# DPAM L BONDS EUR QUALITY SUSTAINABLE

## SUSTAINABILITY-RELATED DISCLOSURES

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

The sub-fund has a **sustainable investment objective** according to SFDR.

### SUMMARY

The Sub-fund will make a minimum of **25% of sustainable investments with an environmental objective** in economic activities that qualify as environmentally sustainably under the EU taxonomy (minimum 4%) and in economic activities that do not qualify as environmentally sustainable under the EU taxonomy (minimum 15%) and a minimum of **25% of sustainable investments with a social objective**.
The Sub-fund's sustainable investments **do not materially undermine an environmentally or socially sustainable investment objective**. At issuer level, the sub-fund considers the main negative impacts on the mandatory sustainability factors and applies 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 overall portfolio level, the sub-fund applies a rule of minimum 50% of assets aligned with the EU Taxonomy, making a positive contribution on all 17 SDGs or to invest in sustainable bonds (green bonds or equivalent). The Manager'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).
The **sustainable investment objective** of the Sub-fund is to invst in companies that contribute through their products and services to the 17 Sustainable Development Goals (SDGs) defined by the United Nations, and to advance companies on their contribution to sustainable development and environmental, social and governance (ESG) issues. Some of the environmental objectives pursued by the Sub-fund contribute to climate change mitigation and adaptation as defined by Regulation (EU) 2019/2088.
The sustainable investment objective is measured by the impact projects financed by the bonds in which the Sub-fund invests, the contribution to the United Nations sustainable development goals of the turnover of the invested companies and the alignment with the EU Taxononmy.
The investment universe is narrowed: the portfolio focuses on companies with a net positive contribution (as defined below), i.e. (1) whose core business is the development of products and services that contribute to the achievement of sustainable development goals (SDG) and (2) the most advanced in terms of sustainability and ESG risk engagement.
To attain its sustainable investment objective (**Methodologies**), the Sub-fund targets:
a minimum of 80% of recognised impact issues (green bonds or equivalents) or issuers meeting environmental or social Sustainable Development Goals (SDGs) i.e.:

- companies aligned with one of the first two objectives of the EU taxonomy (climate change mitigation and adaptation);
- companies aiming to make a net positive contribution to environmental sustainability objectives;
- companies aiming to make a net positive contribution to social sustainability objectives.

In addition, in order to enhance the contribution to the financing of the 17 sustainable objectives defined by the United Nations (UN) as a whole and the principle of not causing significant harm to an environmental (under the EU Taxonomy or not) and/or social investment objective, the sub-fund also targets:

- a minimum of 50% of issuers making a positive net contribution to all the SDGs: min. 50% of the Sub-fund's AUM is invested in recognised sustainable bonds (green bonds or equivalent, aligned with the EU Taxonomy, or issuers that individually make a positive contribution to all 17 SDGs on a net contribution basis and
- a positive net contribution at the level of the overall portfolio to the SDGs, i.e. the impact result based on a weighted average over all invested issuers at the level of the overall portfolio and in terms of net contribution to all 17 SDGs is positive.

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 the overall portfolio. Based on the UN SDG framework, the impact contribution takes into account both (1) the extent to which the products and services of the invested company contribute to the achievement of the SDGs and (2) the negative impacts associated with their activities along the value chain.
The stepwise approach to identify the net contribution of companies partially relies on the data provider Util. It links specific products and services to SDGs in either a positive or negative way. Based on a company's different revenue streams, it is possible to assess the overall impact score of a company. Due to outdated revenue stream information or a lack of granularity, a wrong SDG contribution might be made. In some cases, this is corrected through an Impact Correction Note (ICN).
The other sustainability indicators used to measure the attainment of the Sub-fund's sustainability objective correspond to the binding investment restrictions in terms of exposure of the investee companies to certain controversial activities and behaviours.
Concerning the **monitoring of achieving the minimum of sustainable investments**, the portfolio managers receive each semester the eligible universe of their Sub-fund after carrying out the different ESG screenings. The qualitative ESG approach is part of the active security selection. The portfolio managers are not allowed to invest in non-eligible companies. Moreover, the Risk Management department of DPAM is doing daily controls of the Sub-fund in order to identify potential breaches against the specific indicators applicable to the Sub-fund.
The **due diligence** of underlying assets of the sub-fund on its sustainable objectives, is inherent to the methodology to promote these characteristics or objectives. More information is available in **DPAM's Sustainable and Responsible Investments Policy**.
To defend its own values and limit the externalities of funded issuers, DPAM has adopted an **engagement policy**.
The Sub-fund has **not designated a benchmark** to achieve its sustainable investment objective.

