the different rules clearly defined in the policies for each step of the investment process (normative screening, controversy exclusion, controversy analysis and possible engagement, voting policy, engagement policy) **an escalation and decision process** exists which may ultimately lead to disinvestment in the issuer.

Please see below how the different PAI's are integrated in the investment steps of the portfolio construction.



It is important to underline the challenges that accessibility and quality of data represent for the PAI. It is unanimously recognised that not all companies report on these indicators; that the measures may not be standard and/or may be left to the discretion of the company in relation to their materiality and methodology. Therefore for DPAM it remains essential that metrics disclosed on a best-effort basis, are complemented by a qualitative analysis, capable of putting the figures into perspective and the same is valid for the conclusions drawn in terms of investment decisions. We are a strong believer in engagement and dialogue to enable all stakeholders to improve this situation in order to achieve the objectives of the EU regulation, for example, reorienting financial flows towards inclusive and sustainable growth and fighting against short termism and greenwashing.

| PAI | Environmental | | | | Social | | | |
|-------------------------------|---------------|------------------|--------------|------------|------------------------|----------------|------------------------|-----------------|
| | GHG emissions | Carbon Footprint | Biodiversity | Water | OECD social safeguards | Gender pay gap | Board gender diversity | Labour injuries |
| Methodology | | | | | | | | |
| Specific integration analysis | TCFD | TCFD | TNFD | TCFD | Social DD | | | |
| Norms screening | ✓ | ✓ | ✓ | ✓ | ✓ | indirectly | indirectly | ✓ |
| Controversies | ✓ | ✓ | ✓ | ✓ | ✓ | indirectly | indirectly | ✓ |
| Extensive screening | ✓ | ✓ | ✓ | indirectly | ✓ | indirectly | indirectly | ✓ |
| ES characteristics promotion | ✓ | ✓ | indirectly | indirectly | ✓ | indirectly | indirectly | ✓ |
| Voting | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ |
| Engagement | ✓ | ✓ | indirectly | indirectly | ✓ | ✓ | ✓ | ✓ |

Please refer to our [PAI statement](#) for the whole list of PAI integrated in our processes.

In terms of priorities, the above table shows how some indicators are particularly material and therefore integrated through the whole portfolio construction namely:

- GHG emissions and the carbon footprint on the environmental side
- social safeguards and the employees safety and security on the social side.



How is the Do Not Significantly Harm (DNSH) principle guaranteed for investment funds?

The DNSH principle is considered through all steps of the investment decision process.

This principle can be ensured through tools other than negative screenings. Positive screening, based on the best -in-class approach and/or ESG scorecards also covers the DNSH principle as best practice and best efforts regarding ESG sustainability risks are promoted.

