DPAM B EQUITIES NEWGEMS SUSTAINABLE - A

NACHHALTIGKEITSBEZOGENE OFFENLEGUNGSPFLICHTEN

This page contains the information in accordance with Article 10(1) of Regulation (EU) 2019/2088.

The sub-fund promotes environmental and/or social characteristics and partially intends to make sustainable investments.

ZUSAMMENFASSUNG

Der Teilfonds bewirbt **ökologische und soziale Merkmale** und obwohl keine nachhaltigen Investitionen angestrebt werden, enthält er einen Mindestanteil von 50% an nachhaltigen Investitionen mit einem Umweltziel in Wirtschaftstätigkeiten, die nach der EU-Taxonomie nicht als ökologisch nachhaltig einzustufen sind, und ohne einem sozialen Ziel.

Der Teilfonds bewirbt ökologische und soziale Merkmale durch eine strenge Methodik, die auf Folgendes abzielt:

- Verteidigung der Grundrechte (Achtung der Menschenrechte und des Arbeitsrechts, Umweltschutz und Verhinderung von Korruption);
- Keine Finanzierung kontroverser Aktivitäten und Verhaltensweisen, die den langfristigen Ruf der Investitionen beeinträchtigen könnten;
- Bewerbung von besten Verfahren und Bemühungen in puncto Umwelt, Soziales und Governance (ESG).

Der Teilfonds **hat keinen Referenzindex** festgelegt, um die gemäß Artikel 8 der Verordnung (EU) 2019/2088 beworbenen ökologischen und sozialen Merkmale zu erreichen.

Das Erreichen dieser ökologischen und sozialen Merkmale wird durch die Verwendung folgender Indikatoren (Methodiken) gemessen. Diese umfassen u. a. die verbindlichen Elemente der **Anlagestrategie**, die für die Auswahl der Investitionen zur Erfüllung der Ziele verwendet werden. Die Kriterien einer **guten Unternehmensführung** spielen bei DPAM eine wesentliche Rolle bei der aktiven Beteiligung, seinem Engagement und seiner nachhaltigen und verantwortungsvollen Anlagepolitik und sind in diesem Anlageentscheidungsprozess enthalten. Im Folgenden werden die **Methodik** sowie die **Datenquellen und -begrenzungen** erläutert:

a. Kein Engagement in Unternehmen, die die Anforderungen der globalen Standards nicht erfüllen. DPAM greift auf zwei Datenanbieter zurück: Sustainalytics und MSCI ESG Research. DPAM verfolgt einen konservativen Ansatz. Wenn einer der beiden Datenanbieter ein Unternehmen als nicht-konform ansieht, so gilt es als nicht mit den globalen Standards konform.
b. Kein Engagement in Unternehmen, die gemäß den in der **Politik bei kontroversen Aktivitäten von DPAM** vorgegebenen Definitionen und Schwellenwerten in kontroverse Aktivitäten verwickelt sind. Der Teilfonds schließt Wertpapiere aus, deren Geschäft in der Herstellung, Verwendung oder im Besitz von Anti-Personen-Minen, Streumunition, abgereichertem Uranium, Munition und Rüstung sowie chemischen und biologischen Waffen besteht. Ferner schließt der Teilfonds Wertpapiere aus, die in erheblichem Maße in der Herstellung oder im Vertrieb von Tabak sowie Rohstoffen und Ausrüstung zur Herstellung von Tabak, in der Förderung von Kraftwerkskohle oder der Herstellung von Strom aus Kohle engagiert sind; DPAM nutzt dazu die folgenden Datenanbieter: MSCI ESG, ISS Ethix, Trucost und Sustainalytics. Die Daten von diesen Quellen entsprechen nicht immer den zuletzt veröffentlichten Daten der Unternehmen. In solch einem Fall räumt DPAM den aktuellsten Daten Vorrang gegenüber den zuletzt von den Datenanbietern erhaltenen Daten ein.
c. Kein Engagement in Unternehmen, die in die schwerwiegendsten ESG-Kontroversen verwickelt sind; DPAM schließt Unternehmen aus, die basierend auf den von Sustainalytics veröffentlichten Daten (Bewertung auf Grundlage von etwa 55.000 täglich von Sustainalytics gescannten Nachrichtenmeldungen), die es durch zusätzliche interne Analysen vervollständigt, in die schwerwiegendsten kontroversen Aktivitäten verwickelt sind. Dieser vorsichtige Ansatz ermöglicht es, jegliches Engagement in Unternehmen zu meiden, die in wesentliche Kontroversen verwickelt sind oder Gefahr laufen, sich in Zukunft wesentlichen Kontroversen gegenüberzusehen.
d. Kein Engagement in Unternehmen, die im Hinblick auf mehr als zwei ihrer vier wesentlichen, für ihre Geschäftstätigkeit und Region spezifischen Risiken in Bezug auf Umwelt, Soziales und Governance zu den untersten 20 % gehören. Im Falle der thematischen Strategie wird das ESG-Profil anhand einer Scorecard bewertet, die den Schwerpunkt auf die vier maßgeblichsten ESG-Risiken für den Emittenten legt. Das Profil eines Emittenten gilt als unzureichend im Hinblick auf ökologische, soziale und Governance-Belange, wenn sich der Emittent bei mehr als zwei der vier identifizierten, für ihn maßgeblichsten Risiken im untersten Quartil positioniert. DPAM greift hierbei auf den Datenanbieter Sustainalytics zurück. Die Daten von diesen Quellen entsprechen nicht immer den zuletzt veröffentlichten Daten der Unternehmen. In solch einem Fall räumt DPAM den aktuellsten Daten Vorrang gegenüber den zuletzt von den Datenanbietern erhaltenen Daten ein.
e. Eine im Durchschnitt niedrigere gewichtete Treibhausgasemissionsintensität des Portfolios im Vergleich zum Referenzindex, die über einen rollierenden 3-Jahres-Zeitraum berechnet wird. DPAM verwendet den Datenanbieter S&P Trucost. Zur Gewährleistung der Korrektheit dieser Daten nutzt DPAM seine Analysen gemäß den Empfehlungen der „Task Force on Climate-related Financial Disclosures" (TCFD), um mögliche Ungereimtheiten aufzudecken.

