

DPAM B BALANCED STRATEGY - A

NACHHALTIGKEITSBEZOGENE OFFENLEGUNGSPFLICHTEN

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

This financial product promotes **environmental and /or social characteristics**, but will not make any sustainable investments.

ZUSAMMENFASSUNG

Der Teilfonds bewirbt ökologische und soziale Merkmale, indem er mindestens 75 % seines Nettovermögens in (1) Organismen für gemeinsame Anlagen oder ihre Teilfonds investiert, die von DPAM oder von Dritten verwaltet werden und unter anderem ökologische oder soziale Merkmale im Sinne der Verordnung (EU) 2019/2088 bewerben und/oder ein nachhaltiges Investitionsziel im Sinne der Verordnung (EU) 2019/2088 verfolgen (indirekte Anlagen); und/oder (2) Wertpapiere, die die von ihm beworbenen ökologischen und sozialen Merkmale erfüllen (direkte Anlagen).

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. Die verwendeten Daten (**Datenquellen und -verarbeitung**) und ihre Beschränkungen ergeben sich aus den verwendeten Methodiken.

■ Für direkte Investitionen oder DPAM-Fonds (in Aktien oder Unternehmensanleihen):

- Kein Engagement in Unternehmen, die die Anforderungen der globalen Standards nicht erfüllen. DPAM greift auf zwei Datenanbieter zurück: Sustainalytics und MSCI ESG Research. **Beschränkungen der Methodiken und Daten:** 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.
- Kein Engagement in Unternehmen, die gemäß den in der [Politik bei kontroversen Aktivitäten von DPAM](#) vorgegebenen Definitionen und Schwellenwerten in kontroverse Aktivitäten verwickelt sind. DPAM nutzt dazu die folgenden Datenanbieter: MSCI ESG, ISS Ethix, Trucost und Sustainalytics. Beschränkungen der Methodiken und Daten: Die Daten von diesen Quellen entsprechen nicht immer den zuletzt veröffentlichten Daten der Unternehmen. In solch einem Fall haben diese Vorrang vor den zuletzt von den Datenanbietern erhaltenen Daten.
- Kein Engagement in Unternehmen, die in ESG-Kontroversen maximaler Schwere verwickelt sind. DPAM schließt Unternehmen aus, die basierend auf den von Sustainalytics veröffentlichten Daten, die es durch zusätzliche interne Analysen vervollständigt, in die schwerwiegendsten kontroversen Aktivitäten verwickelt sind. **Beschränkungen der Methodiken und Daten:** 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.

■ Für direkte Investitionen oder DPAM-Fonds (in Staatsanleihen):

Kein Engagement in Emittenten, die die demokratischen Mindestanforderungen entsprechend einer Methodik nicht erfüllen, die vorrangig auf den Klassifizierungen der internationalen NRO Freedom House (d. h. Länder, die als „unfrei“ eingestuft werden) und der Economist Intelligence Unit (d. h. Länder, die als „autoritär“ eingestuft werden) basieren.

■ Für Investitionen in Fonds Dritter:

Engagement in Teilfonds, die unter anderem ökologische oder soziale Merkmale im Sinne der Verordnung (EU) 2019/2088 bewerben und/oder Teilfonds von OGA, die ein nachhaltiges Investitionsziel im Sinne der Verordnung (EU) 2019/2088 verfolgen, und die auf Grundlage des Verkaufsprospekts dieser Teilfonds ausgewählt werden.

- **Was direkte Investitionen oder DPAM-Fonds anbelangt (Aktien- oder Unternehmensanleihenstrategien)**, so erhält der Portfoliomanager – nachdem die verschiedenen ESG-Screenings (normenbasiertes Screening, Screening auf Grundlage von kontroversen Aktivitäten und negatives Screening) durchgeführt wurden – das zulässige Universum seines Teilfonds. Das zulässige Universum, auch Whitelist genannt, wird anschließend in die elektronische Trading-Plattform geladen. 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.