### NO SIGNIFICANT HARM TO THE SUSTAINABLE INVESTMENT OBJECTIVE

The Manager ensures that the Sub-fund's sustainable investments do not materially undermine an environmentally or socially sustainable investment objective by:
**Issuer level:**
Consideration of the main negative impacts on the mandatory sustainability factors (hereinafter "PAIs") listed in Table 1 of Annex 1 of the Delegated Regulation (EU) 2022/1288 which allows for the reduction of the negative impacts of the investment, including:

- by incorporating several elements to avoid and/or reduce its exposure to activities or behaviours that could affect another environmental or social objective (such as the Global Standards compliance filter and the exclusion of ESG controversies of maximum severity or activities most harmful to other environmental and/or social objectives
- via an engagement process with investee 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.

**Overall portfolio level:**

A rule of minimum 50% of assets aligned with the EU Taxonomy or making positive contribution on all 17 SDGs.

The PAIs are intrinsically linked to the Manager's commitment to reduce the negative impact of the Sub-fund's investments by avoiding activities or behaviours that may significantly hinder sustainable and inclusive growth. This commitment is incorporated throughout the research and investment process from its inception.

In concrete terms, PAIs are incorporated into the various stages of upstream Sub-fund 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:

- 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 the Manager's research in the context of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD);
- after that, the Global Standards compliance filter includes a filter on environmental protection;
- 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);
- Similarly, environmental indicators are included in the analysis of the ESG profile of companies and impact their best-in-class ranking;

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

- the Global Standards compliance filter is structured around human rights, labour rights and the prevention of corruption;
- the exclusion filter for companies involved in controversial activities (in accordance with the Manager's **Controversial Activities Policy**);
- 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;
- Similarly, social indicators are included in the analysis of the ESG profile of companies and impact their best-in-class ranking.

The Manager's approach and processes are further described in its **Sustainable and Responsible Investments Policy** and in the **TCFD report**

The Manager'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 the Manager 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.

## SUSTAINABLE INVESTMENT OBJECTIVE OF THE FINANCIAL PRODUCT

The Sub-fund has a sustainable investment objective.

The aim of the Sub-fund is to achieve environmental objectives in order to generate a positive impact on the climate and to contribute to the transition to a low carbon economy. Through the majority of its investments, the Sub-fund aims to have a positive impact in environmental terms, particularly in the areas of energy efficiency, mobility and electrification, eco-society, regenerative economy, alternative and renewable energy, land use, agriculture and water and the decarbonisation of manufacturing processes. The objectives are in line with the objectives of the Taxonomy.

The positive impact on the climate and the contribution to the transition to a low-carbon economy are assessed in two ways: first, by the impact projects financed by the impact bonds in which the sub-fund invests and, in addition, by the contribution of the turnover of the invested companies to the UN Sustainable Development Goals and to the environmental impact themes mentioned above.

This narrows the investment universe: the portfolio concentrates on green and equivalent bonds and net positive companies (as defined below), i.e. (1) whose core business is the development of products and services that contribute to the achievement of sustainable development goals (SDG) and (2) the most advanced in terms of sustainability and ESG risk engagement.

Some of the environmental objectives pursued by the Sub-fund contribute to climate change mitigation and adaptation as defined by Regulation (EU) 2019/2088.

The Sub-fund has not designated a benchmark to achieve its sustainable investment objective within the meaning of Article 9 of Regulation (EU) 2019/2088.