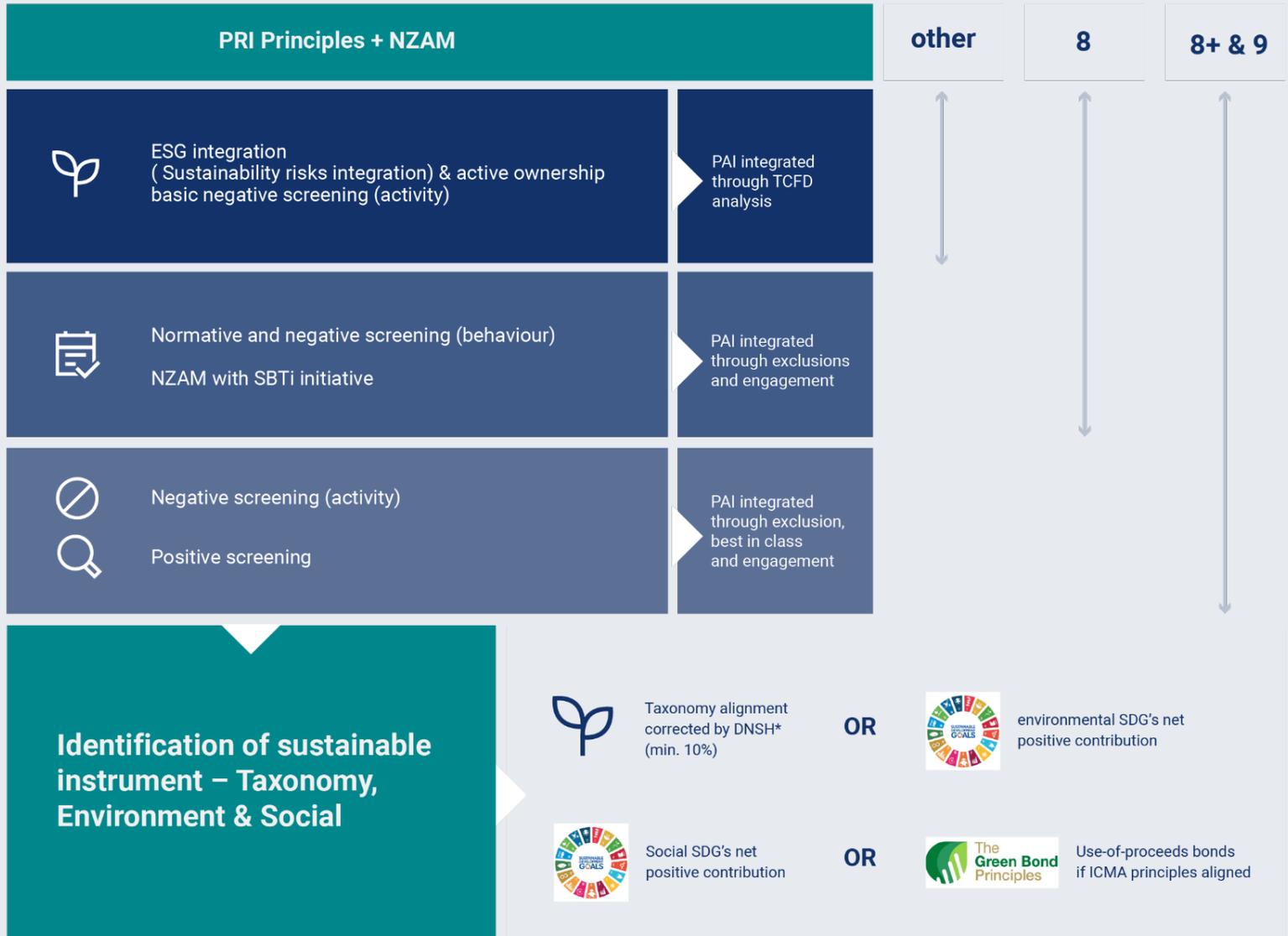
Our objective is twofold: first, to mitigate the tail risks by excluding the companies with the lowest ESG profiles, and second, to encourage not only ESG leaders but also companies that are improving their ESG profiles and are making significant progress. The worst performers in each sector (the threshold depends on the strategy) are excluded from the investment universe.

Throughout this process, DPAM aims at the most comprehensive level of sustainability risk and opportunity integration.

The weaknesses and areas for improvement regarding ESG data, approaches and methodologies are well known but despite this we aim at the highest level of impact and seek opportunities to finance ESG challenges.

DPAM is therefore applying the DNSH principle for its transition, sustainable and impact investment funds namely:

- For the transition and sustainable investment funds which promote E/S characteristics, with a partial sustainable objective, a minimum of 20% of issuers in these portfolios must contribute positively to all the 17 SDG's (net contribution), unless otherwise provided in the prospectus.
- For the sustainable investment funds which promote E/S objectives entirely a minimum of 50% of issuers in the portfolio must contribute positively to all 17 SDG's (net contribution) and have a net positive contribution at the aggregate level of the portfolio.
- For the impact investment funds which promote E/S objectives entirely, these must have a net positive contribution to all 17 SDG's (net contribution) at the aggregate level of the portfolio.



Regarding the impact investment funds, the DNSH principle is included in the impact themes framework defined by DPAM based on the Global Impact Investing Network framework.



DPAM is transparent on the aim of
its investment funds – SFDR
classification – the specific case of
government bond investments

We use specific processes to promote environmental and social characteristics or objectives (depending on the fund's classification under the SFDR) for government bond investments.



DPAM is committed to reduce the negative impact of its investment decisions – promotion of E/S characteristics

In the case of government bonds issued by countries, the promotion of environmental and social factors takes place in Article 8 investment funds by:

- excluding countries that do not meet minimum democratic requirements according to a methodology which is mainly based on the classifications of the International NGO Freedom House ('not free') and the Economist Intelligence Unit ('authoritarian regime');
- investing in impact bonds/use of proceeds.

Good governance criteria such as electoral processes, civil liberties and national and local democratic governance are included in the model used by the International NGO, Freedom House and the Economist Intelligence Unit.



DPAM is committed to increase the positive impact of its investment decisions or recommendations – promotion of E/S objectives

In the specific case of government bonds issued by countries, the promotion of environmental and social objectives in article 8 investment funds with a partial sustainable objective and article 9 investment funds, relies on a combination of four commitments:

- the exclusion of countries that do not meet minimum democratic requirements according to a methodology which is mainly based on the classifications of the International NGO Freedom House ('not free') and the Economist Intelligence Unit ('authoritarian regime').
- the best-in class ESG screening based on the proprietary country sustainability model to demonstrate the greatest commitment to sustainable development on governance, environmental and social issues;
- systematic engaged dialogue with the issuers in which the portfolio is invested; and
- priority given to impact instruments such as green and sustainable bonds as described above, where possible (see 'the special case of ESG-labelled bonds' on p51).