Unternehmen zu investieren, deren Kerngeschäft in der Entwicklung von Produkten und Dienstleistungen liegt, die zur Erreichung der 17 ökologischen oder sozialen Ziele für nachhaltige Entwicklung (Sustainable Development Goals,SDGs) beiträgt, wie von den Vereinten Nationen (UN) folgendermaßen definiert:

1. Unternehmen, die auf eines oder mehrere der sechs Ziele der EU-Taxonomie ausgerichtet sind (Eindämmung des Klimawandels, Anpassung an den Klimawandel, nachhaltige Nutzung und Schutz von Wasser- und Meeresressourcen, Übergang zu einer Kreislaufwirtschaft, Vermeidung und Verminderung der Umweltverschmutzung sowie Schutz und Wiederherstellung der Biodiversität und der Ökosysteme); DPAM verwendet den Datenanbieter S&P Trucost.
2. Unternehmen, die einen positiven Nettobeitrag zu ökologischen Nachhaltigkeitszielen anstreben; DPAM nutzt den Datenanbieter ISS Ethix.
3. Unternehmen, die einen positiven Nettobeitrag zu sozialen Nachhaltigkeitszielen anstreben; DPAM nutzt den Datenanbieter ISS Ethix
4. auf Ebene des Gesamtportfolios: mindestens 20 % der Unternehmen mit positivem Nettobeitrag* zu allen Zielen für nachhaltige Entwicklung (SDGs); DPAM nutzt den Datenanbieter ISS Ethix

Der gestaffelte Ansatz zur Ermittlung des Nachhaltigkeitsziels stützt sich zum Teil auf den Datenanbieter Util. Er stellt den positiven oder negativen Beitrag der Produkte und Dienstleistungen hinsichtlich der SDGs fest. Auf Grundlage der unterschiedlichen Umsatzströme eines Unternehmens lässt sich der Gesamt-Impact-Score des Unternehmens errechnen. Durch veraltete Informationen zu den Umsätzen oder unzureichende Detailgenauigkeit kann der Beitrag zu den SDGs falsch eingeschätzt werden. In manchen Fällen wird dies durch eine sogenannte Impact Correction Note (ICN) korrigiert.

Unter Anwendung der oben beschriebenen Anlagestrategie investiert der Teilfonds **mindestens 80% seines Vermögens** in Wertpapiere, welche die beworbenen ökologischen und sozialen Merkmale erfüllen.