In order to attain its investment objective, the Sub-fund aims to achieve: a minimum of 80% of recognised impact issues (green bonds or equivalents) or issuers meeting environmental or social Sustainable Development Goals (SDGs) i.e.:

- companies aligned with one of the first two objectives of the EU taxonomy (climate change mitigation and adaptation);
- companies aiming to make a net positive contribution to environmental sustainability objectives;
- companies aiming to make a net positive contribution to social sustainability objectives.

In addition, in order to enhance the contribution to the financing of the 17 sustainable objectives defined by the United Nations (UN) as a whole and the principle of not causing significant harm to an environmental (under the EU Taxonomy or not) and/or social investment objective, the sub-fund also targets:

- a minimum of 50% of issuers making a positive net contribution* to all the SDGs (min. 50% of the sub-fund's AUM is invested in recognised sustainable bonds (green bonds or equivalent) or issuers that individually make a positive contribution to all 17 SDGs on a net contribution basis) and
- a positive net contribution at the level of the overall portfolio to the SDGs, i.e. the impact result based on a weighted average over all invested issuers at the level of the overall portfolio and in terms of net contribution to all 17 SDGs is positive.

*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 the overall portfolio. Based on the UN SDG framework, the impact contribution takes into account both (1) the extent to which the products and services of the invested company contribute to the achievement of the SDGs and (2) the negative impacts associated with their activities along the value chain.

The other sustainability indicators used to measure the attainment of the Sub-fund's sustainability objective correspond to the binding investment restrictions in terms of exposure of the investee companies to certain controversial activities and behaviours:

Zero exposure to issuers deemed to be non-compliant with Global Standards;

1. Zero exposure to issuers involved in controversial activities as defined by the Manager's **Controversial Activities Policy**;
2. Zero exposure to issuers facing ESG controversies of maximum severity;
3. Alignment with the Science Based Targets initiative (SBTi) or equivalent: stronger alignment than the index;
4. A better weighted average ESG profile than its benchmark prior to the application of the sustainable investment selection methodology, over a rolling three-year period;

for more details, see the section below "What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?"

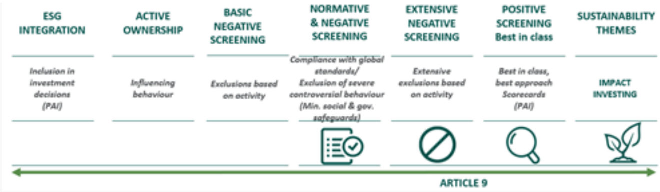
It should be noted that the Manager's **Controversial Activities Policy** is intended to describe and explain the Manager's choices in terms of exclusions and restrictions on investments in corporate or state activities or behaviour deemed unethical and/or irresponsible and/or unsustainable. It is available at

The Science-Based Targets (SBT) initiative is a partnership between CDP, the UN Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The initiative (1) identifies and promotes best practice emissions reduction and net zero targets in alignment with climate science, (2) provides technical assistance and expert resources to companies that set science-based targets in alignment with the latest climate science, (3) assembles a team of experts to provide companies with independent assessment and validation of targets.

Issuers/companies are called on to join the initiative and define a clear programme on their emission reduction strategy and net zero targets aligned with the Paris Agreement.

## INVESTMENT STRATEGY

The sub-fund mainly invests in euro-denominated corporate bonds with a high rating (investment grade). In the active management of the Sub-fund, the Manager selects securities with the potential for an advantageous return in relation to the risk incurred on the basis of criteria that are both financial and related to sustainable development (such as, for example, respect for the environment or socially equitable governance). The Sub-fund is actively managed. The Sub-fund may use derivatives to exploit or hedge against market fluctuations, or for efficient portfolio management.