Therefore, the sustainable objective aims for:

- a higher democratic profile for the portfolio than for the portfolio's reference universe¹⁴.
- a lower greenhouse gas (GHG) emissions intensity for the portfolio than for the portfolio's reference universe¹⁵.

¹⁴ The democratic profile is measured by a weighted average democratic score of the invested countries compared to the weighted average democratic score of the portfolio's reference universe

¹⁵ The GHG emissions intensity is measured according to the PAI described in the SFDR regulatory technical

Methodology to identify the environmental and social objective of government bonds

A country is deemed to satisfy a Sustainable Investment Objective if it either satisfies the Environmental Investment Objective or the Social Investment Objective (defined in this section).

The starting point for this analysis is the DPAM proprietary country model, which can be split into E, S and G components (please refer to the details on the model in 'Integration in sovereign bonds' above):

- Environment: the environmental component of the model;
- Social: population, healthcare, wealth distribution, education and innovation components of the model;
- Governance: transparency and democratic values components of the model.

Using the scores for the E and S components, separate sub-rankings can be made for these components.

Analysis of environmental investment objectives allows us to score the environmental component using the DPAM proprietary country model. Countries are then ranked using this environmental score. A country is deemed to satisfy the environmental objective if it does not belong to the bottom quartile in the environmental ranking (rounding up the number of eligible countries).

Analysis of social investment objectives allows us to score the social component using the DPAM proprietary country model. Countries are then ranked using this social score. A country is deemed to satisfy the social objective if it does not belong to the bottom quartile in this social ranking (rounding up the number of eligible countries).

standards (for example, the GHG emissions of the invested countries compared with the GHG emissions intensity of the portfolio's reference universe as defined by regulatory technical standards).

$$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{current value of all investments (€M)}} \times \frac{\text{The country's Scope 1, 2 and 3 GHG emissions}_i}{\text{Gross Domestic Product}_i(\text{€M})} \right)$$



How are Principal Adverse Impact indicators taken into account in the investment process?

The principal adverse impact indicators (PAI's) are intrinsically linked to DPAM's commitment to reduce the negative impact of its investments by avoiding activities or behaviours that may significantly undermine sustainable and inclusive growth. This commitment is embedded throughout the research and investment process, from inception.

The first PAI relevant for government bonds (and countries as issuers) is related to environmental issues and focuses on the greenhouse gas emission intensity of the countries invested in. This indicator is an integral part of the country sustainability model developed by DPAM for its sovereign bond investments. It is therefore included in the country sustainability score and can influence the country sustainability score positively or negatively depending on its level and evolution relative to other issuing countries. The results of the country sustainability scores are eventually discussed with the countries concerned according to DPAM's.

The second PAI relevant for government bonds (and countries as issuers) is related to social issues and focuses on social violations. Our country sustainability model looks at several indicators such as respect for civil liberties and political rights, respect for human rights and the level of violence within the country, commitment to major labour conventions, equal opportunities and distribution of wealth, for example. These indicators are included in the country's sustainability score and can influence it positively or negatively depending on its level and evolution in relation to other issuing countries. The results of the country sustainability scores are eventually discussed with the countries concerned according to DPAM's Engagement Policy.