Was das **Monitoring der ökologischen und sozialen Merkmale** anbelangt, so erhält der Portfoliomanager jedes Halbjahr – nachdem die verschiedenen ESG-Screenings durchgeführt wurden – das zulässige Universum seines Teilfonds. Der qualitative ESG-Ansatz ist Teil der aktiven Titelauswahl. Den Portfoliomanagern ist es nicht gestattet, in nicht zulässige Unternehmen anzulegen. Ferner führt die Risikomanagement-Abteilung von DPAM täglich Kontrollen des Teilfonds durch, um mögliche Verstöße gegen die für den Teilfonds geltenden spezifischen Indikatoren zu identifizieren.

Die **Sorgfaltspflicht** in Bezug auf die dem Teilfonds zugrunde liegenden Vermögenswerte bezüglich Umwelt und Soziales ist Teil der Methodik, diese Merkmale zu bewerben. Weitere Informationen finden Sie in den **Richtlinien für nachhaltige und verantwortungsvolle Investments von DPAM**.

DPAM wendet eine **Richtlinie für aktives Engagement** an, um seine eigenen Vermögenswerte zu schützen und externe Effekte der finanzierten Emittenten zu begrenzen.

NO SUSTAINABLE INVESTMENT OBJECTIVE

DPAM ensures that the Sub-fund's sustainable investments do not materially undermine an environmentally or socially sustainable investment objective by:
At the issuer level:

- Taking into account the principal adverse impact on the mandatory sustainability factors (hereafter "PAIs") listed in Table 1 of Appendix 1 of the Delegated Regulation (EU) 2022/1288 which allows for the reduction of the adverse impacts of the investment, in particular by:
  - incorporating several elements to avoid and/or reducing its exposure to activities or behaviours that could affect another environmental or social objective (such as the filter of compliance with Global Standards and the exclusion of ESG controversies of the highest severity or of the activities most detrimental to the other environmental and/or social objectives);
  - or via an engagement process with the invested companies, in accordance with its **engagement policy**.
- an impact calculation methodology which takes into account the positive and negative contribution of the company's products and services to the Sustainable Development Goals (SDGs) in order to optimise the net positive (resulting) contribution.

At the overall portfolio level:

- A rule of a minimum 20% of assets aligned with the EU Taxonomy or making a net positive contribution on all 17 SDGs.

The PAIs are intrinsically linked to DPAM's commitment to reduce the negative impact of the Sub-fund's 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 its inception.
In concrete terms, PAIs are incorporated into the various stages of upstream portfolio construction via exclusions and the resulting eligible universe (i), and through the investment process via fundamental analysis, controversy monitoring and ongoing dialogue with investees (ii):

1. Firstly, with regard to environmental PAIs:

a. they are analysed and monitored at the level of the investee issuers, particularly with regard to PAIs related to greenhouse gas emissions and energy performance, including through research of DPAMs in the context of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
b. after that, the Global Standards compliance filter includes a filter on environmental protection.
c. In addition, the screening and analysis based on the main ESG controversies in which companies may be involved also includes controversies related to environmental issues, such as the environmental impact of company operations (emissions, waste, energy use, biodiversity and water consumption), the environmental impact on the supply chain and the impact of products and services (carbon and environmental impact).
d. Similarly, environmental indicators are included in the analysis of the ESG profile of companies and impact their scorecard.

2. Secondly, social PAIs are systematically analysed throughout the research and investment process:

a. the Global Standards compliance filter is structured around human rights, labour rights and the prevention of corruption.
b. the exclusion filter for companies involved in controversial activities (definitions and thresholds according to **DPAM's Controversial Activities Policy**).
c. In addition, the screening and analysis based on the main ESG controversies in which companies may be involved also includes controversies related to social issues, i.e. society and community, customer and employee, and controversies related to governance issues such as business ethics, including corruption and bribery.
d. similarly, social indicators are included in the analysis of the ESG profile of companies and impact their scorecard.

DPAM's approach and processes are further described in its **Sustainable and Responsible Investments Policy** and in the **TCFD Report**.

DPAM's sustainable and responsible investment policies are based on global standards, including the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (Guiding Principles). These standards are also an integral part of the benchmarks used by the various rating agencies that DPAM uses.