Good governance criteria are an integral part of the Manager's active shareholding, engagement and sustainable and responsible investment policies, and are included in the investment decision process through the different steps of the sustainable investment selection methodology described above. The Manager takes these criteria into account in the following way:

Good governance criteria are an integral part of the Manager's active shareholding, engagement and sustainable and responsible investment policies, and are included in the investment decision process through the different steps of the sustainable investment selection methodology described above. The Manager takes these criteria into account in the following way:

- 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 United Nations 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 with regard to ESG aspects) are analysed for controversies, their severity and corrective measures.
- iii) quantitative ESG ("best-in-class") approach: governance criteria in the broad sense and corporate governance criteria in particular are an integral part of the "best-in-class" exercise, which uses external ESG ratings to define the eligible universe.
- iv) Qualitative ESG approach: Much of the fundamental research of the Manager is devoted to governance and corporate governance issues.

Governance issues are also an integral part of the monitoring of investments, notably through the Manager's **voting policy** and **engagement policy.**

## PROPORTION OF INVESTMENTS

By applying the investment strategy described above, the Sub-fund invests a minimum of 70% of its assets to achieve its sustainable investment objective. These sustainable investments (in the table below referred to as "#1 Sustainable") have:

i. an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy, or
ii. an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy, or
iii. a social objective


The derivative products that may be employed will not be used for the purpose of achieving the sustainable investment objective.

**Minimum of 4%.** Sustainable investments that are aligned with the EU Taxonomy (referred to in the table as "EU Taxonomy aligned") consist of investments in companies whose economic activities substantially contribute to the environmental objectives of climate change mitigation and/or adaptation as defined by the EU Taxonomy in accordance with the eligibility and technical selection criteria ("EU Taxonomy Technical Selection Criteria").

The Manager's methodology for assessing the EU Taxonomy alignment of investee companies is based on data provided either by the investee companies or by third party providers. The latter use a mixed approach:

- Firstly, a direct mapping between the business activities in their own sectoral classification system and the economic activities covered by the Technical Selection Criteria of the EU Taxonomy.
- Secondly, any business activity that could not be directly mapped is examined through a bottom-up assessment of its alignment with the EU Taxonomy's Technical Selection Criteria.
- Any economic activity remaining after the first and second steps is considered not to be aligned with the EU Taxonomy.

In principle, the extent to which investments are investments in environmentally sustainable economic activities within the meaning of the EU Taxonomy is assessed by means of turnover (based on performance data provided by third-party suppliers).

Where information on the extent to which investments are investments in environmentally sustainable economic activities within the meaning of the EU Taxonomy cannot be readily obtained from information published by the invested issuers, the Manager shall rely on equivalent information obtained by third-party providers from the invested issuers.

The compliance of these investments with the requirements set out in Article 3 of the EU Taxonomy will not be subject to a guarantee provided by one or more auditors or a review by one or more auditors or a review by one or more third parties.

Further information on methodology and data resources is available in the information on this Sub-fund via www.dpamfunds.com (in particular in the sections "Methodologies" and "Data Sources and Data Processing").

The Sub-fund does not seek to invest in enabling and/or transitional activities.

Based on the approach described above, the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy is 25%. Only two of the six environmental objectives defined by the EU Taxonomy are currently covered by the regulatory framework of the EU Taxonomy Technical Selection Criteria that determine alignment with the EU Taxonomy (adaptation and climate change mitigation). Similar criteria for the other four environmental objectives have yet to be developed. In the meantime, the Manager wishes to continue to make sustainable investments that contribute to environmental objectives not covered by the current EU Taxonomy Technical Selection Criteria, including key environmental objectives such as the sustainable use and protection of water and marine resources, the prevention and control of pollution and the protection and restoration of biodiversity and ecosystems. To this end, the Manager has adopted and defined a specific framework for identifying the environmental objectives of these sustainable investments and assessing their contribution to these objectives. This framework uses data from investee companies and third-party suppliers and assesses the negative and positive contribution of (potential) investee companies, as a percentage of their turnover, to the UN Sustainable Development Goals (SDGs) that can be attributed to environmental objectives.