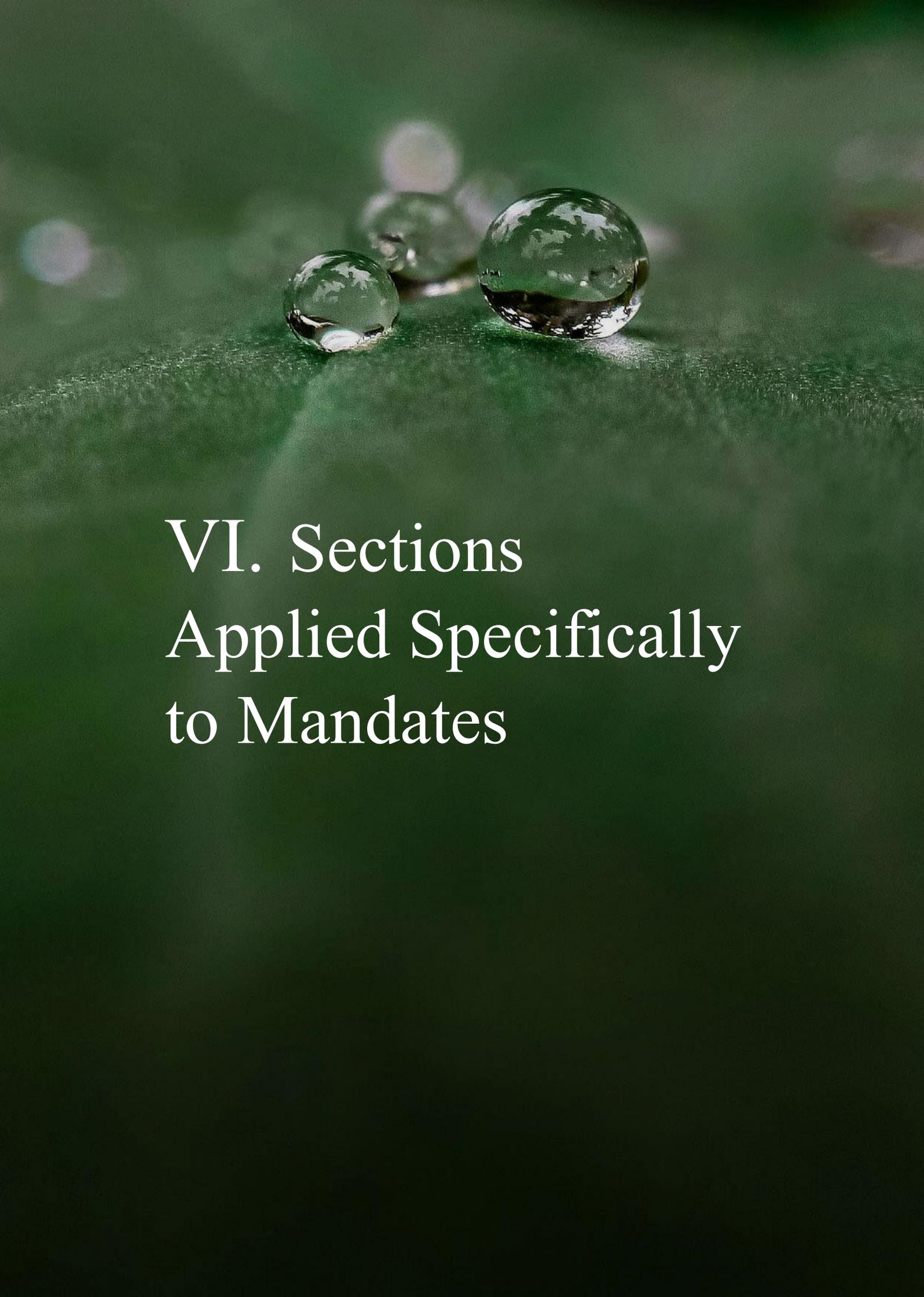


How is the Do Not Significantly Harm (DNSH) principle guaranteed?

The portfolios invested in government bonds issued by countries consider the principal negative environmental and social impacts (hereafter 'PAIs') listed in Table 1 of Annex I of the Delegated Regulation (EU) 2022/1288 that are applicable to investments in sovereign or supranational issuers.

Please refer to the explanation just above on 'how are Principal Adverse Impact indicators taken into account in the investment process'.

Government bonds issued by countries are not in the scope of the EU Taxonomy. Therefore, these instruments do not have to comply with the DNSH principle as stated in this regulation.

The background of the slide is a close-up photograph of a green leaf. Three clear glass spheres of varying sizes are resting on the leaf's surface. The largest sphere is on the right, with a smaller one to its left and another one further back and to the left. The spheres are highly reflective, showing highlights and reflections of the surrounding environment. The leaf's texture is visible, with fine veins and a slightly fuzzy surface.

VI. Sections
Applied Specifically
to Mandates



DPAM is transparent regarding sustainability – relevant aspects in relation to MIFID for clients

For mandates, we incorporate the DNSH principle and the Principle Adverse Impact indicators. We tailor our investment methodologies to clients' sustainability preferences.



DPAM is committed to offer investment methodologies meeting the suitability-related expectations of its clients

According to MIFID II, DPAM must collect the sustainability preference of its clients. Such preferences for sustainable instruments can be expressed by:

- Minimum alignment with the EU taxonomy
- Minimum sustainable investments as defined by the SFDR;
- The consideration of Principal Adverse Impact indicators.

DPAM builds the portfolio according to the specified requirements stipulated by the client in its MiFID profile. DPAM applies the sustainability preferences of the client at portfolio level. Clients may refer to DPAM's [MiFID II Information Brochure](#), specifically to section 5.2.2., for more information on how DPAM will determine the portfolios' classification according to the SFDR based on the sustainability preferences expressed by the clients.

The investment methodologies applied by DPAM to build the portfolio depend on whether the portfolio is invested in funds and/or in direct lines.

When the portfolio is invested in investment funds managed by DPAM, please refer to 'DPAM is transparent on the aim of its investment funds – SFDR classification' on p84 and 'DPAM is transparent on the aim of its investment funds – SFDR classification – the specific case of government bonds' on p95, which explains the methodologies applied by DPAM to its own funds, for both corporate and government bond strategies. To the extent the portfolio also invests in funds managed by third party providers, DPAM relies on the pre-contractual disclosures made in the prospectus of the fund regarding its commitments on taxonomy alignment and sustainable investments to meet the client's requirements.