The first step in the Sub-fund's investment process is a normative screening against these Global Standards: companies that are not in compliance are excluded from the eligible investment universe.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

The Sub-fund promotes environmental and social characteristics through a rigorous methodology aimed at:

- defending fundamental rights (human rights, labour law, prevention of corruption and environmental protection).
- not funding controversial activities and behaviour that could affect the long-term reputation of the investments.
- promoting environmental, social and governance (ESG) best practices and best efforts.

The objectives of the sustainable investments that the Sub-fund intends to partially achieve are to invest in companies whose core business is the development of products and services that contribute to the achievement of the 17 environmental or social Sustainable Development Goals ("SDGs"), as defined by the United Nations (UN) (e.g. health products and services, education-related services, water saving and access solutions, energy efficiency solutions, digitalisation-enabling services, sustainable mobility services, etc.) via:

- companies aligned with one or more of the six objectives of the EU Taxonomy (climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems);
- companies aiming for a net positive contribution to environmental sustainability objectives;
- companies aiming for a net positive contribution to social sustainability objectives; and
- at the level of the overall portfolio, a minimum of 20% of companies making a net positive contribution* to all the Sustainable Development Goals (SDGs).

** The net positive contribution is the difference between the positive and negative impact contributions and is calculated at the level of the invested company and at the level of the overall portfolio. Based on the UN SDGs framework, the net positive contribution takes into account (1) the extent to which the invested company's products and services contribute to the achievement of the SDGs and (2) the negative impacts associated with their activities along the value chain.*

The sustainability indicators used to measure the achievement of all environmental and social characteristics promoted by the Sub-fund correspond to the binding investment restrictions:

a. Zero exposure to companies deemed to be non-compliant with global standards;
b. Zero exposure to companies involved in controversial activities according to the definitions and thresholds stipulated by **DPAM's Controversial Activities Policy** and;
c. Zero exposure to companies facing the most severe ESG controversies;
d. Zero exposure to companies that rank in the bottom 20% for more than two of their four material environmental, social or governance risks, specific to the company's business and geography.In the case of the thematic strategy, the ESG profile is assessed by means of a scorecard that focuses on the 4 most material ESG risks for the issuer. An issuer's profile will be considered insufficient on environmental, social and governance issues if it scores in the bottom quintile on more than two of the four most material risks identified.
e. An weighted average greenhouse gas (GHG) emissions intensity of the portfolio below the weighted average greenhouse gas (GHG) emissions intensity of the benchmark index, calculated over a rolling three-year period;

As detailed in the section below entitled "What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?"

INVESTMENT STRATEGY

The promotion of environmental and social characteristics and the minimum proportion of sustainable investments in the Sub-fund are the result of consecutive steps in the investment process as schematized at the end of the section.

The Sub-fund promotes environmental and social characteristics through exclusions, fundamental research, voting and engaged dialogue. It is also committed to containing a minimum proportion of sustainable investments by investing in companies whose core business is the development of products and services that contribute to the achievement of the 17 environmental or social Sustainable Development Goals ("SDGs"), as defined by the United Nations (UN) (e.g. health products and services, education-related services, water saving and access solutions, energy efficiency solutions, digitalisation-enabling services, sustainable mobility services, etc).

A more general description of the Sub-fund's investment strategy can be found in the individual Sub-fund factsheet in the SICAV's prospectus.

Good governance criteria are an integral part of DPAM's active ownership, engagement and sustainable and responsible investment policies and are included in the investment decision process through the different steps described in the section "What are the binding elements of the investment strategy used to select investments to achieve each of the environmental or social characteristics promoted by this financial product?" above.

DPAM takes these criteria into account in the following ways:

i. **Exclusion filter based on compliance with Global Standards:** Prevention of corruption is one of the four main themes of the 10 principles of the UN Global Compact.
ii. **Exclusion filter for companies involved in ESG controversies of maximum severity:** good governance criteria (business ethics, political lobbying, corporate governance, corruption and accountability of governance bodies on ESG aspects) are the subject of the analysis of controversies, their severity and corrective measures.
iii. **Quantitative ESG approach ("scorecard"):** Governance criteria in the broad sense and corporate governance criteria in particular are an integral part of the scorecard exercise.
iv. **Qualitative ESG approach:** Much of DPAM's fundamental research is devoted to governance and corporate governance issues.