The Manager will review and reassess this framework when the EU Taxonomy Technical Selection Criteria have been implemented for the other four environmental objectives defined by the EU Taxonomy. Further information on methodology and data resources is available in the information on this Sub-fund via www.dpamfunds.com (in particular in the sections "Methodologies" and "Data Sources and Data Processing").

Based on the below approach, the minimum share of socially sustainable investments is 15%. A European Taxonomy for social sustainability goals has yet to be developed. In the meantime, the Manager wishes to continue to make sustainable investments that contribute to the achievement of key social goals such as zero hunger, quality education and peace, justice and strong institutions. To this end, the Manager has adopted and defined a specific framework for identifying the social objectives of these sustainable investments and assessing their contribution to these objectives. This framework uses data from investee companies and third-party suppliers and assesses the negative and positive contribution of (potential) investee companies, as a percentage of their turnover, to the UN Sustainable Development Goals (SDGs) that can be attributed to social objectives. The Manager will review and reassess this framework when the EU Taxonomy Technical Selection Criteria have been implemented for the social objectives under the EU Taxonomy. Further information on methodology and data resources is available in the information on this Sub-fund via www.dpamfunds.com (in particular in the sections "Methodologies" and "Data Sources and Data Processing").

Binding ESG screenings carried out in accordance with the investment strategy described above are applied to the whole portfolio, excluding the:

- Liquid assets
- Derivative instruments
- Collective investment schemes

The Sub-fund may invest or hold these types of assets for the purpose of achieving investment objectives, portfolio diversification, liquidity management and risk hedging. This remaining proportion will never exceed 30% of the portfolio.

Given the nature of these instruments, there are no minimum environmental or social guarantees.

## MONITORING OF SUSTAINABLE INVESTMENT OBJECTIVE

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.

Each semester the portfolio manager receives the eligible universe of their sub-fund, after carrying out the different ESG screenings. This eligible universe, or so-called whitelist, is loaded in the electronic trading platform. The steps of the screening include a norms-based screening, a controversial activities based screening and a negative screening based on the controversial behaviour of the companies. The qualitative ESG approachis part of the active stock selection.
Each quarter a blacklist is generated for the sub-fund. This blacklist encompasses companies in which the sub-fund cannot invest due to non-compliance with the Global Standards, failing to pass the activity thresholds detailed in our controversial activities policy or facing a major controversy of maximum severity on environmental, social or governance issues. This signifies that any company presented on the blacklist cannot be invested in.
In terms of control, the portfolio manager is not able to invest in names of its sub-fund 's blacklist. Moreover, as a second line of defense, DPAM's risk department runs a daily check on the different funds to identify potential breaches with specific indicators. The sub-fund enjoys external certifications with external audits on the environmental and social characteristics. This external certification, Febelfin Towards Sustainability label, is accompanied by a yearly audit.

## METHODOLOGIES

The criteria which the issuers must meet in order to be included in the investment universe are determined through independent external research and/or internal research at the Manager. These selection criteria are as follows:

- Global Standards compliance filter: Companies must comply with the founding principles of the Global Compact (human rights, labour law, protection of the environment, fight against corruption and environmental protection) and the UN Guiding Principles, ILO instruments, the OECD Guidelines for Multinational Enterprises and the underlying conventions and treaties. The Manager uses specific ESG research from non-financial rating agencies to determine whether or not a company is in compliance with these standards.
- Exclusion filter for companies involved in controversial activities: The policy of excluding controversial activities defined by the Manager (available at www.dpamfunds.com (Controversial Activities Policy)) covers several sectors and economic activities that are subject to debate as to whether or not they are ethical and sustainable. For each of these sectors and economic activities, the exclusion policy for controversial activities defines the exclusion criteria and thresholds. Companies involved in these controversial sectors and activities and meeting the exclusion criteria set out in the policy are excluded from the investment portfolio.
- Exclusion filter for companies involved in extremely serious ESG controversies: Companies should not be involved in extremely serious ESG controversies, such as incidents or allegations related to environmental, social or governance issues.
- The Manager uses ESG research of non-financial rating agencies to assess the seriousness of the controversies to which companies are exposed and excludes the most severe controversies. The Manager also produces internal analyses of the ESG controversies to which companies are exposed. The Manager reserves the right to also exclude companies that it considers to be involved in sufficiently serious controversies.
- Quantitative ESG approach ("best-in-class"): The Manager filters the universe prior to the application of the ESG and sustainable investment selection methodology according to a screening based on the quality of the ESG profile of companies, assessed by non-financial rating agencies. The bottom decile (10%) of the economic sector ranking is not eligible for investment.
- Qualitative ESG approach: The quantitative screening is complemented by qualitative analyses based on the Manager'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.
- Impact research and sustainability issues: The Manager ensures that the products and/or services of the company contribute – as a proportion of its revenue – 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 services, water saving and access solutions, energy efficiency solutions, digitalisation services, sustainable mobility services, etc.