When the portfolio invests in direct lines, to determine whether an investment in equities and/or corporate bonds is eligible to meet the client's minimum proportion of sustainable investments, DPAM assesses whether the instrument complies with one of the following four criteria: use-of-proceeds; taxonomy alignment; environmental objective and social objective, set out in 'Identification of sustainable instruments through a revenue aligned approach' on p81.

The taxonomy alignment definition set out in 'Identification of sustainable instruments through a revenue aligned approach' on p81 explains how DPAM determines whether a corporate instrument is aligned with the EU taxonomy and therefore whether it is eligible to meet the minimum proportion of taxonomy-aligned investments requested by the client.

Regarding government bond strategies, DPAM meets the proportion of sustainable investments requested by the client by investing in DPAM funds qualifying as article 8 and/or 9 under the SFDR. As at the date of this policy, the EU taxonomy does not apply to government bonds as the EU has not yet defined a methodology to calculate the taxonomy-alignment of government activities. Therefore, such instruments are not eligible to meet the minimum proportion of taxonomy-alignment requested by the client.



How are Principal Adverse Impact indicators taken into account in the investment process of mandates

For investments in direct lines or investment funds managed by DPAM, please refer to the two sections on 'How Principal Adverse Impact indicators are taken into account in the investment process' at p90 and p98. For investments in investment funds managed by DPAM, PAI are taken into account at the level of the DPAM funds.

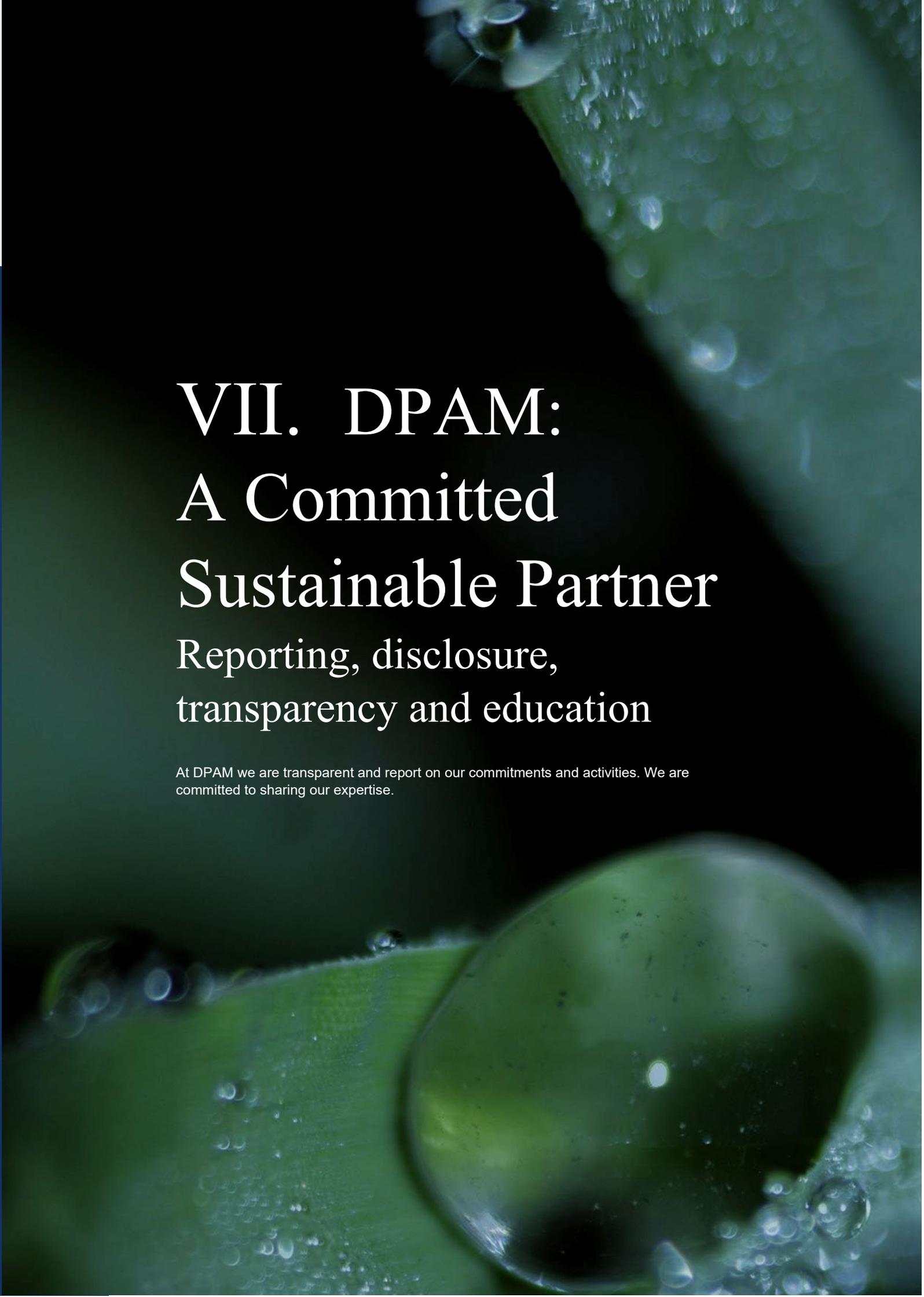
In case of investment in Third Party investment funds, the PAI will be those formally approved by the relevant regulatory authorities as stipulated in the pre-agreement disclosure.