Governance issues are also an integral part of the monitoring of investments, notably through DPAM's **Voting Policy** and **Engagement Policy**.

PROPORTION OF INVESTMENTS

By applying the investment strategy described above, the Sub-fund invests a minimum of 80% of its assets in securities that meet the environmental and social characteristics it promotes (in the table referred to as "#1 Aligned with E/S characteristics").

The Sub-fund aims to invest at least 50% of its assets in sustainable investments with environmental or social objectives (in the table referred to as "#1A Sustainable").

Derivative products, if any, used to achieve the investment objectives will not be used to promote the environmental and/or social aspects.

MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

On the trading platform the manager can assess the impact of an investment on the different indicators and characteristics, prior to investing.

The performance of all the different social and environmental characteristics and the sustainable objective of the sub-fund is provided yearly in the Sub-fund's reporting.

Through the electronic trading platform, all portfolio managers have access to the performance of their sub-funds on the sustainability indicators, which serves two purposes. First, the portfolio manager can calculate the impact of a trade on the different indicators or sustainable objective. Second, the portfolio manager can determine the performance of its sub-fund on the different indicators in real time.

METHODOLOGIES

The criteria that companies must meet to constitute the investment universe are determined on the basis of independent external research and/or internal DPAM research. These selection criteria are as follows:

a. **Global Standards Compliance Filter:** Companies must be in compliance with the Global Compact principles (human rights, labour, anti-corruption and environmental protection) and the UN Guiding Principles, ILO instruments, the OECD Guidelines for Multinational Enterprises and underlying conventions and treaties. DPAM uses specific ESG research from non-financial rating agencies to determine whether or not a company is in compliance with these standards.
b. **Exclusion filter for companies involved in controversial activities:** The **DPAM Controversial Activities Policy** exclusion policy covers several sectors and economic activities that are controversial in terms of their ethical and sustainable character. For each of these business sectors and activities, the Controversial Activities Exclusion Policy defines the criteria and thresholds for exclusion. Companies involved in these controversial sectors and activities that meet the exclusion criteria formulated in the policy are excluded from the investment portfolio.
c. **Exclusion filter for companies involved in ESG controversies of maximum severity:** Companies must not be involved in ESG controversies of maximum severity, such as incidents or allegations related to environmental, social or governance issues.
d. **Analysis and rating of the ESG profile of the invested company by means of ESG scorecards:** DPAM completes the various ESG exclusion filters by means of ESG risk and opportunity scorecards for each issuer in the portfolio. These analysis grids make it possible to identify the most relevant and material ESG risks and opportunities to which issuers are exposed.

In order to achieve the minimum proportion of sustainable investments that the Sub-fund intends to include, additional criteria that companies must meet are applied:

a. **Qualitative ESG approach**: Quantitative screening is complemented by qualitative analysis based on DPAM's fundamental research and dialogues with companies on financial issues relating to the companies' strategy and the most relevant and material ESG risks and issues to which they are exposed.
b. **Impact research and sustainability themes**: DPAM ensures that the company's products and/or services contribute – as a proportion of its turnover – to the achievement of the 17 environmental or social Sustainable Development Goals ("SDGs") defined by the United Nations (UN), such as health products and services, education-related services, water saving and access solutions, energy efficiency solutions, or services enabling digitalisation, sustainable mobility services, etc.

The compliance and stock exclusion filters based on the binding criteria of the investment strategy apply both at the time of purchase of a position and during the holding of the position in the portfolio.

At each data series collection, DPAM establishes exclusion lists which are updated at least quarterly and on an ad hoc basis in case of position deterioration. There is one exclusion list per constraint and per group of DPAM strategies applying a similar threshold of exclusions/investment restrictions. DPAM's risk management department is responsible for applying the necessary prevention (ex-ante risk) and control (ex-post risk) mechanisms to effectively enforce the exclusion lists in the investment portfolios of DPAM strategies.

DPAM uses ESG research from non-financial rating agencies to assess the severity of controversies to which companies are exposed and excludes companies involved in the most severe ESG controversies. DPAM also produces internal analyses of ESG controversies to which companies are exposed. DPAM reserves the right to exclude companies that it considers to be involved in sufficiently serious controversies.

Scorecards are established for each issuer applying for the portfolio. They are updated on an annual basis or on an ad-hoc basis should an event require a revision of the issuer's scorecard.