Compliance and exclusion filters for securities 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.
In addition, in order to integrate the proprietary investment universe that unifies issuers committed to addressing climate change, the three investment categories (impact bonds, climate challengers and climate enablers) are subject to a specific qualitative climate assessment:

- To assess the effectiveness of "Environmentally sustainable financing instruments", the Manager has created a proprietary qualitative scorecard that is applied before an investment is made. This scoreboard is based on best practices and market standards, and specifically analyzes UoP obligations. In addition, a qualitative assessment ensures that the issuance of environmentally sustainable financing instruments is an integral part of the issuer's business strategy.
- Climate challengers: An assessment model was developed to evaluate the company's efforts based on the four pillars of the Taskforce on Climate-related Financial Disclosures (TCFD): governance, strategy, risk management, measures and targets. Only companies that can demonstrate that they have a state-of-the-art integrated strategy in place to address the transition risks of their sector will be eligible for investment in their ordinary bonds.
- Climate enablers: For climate enablers, issuers' business activities must be clearly documented and show a clear strategic focus on climate-friendly products or services that are in line with one of the sustainable environmental themes/objectives pursued by the portfolio and that account for a significant share of the issuers' revenues.

Each time a data series is collected, the Manager draws up exclusion lists which are updated at least quarterly and on an ad hoc basis in the event of a deterioration in the position. There is an exclusion list for each binding element and strategy group, and the Manager applies a similar exclusion/restriction threshold for investment. The Manager'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 the Manager's strategies.
The Manager uses ESG research of non-financial rating agencies to assess the seriousness of the controversies to which companies are exposed and excludes companies involved in the most severe ESG controversies. the Manager also produces internal analyses of ESG controversies to which companies are exposed. The Manager reserves the right to also exclude companies that it considers to be involved in sufficiently serious controversies.
The best-in-class screening is carried out every six months. The calculation of the positive net contribution to the sustainable investment objectives is done on a regular basis.
In the event that a company's ESG profile deteriorates and it is downgraded to Global Standards non-compliant status or an extremely serious controversy regarding the company emerges, the Manager will sell the relevant investment in the interest 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)
- **Util:** Sustainable Development Goals (SDG's) alignment score (100% 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).

**A better weighted average ESG profile than the benchmark, calculated over a rolling three-year period;**

- DPAM uses the data provider Sustainalytics to determine the ESG profile of its investments. DPAM relies on the ESG-scores as calculated by its extra-financial research provider, which has developed specific scoring models for each relevant peer group of companies (i.e. sub-industry). For each peer group, there is an assessment of the key risks associated to the business activity (exposure) 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 highest the score, the better the ESG profile of the issuers (risk management score).

**For the credit (corporate) pocket, an alignment of the portfolio to the Science Based Targets initiative (SBTi) superior to that of the benchmark;**

- A direct extraction of the SBTi website is taken with an overview of all corporates with science-based targets. This extraction is matched with the portfolio's positions to assess this 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.

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**.
Similar to the ESG controversies derived from Sustainalytics, it might happen that the data used for our controversial activity policy might not be the most recent publicly available company disclosure. In cases more recent data is available from company reporting, the data of the data provider is overruled.

### 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.