How is the DNSH principle guaranteed?

For investments in direct lines or investment funds managed by DPAM, please refer to 'How is the Do Not Significantly Harm principle guaranteed' on pages 93 and p98.

For investments in investment funds managed by DPAM, compliance with the DNSH principle is ensured at the level of the DPAM funds, you may refer to the same sections.



VII. DPAM: A Committed Sustainable Partner

Reporting, disclosure,
transparency and education

At DPAM we are transparent and report on our commitments and activities. We are committed to sharing our expertise.



Transparency and confidence-building measures

DPAM is committed to transparency and disclosure considering its commitment to sustainable investment.

In addition to reporting on its sustainability approaches and methodologies, DPAM commits to providing relevant and accurate information and ensuring that all sustainable requirements are respected.

The compliance of investments with the ESG company ranking is audited internally and externally. An external audit report checks that for each compartment, based on a sample of securities, there is a review of the investment compliance with the ESG exclusion criteria when applicable.

Eligible universes and blacklists of issuers of sustainable universes are centralised with the RICC. The support and administration team is in charge of the pre-trade control of investments and eligible universes while the risk team is in charge of post-trade control. Both pre-trade controls and post-trade controls are continuously operated by way of dedicated IT applications that are integrated with our trading instruments.



Committed to transparency – transparency of ESG methodologies

DPAM's roadmap to achieving a high level of expertise in sustainable and responsible investment, initiated in 2001, has enabled it to acquire the expertise and experience necessary to evolve from being a sustainable strategies designer and provider to a **sustainability committed company**. Through its recurrent reporting (voting, engagement, TCFD, impact), DPAM assesses the extent to which sustainability is reflected at DPAM and how visible and tangible it is.

The policies describing DPAM's methodologies are publicly available on the website in the dedicated section [regulatory disclosures](#).

DPAM reports on the implementation of these policies on a yearly basis. The annual activity reports are also publicly available in the same section of the website.



Content and frequency of reporting

DPAM produces comprehensive monthly and quarterly ESG-focused factsheets that are used to inform our institutional clients about the ESG-exposure of the DPAM Funds' strategies. The factsheets are also produced for the DPAM Funds that don't specifically follow an ESG strategy, with a view to improving consistency. The factsheets show the exposure of the portfolio to various ESG metrics as well as the fund's performance and the portfolio composition. There is also a commentary from the portfolio manager including the reasoning behind possible changes in the portfolio.

Besides factsheets, DPAM produces a quarterly sustainability report for each of its sustainable funds with comments on the ESG profile and sustainability of the portfolio and of its individual positions. These sustainability reports focus closely on topical ESG discussions in general and may provide an analysis of particular stocks and industries included in the portfolio, as well as a summary in case DPAM has engaged with companies or has challenged extra-financial third-party research.

Additionally, to ensure our reporting and communications adhere to regulatory standards of transparency and completeness, they are regularly reviewed by our compliance department. This second-line approach aims to ensure that the sustainable aspects of our products are accurately represented.

Clients and prospects can also contact the RICC via the following email: sustainable@degroofpetercam.com.

Finally, investors can consult the [website](#) to access the prospectuses, (semi) annual reports and Voting Policy.



Disclosure requirement

DPAM recognises that every country has different disclosure requirements as regulatory frameworks vary. Nevertheless, DPAM expects companies to publish a comprehensive annual report with fully audited financial statements as well as a complete sustainability report, preferably in line with the Global Reporting Initiative standards, that covers all relevant sustainability issues for the company and its stakeholders and that emphasises the sustainability issues that are most material to the company.



Education

We are committed to sharing our expertise. Currently we share commentary and information about our work and collaborations in the sustainability section of the blog and for several years we have held an annual sustainability conference, to share our knowledge.