The calculation of the positive net contribution to the sustainable investment objectives is carried out on a regular basis.

In the event of a deterioration in the ESG profile of a company leading to its downgrading to Global Standards status or the emergence of a controversy of maximum severity regarding the company, the manager will sell the relevant investment in the interests of the Sub-fund's shareholders within three months.

DATA SOURCES AND PROCESSING

The data from the different data sources described below are all fed in the electronic trading platform for the first line of control. Moreover, all data is also used by the Risk department to spot potential breaches. Finally, each quarter the data is also provided to our reporting teams for reporting purposes, albeit quarterly or yearly.

In order to ensure data quality two key checks are conducted. A first continuous quantitative check takes place when importing the data from the different data sources. Second, an adhoc qualitative check is carried out to ensure the coherence between the data used in our internal control systems and the original data from the different data providers.

Below we describe the main different data sources used and the portion of estimated data for each, used to represent the environmental and social characteristics or the sustainable investments, in case relevant, the sub-fund promotes and/or invests in.

- **Sustainalytics:** Global Standards compliance (0% estimated), the ESG profile (0% estimated), and major controversies (0% estimated)
- **MSCI ESG Research:** Global Standards compliance (0% estimated), Exclusion of companies involved in controversial activities (0% estimated)
- **ISS Ethix:** Exclusion of companies involved in controversial activities (0% estimated)
- **Trucost:** GHG intensity calculation (69% estimated), taxonomy alignment (0% estimated)
- **Bloomberg:** Green bond classification (0% estimated)
- **Public data sources**, such as SBTi, Freedom House's Freedom in the World Index, or the Economist Intelligence Unit Democracy Index (0% estimated)

Zero exposure to issuers deemed non-compliant with the Global Standards.

- The data is derived from two data providers, Sustainalytics and MSCI ESG. Both data providers identify companies which face incidents and controversies resulting in the violation of these fundamental rights principles. DPAM takes a conservative approach to this KPI, as an issuer failing one Global Standards' test for either provider, will lead to excluding this issuer.

Zero exposure to issuers facing ESG controversies of maximum severity on environmental, social or governance issues.

- The data provider Sustainalytics scans over 55000 daily news sources to identify potential incidents linked to companies. Eventually, the data provider gives a severity score to each controversy. The severity of an allegation is determined based on the impact, nature, scope, recurrence of the incident, the response of the company, the responsibility of the management and the overall Corporate Social Responsibility policies and practices that are in place within the company. All companies facing a controversy level 5 (from a scale from 0 to 5, 0 being the lowest controversy level) are excluded from the sub-fund's eligible universe. Moreover, each month, the Responsible Investment Steering Group gathers to discuss the controversy level 3 with a negative outlook and level 4 of a distinct industry. Based on thorough analyses of these controversies, it is possible to assimilate them to a controversy level 5 and subsequently exclude them company.

Zero exposure to issuers involved in the excluded controversial activities according to the definitions and thresholds stipulated by DPAM's Controversial Activities Policy

- The blacklist is created each quarter and uses different activity thresholds to exclude specific companies. DPAM's **Controversial Activities Policy** depicts these activities and subsequent thresholds. The data sources to gauge the eligibility of a company are also provided in this controversial activity. The main data sources used in this context are MSCI ESG, ISS Ethix, Trucost and Sustainalytics. The selection of the data provider per activity is dependent on the scope, and assessment frequency of the data provider. Sometimes some publicly available information is used for the exclusions, such as information derived from the Science Based Targets initiative (SBTi).

Zero exposure to companies that rank in the bottom 20% for more than two of its four main environmental, social or governance risks, specific to the company's activity and geographical area. In the case of the thematic strategy, the ESG profile is assessed by means of a scorecard that focuses on the 4 most material ESG risks for the issuer. An issuer's profile will be considered insufficient on environmental, social and governance issues if it scores in the bottom 20% on more than two of the four most material risks identified.

- Each quarter, the percentile subindustry ranking of the different sub-fund's positions is exported from DPAM's data provider Sustainalytics. These percentiles ranking of four risks, potentially corrected for incongruencies with public company disclosure, are checked against the indicator.