A close-up photograph of green leaves with several clear water droplets. The leaves are vibrant green and have serrated edges. The water droplets are of various sizes and are scattered across the leaf surfaces, some reflecting light. The background is dark, making the green leaves and white text stand out.

VIII. Lexicon and Abbreviations

| | |
|--|---|
| Carbon intensity of a company | <p>The weighted average of the carbon intensity (in tCO₂e/\$M revenue) measures the portfolio's exposure to high-carbon issuers on the 1 and 2 scopes. These data do not take into account the total amount of emissions generated by the company, in particular those produced downstream through the use of commercialised products and services, or upstream by suppliers (scope 3 emissions).</p> |
| Carbon footprint of a portfolio | <p>The carbon footprint of the portfolio is meant to assess the portfolio's carbon risk in the framework of the transition to a low carbon economy. In order to do so, the carbon emissions of the various issuers are calculated and reported based on their total revenue. The calculation method is based on the acknowledged methodology of the Global Greenhouse Protocol and takes into account scope 1 emissions (direct emissions resulting from sources which are the property of or are controlled by the reporting issuer) and scope 2 emissions (direct emissions relating to the energy use (electricity, heat, steam) required to be able to produce the product on offer).</p> |
| Companies | <p>Corporate, as opposed to countries, which can issue listed equities or corporate bonds.</p> |
| Compliance with the UN Global Standards | <p>Compliance with the recognized Global Standards for example The UN Global Compact, ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs and underlying conventions and treaties. The Global Standards aims to uphold four fundamental principles, to: defend human rights, defend labour rights, prevent corruption; and protect the environment. Based on specific criteria stemming from the 10 principles of the Global Compact, ESG rating agencies assess the companies' compliance with these 10 principles. The analysis identifies companies which face incidents and severe controversies resulting in violations of these fundamental rights principles. The severity of the controversies and incidents is evaluated based on national and international legislation, but also taking into account international ESG standards, such as the recommendations of the OECD for multinational companies, the conventions of the International Labour organisation and the Universal Declaration of Human Rights, for example. The assessment result can be compliant, watch list or non-compliant.</p> |
| DNSH | <p>Do Not Significantly Harm principle</p> |
| ESG factors | <p>Environmental, Social, Governance factors</p> <p>ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.</p> |

| | |
|--------------------------------------|---|
| ESG impact | <p>The ESG impact is the assessment of the contribution of the portfolio's invested positions to ESG challenges. Based on the 17 Sustainable Development Goals (SDGs), adopted in 2015 by the United Nations, DPAM classifies investments in companies which objectively offer solutions to sustainability challenges by means of their products and/or services in four major impact themes, namely climate change and stability, natural capital, fundamental needs and empowerment.</p> |
| ESG risk score of a portfolio | <p>The ESG risk score of the portfolio is the weighted average ESG risk score of the companies in the portfolio. It is calculated by taking into account all the positions in the portfolio that are covered by ESG research from Sustainalytics and their respective weights.</p> <p>The ESG risk score reflects the remaining material ESG risk that has not been managed by the company in an absolute manner (unmanaged risk). It includes two types of risk:</p> <p>management gap risks: risks that could be managed by the company through suitable initiatives but which are not yet managed by the company;</p> <p>unmanageable risks: risks that are inherent to a company's activities which cannot be addressed by suitable initiatives.</p> <p>The ESG risk scores can be classified in 5 categories: negligible risk (0-10), low risk (10-20), medium risk (20-30), high risk (30-40) and severe risk (above 40).</p> |
| CSAB | <p>Country Sustainability Advisory Board</p> |
| Net positive contribution | <p>Regarding contribution to the Sustainable Development Goals, the assessment will look at positive and the negative contributions. The net positive contribution is the difference between the negative and the positive contribution, assuming that this has to be at least positive.</p> |
| NZAM | <p>Net Zero Asset Management Initiative</p> |
| PAI | <p>The principal adverse impacts (PAI's) are defined as negative, material or potentially material effects on sustainability factors that result from, worsen, or are directly related to investment choices or advice performed by DPAM.</p> |
| Portfolios | <p>Refer to investment funds and/or mandates managed by DPAM</p> |
| RICC | <p>Responsible Investment Competence Center</p> |

| | |
|---|---|
| SRI Steering Group | Sustainable and Responsible Investment Steering Group |
| Severity of controversy exposure | A controversy is defined as an incident or scandal to which a company is exposed. These may pertain to environmental, social or governance issues. The impact and risks of these controversies are assessed based on various criteria, such as the gravity, responsibility and exceptional character of the impact, as well as the reputational and image risk. The assessment results in a categorisation that groups a company into 5 different controversy categories, according to the gravity, on a scale from 1 (not very serious) to 5 (extremely serious). The gravity is assessed by ESG rating agencies, based on impact and frequency, the transparency of the information provided by the company and its preventive and corrective measures. |
| SFDR Regulation | Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. |
| SDGs | The Sustainable Development Goals are the 17 goals defined by the United Nations, which are central to the 2030 Agenda for Sustainable Development. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. |
| Sustainability risks | Environmental, social or governance events or conditions that, if they occur, could cause a negative material impact on the value of the investment. |
| TCFD | Taskforce for Climate-Financial related Disclosure |
| UN PRI | United Nations backed Principles for Responsible Investment: a United Nations-supported international network of investors working together to implement its six aspirational principles, often referenced as ‘the Principles’. Its goal is to understand the implications of sustainability for investors and support signatories in incorporating these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system. |
| VAB | Voting Advisory Board |



IX. Summary of
Responsibilities

| TOPIC | ESG factor integration | Sustainability risks management |
|------------------|--|---|
| objectives | <p>Integrate ESG factors in the whole process of portfolio construction from research to final decision-making process by identifying the material ESG indicators which could have a positive and/or negative impact on the valuation of the investments</p> | <p>To systematically monitor and manage environmental, social or governance events or conditions that, if they occur, could cause a negative material impact on the value of the investment</p> |
| means | <ul style="list-style-type: none"> • External resources through screenings, data, issuer and sectoral reports • Internal resources through fundamental in-depth research including ESG KPI's • Engaged dialogues to clarify ESG factors and to become more informed about decision making processes • TCFD assessments • ESG KPI's scorecards • Etc. | <ul style="list-style-type: none"> • External resources through screenings, data, issuer and sectoral reports • Internal resources through fundamental in-depth research including ESG KPI's • Engaged dialogues to clarify ESG factors and to become more informed about decision making processes • TCFD assessments • ESG KPI's scorecards • Systematic review of controversies • Systematic monitoring of compliance with the Principles of the Global Compact • Etc. |
| responsibilities | <ul style="list-style-type: none"> • Portfolio managers • Fundamental buy-side analysts • Responsible Investment Competence Center (RICC) | <ul style="list-style-type: none"> • Portfolio managers • Fundamental buy-side analysts • Responsible Investment Competence Center (RICC) • SRI Steering Group • TCFD Steering Group |
| Control | <ul style="list-style-type: none"> • SRI Steering Group (ex RISG) • TCFD Steering Group • Portfolio management teams | <ul style="list-style-type: none"> • SRI Steering Group (ex RISG) • TCFD Steering Group • Portfolio management teams • Risk management |

| TOPIC | Promoting environmental and social characteristics | Promoting environmental and social objectives |
|------------|---|---|
| objectives | <p>To promote environmental and social characteristics in the portfolio by defending fundamental rights, by not investing in activities and/or behavior of companies which might affect the reputation of medium or long-term investments and by integrating and promoting ESG factors and best practice.</p> | <p>To promote environmental and social objectives in the portfolio by defending fundamental rights, by not investing in activities and/or behavior of companies which might affect the reputation of medium or long-term investments and by optimising the positive net impact to society as a whole.</p> |
| means | <ul style="list-style-type: none"> • External resources through screenings, data, issuer and sectoral reports including eligible universe based on Global Compact norm screening and controversies severity negative screening • Internal resources through fundamental in-depth research including ESG KPI's • Engaged dialogues to clarify ESG factors and to become more informed about decision making processes • TCFD assessments • Systematic review of a controversy's severity • Systematic monitoring of compliance with the Principles of the Global Compact • Etc. | <ul style="list-style-type: none"> • External resources through screenings, data, issuer and sectoral reports including eligible universe based on Global Compact norm screening and controversies severity negative screening • Internal resources through fundamental in-depth research based on preliminary screening based on ESG scores or ESG KPI's through scorecards • Systematic review of a controversy's severity • Systematic monitoring of the compliance status with the Principles of the Global Compact • Assessment and measurement of the positive and negative impact on the 17 sustainable objectives of the United Nations • Engaged dialogue to clarify ESG concerns and to highlight the ESG impact of products and services • Individual and collaborative engagement to promote best practice and to optimise the net positive impact to society and all stakeholders • Etc. |

Responsibilities

- Portfolio managers
 - Fundamental buy-side analysts
 - Responsible Investment Competence Center (RICC)
 - SRI Steering Group
 - TCFD Steering Group
- Portfolio managers
 - Fundamental buy-side analysts
 - Responsible Investment Competence Center (RICC)
 - SRI Steering Group
 - TCFD Steering Group

Control

- SRI Steering Group
 - TCFD Steering Group
 - Portfolio management teams
 - Risk management
 - VAB
 - CSAB
 - Management Board
- SRI Steering Group
 - TCFD Steering Group
 - Portfolio management teams
 - Risk management
 - VAB
 - CSAB
 - Management Board

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Disclaimer

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