LIMITATIONS TO METHODOLOGIES AND DATA

Several limitations can be identified in relation to the DPAM methodology but also more broadly to the availability and quality of information on these topics. Analyses are largely based on qualitative and quantitative data provided by companies and other issuers and therefore depends on the quality of this information.

Although constantly improving, ESG reporting by companies and other issuers is still limited and heterogeneous.

Furthermore, it remains difficult to anticipate the emergence of ESG controversies that could lead to an alteration in the quality of the ESG profile of the issuer being held in the portfolio.

Finally, the limitations of the methodology also include those related to the use of non-financial rating agencies, i.e.:

- the coverage rate of companies: following the re-balancing of certain reference universes, the rating agencies may stop covering a company;
- the bias towards large market capitalizations publishing a large amount of information and sustainability reports, as opposed to smaller market capitalizations with fewer marketing and reporting resources, the correlation between a company's extra-financial rating and its publication rate remains relatively high;
- the bias towards good ESG practices based on a western benchmark, as extra-financial rating agencies remain conditioned by a western view of environmental, social and good governance issues, to the detriment of companies from emerging economies, particularly Asian ones;
- the relevance of the criteria used for the evaluation: the use of relatively global standards does not always make it possible to capture the particularities and truly material issues of certain specific economic activities, to the disadvantage of companies that are highly specialized in one sector of activity.

The goal of DPAM's methodology is to reflect reality as accurate as possible, for its investments to properly promote environmental and social characteristics and sustainable objectives to have an impact on the real-world economy and beyond. Working with data providers may always lead to inaccuracies, which DPAM tries to remedy through different means. Below you will find an overview of the different methodologies with additional steps taken by DPAM to manage the limitations proper to its methodologies and data sources.

An overall comment pertains to the active and research driven investor role of DPAM. Engaging or undertaking a dialogue with companies remains the best possible method to ensure the accuracy of the analyses of data providers, its own research in the form of -for example- scorecards, or the interpretation of raw data extracted from company reporting. It is also a way to convey its main expectations as sustainable investor. Next to engaging, we rely on different external data sources, such as CDP, World Benchmarking Alliance… or specialized broker research. These sources can also be used as input to carry out coherence checks with data derived from its data providers.

One key element of DPAM's methodology is upholding the Global Standards. These aim to uphold four fundamental principles: defend human rights, defend labour rights, prevent corruption and protect the environment. Based on specific criteria stemming from the 10 principles of the UN 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 OECD for multinational companies, the conventions of the International Labour organization, the Universal Declaration of Human Rights, etc. To ensure that these incidents are properly monitored, DPAM uses two data providers which asses a company's compliance with the Global Standards. In case one of both data providers flags a company as being non-compliant, the company is excluded from the sub-fund 's eligible universe. This conservative approach ensures that no company with a potential breach of these standards is part of the sub-fund.

DPAM is aware of the same limitations when it comes to the controversies review and ensuring that the Sub-fund is facing no major controversies of maximum severity on environmental, social or governance issues. For this reason, DPAM systematically excludes companies facing the highest controversy level based on reported data by our data provider Sustainalytics. All companies facing a controversy level 5 (from a scale from 0 to 5, 0 being the lowest controversy level) are excluded from the sub-fund's eligible universe. Moreover, each month, the Responsible Investment Steering Group gathers to discuss the controversy level 3 with a negative outlook and level 4 of a distinct industry. Based on thorough analyses of these controversies, it is possible to either keep a name eligible, embark on an official engagement process or exclude a name due to a controversy. DPAM believes that this prudent approach enables us to have any exposure to companies facing major controversies or prone to face major controversies in the future.

To ensure the accuracy of these data, DPAM leverages its Task Force on Climate-Related Financial Disclosures (TCFD) analyses to pinpoint potential incongruencies. Moreover, a sanity check is conducted for the top five GHG emitters and the five largest contributors to the GHG intensity of a sub-fund, specifically for the publication of the quarterly

sustainability reports. In case a wrong data is identified, DPAM contacts its data provider to rectify the mistake.
The ESG data used to carry out the positive screenings, such as defining the Best-In-Class universe or the input for our in-house ESG scorecard, is also thoroughly checked against company reporting. In case a strong incongruency is observed between the company reporting and the ESG management score of that company by Sustainalytics, leading to an exclusion of the respective company from the investment universe, a waiver might be introduced. This waiver has a standard approach and can only be introduced for companies that are already in portfolio but fail a new eligible universe screening following a Best-In-Class strategy. All waivers need to be approved by the Responsible Investment Steering Group, the official steerring group of DPAM which safeguards all sustainability related aspects of the DPAM. Waivers are re-assessed each year and are not used for a long period of time, as these are introduced for companies temporarily badly covered by Sustainalytics. Details on the content of these waivers and the practical implementation can be read in **DPAM's Sustainable and Responsible Investment Policy**.

DUE DILIGENCE

The due diligence of underlying assets of the sub-fund on environmental and social characteristics or the sustainable objectives, are inherent to the methodology to promote these characteristics or objectives. These include, among other elements mentioned in the Methodologies section: the normative screenings, the controversial activities screening, and the controversies screening (negative screenings).

ENGAGEMENT POLICIES

Given the multiple challenges and interactions companies are exposed to, a cautious and open-minded attitude is required, which is why DPAM has adopted an approach based on dialogue and collaboration with investees. This collaborative process takes place both within DPAM and externally.

DPAM adopted an engagement program in the second half of 2014. Since then, it has leveraged on experience, knowledge and sharing cooperation to adopt the latest **engagement policy**.

In this policy, DPAM explains how it implements its two main engagement objectives namely:

- Engaging for improving the negative externalities of financed issuers
- Engaging for defending values and convictions on E, S and G factors.

The whole process of engagement, including the escalation process, is described in the engagement policy. This policy can have implications for all portfolios managed by DPAM and the scope of the issuers with whom DPAM engages is defined in the policy, in particular by the themes identified as priorities. The issuers are selected because they either have been identified by the controversy review by the Responsible Investment Steering Group or they are in the scope of the thematic priorities DPAM has defined on E, S & G aspects to defend its values and convictions. These values and convictions are described for the different E, S and G aspects and include, among other elements, Paris Alignment and related Net Zero target setting, human rights in value chains, or board oversight of ESG topics.

As described in the data source section, each month the Responsible Investment Steering Group gathers to discuss the controversy level 3 with a negative outlook and level 4 of a distinct industry. Based on thorough analyses of these controversies, it is possible to either keep a name eligible, embark on an official engagement process or exclude a name due to a controversy.

In case of eligibility with engagement, engagement letters are written in collaboration with portfolio managers, buy-side analysts and RI specialists to better understand the sustainable profile of companies. Generally speaking, this engagement will be conducted as individual initiative led by DPAM. If collaborative initiatives regarding the issuer and the controversy are already occurring, DPAM will decide joining the collaborative initiative for a greater effectiveness.

The engagement will traditionally start with a first contact with the issuer to raise our questions and concerns and preliminary list our expectations and objectives in terms of progress. The issuer is invited to acknowledge these concerns and come back with answers and guidance on what could be the expectations and objectives.
For formal engagements, divestment remains the last resort. DPAM aims at a constructive dialogue when engaging with companies and will therefore first use all possible means to improve a non-constructive dialogue, notably: sending reminders with an increasingly assertive tone, seeking additional investor support, raising the issue to board representatives and/or Chairman, using proxy voting if relevant, (co-)submitting or supporting shareholder resolution, sharing results and engagement with peers, etc. DPAM aims at giving itself six months, counting from the date of initial engagement, to reach a conclusion on an issuer. Within this period of 6 months, DPAM will send questions to the issuer, send several reminders (in case of no answer), analyze the answers from the issuer, possibly ask complementary questions, make a holistic analysis of the situation, assess escalation steps such as the ones mentioned above and eventually decide whether to remain invested, to continue the escalation, to divest, and/or to put the issuer on the exclusion list.

Next to the formal engagement, it is useful to mention that ESG considerations are also discussed internally among the responsible investment specialists and the investment professionals to challenge financial and extra financial findings and recommendations. This discussion increases the awareness of investment professionals as regards ESG risks and opportunities and enables a better understanding of sectorial challenges at financial and non-financial levels. It also makes it possible to challenge, where applicable, the external information and assessment of ESG ratings for companies that DPAM receives from specialized agencies.

Finally, the engagement is also an efficient manner to correct backward looking ESG data & research. It enables to have dialogues focusing on the future and on the practices the issuers are adopting to be aligned with the required transition. This forward-looking perspective is essential to ensuring that future company practices are aligned with our current expectations and requirements.