- **Was direkte Investitionen oder DPAM-Fonds anbelangt (Staatsanleihen)**, so wird jedes Halbjahr eine schwarze Länderliste hinsichtlich demokratischen Mindestanforderungen für den Teilfonds erstellt. Die schwarze Liste umfasst Länder, in die der Teilfonds nicht anlegen kann, da diese internationale Abkommen nicht einhalten oder nicht demokratisch sind.

- **Was Investitionen in Fonds Dritter anbelangt**, so berücksichtigt das Team bei der Auswahl mehrere Nachhaltigkeitskriterien, darunter die Qualität und die Erfolgsbilanz des Fonds, sein Engagement bei nachhaltigen Investitionen, insbesondere seine Richtlinien und Regeln hinsichtlich Nachhaltigkeitsfaktoren und -risiken sowie die Einhaltung des Grundsatzes „keinen erheblichen Schaden verursachen“. Um die Integration von Nachhaltigkeitsrisiken durch den Fondsmanager nachvollziehen zu können, werden die verschiedenen Richtlinien zur ESG-Integration, zum Klimarisiko und zum Engagement des Fondsmanagers überprüft. Schließlich werden auf Produktebene ebenfalls die SFDR-Klassifizierung sowie die entsprechende Methodik zur Beurteilung der Nachhaltigkeitsrisiken herangezogen.

Die **Sorgfaltspflicht** in Bezug auf die dem Teilfonds zugrunde liegenden Vermögenswerte bezüglich Umwelt und Soziales ist Teil der Methodik, diese Merkmale zu bewerten. 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

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

The Sub-fund promotes environmental and social characteristics by investing at least 75% of its net assets in (1) collective investment schemes or their sub-funds (hereinafter collectively referred to as "UCIs"), managed by DPAM or third party managers, which promote, inter alia, environmental or social characteristics within the meaning of Regulation 2019/2088 and/or which have a sustainable investment objective within the meaning of Regulation 2019/2088 (indirect investments); and/or (2) securities which meet the environmental and social characteristics promoted by it (direct investments).

Finally, by incorporating ESG factors into its investment process, the Sub-fund aims to promote environmental, social and governance (ESG) best practices.

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:

■ **For direct investments (in equities or corporate bonds) :**

- Zero exposure to companies deemed to be non-compliant with Global Standards;
- Zero exposure to companies involved in controversial activities according to the definitions and thresholds stipulated by [DPAM's Controversial Activities Policy](#);
- Zero exposure to companies facing ESG controversies of maximum severity;

■ **For direct investments (in sovereign bonds):**

Zero exposure to issuers that do not meet minimum democratic requirement.

■ **For investments in UCIs:**

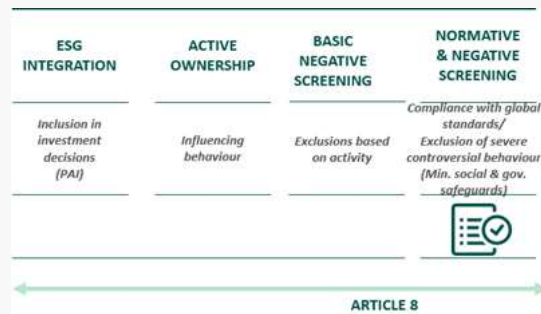
Exposure to sub-funds which promote, inter alia, environmental or social characteristics within the meaning of Regulation 2019/2088 and/or sub-funds of UCIs which have a sustainable investment objective within the meaning of Regulation 2019/2088.

For more details, see the section below "Methodologies"

INVESTMENT STRATEGY

The Portfolio promotes environmental and social characteristics through exclusions, fundamental research, voting and engaged dialogue according to the following scheme of portfolio construction steps as schematized at the end of the section.

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.



■ **For direct investments (in equities or corporate bonds) :**

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 :

- Portfolio compliance with Global Standards: Prevention of corruption is one of the four main themes of the 10 principles of the UN Global Compact.
- Portfolio exposure to 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.
- Qualitative ESG approach: DPAM's fundamental research is largely devoted to corporate governance and governance issues.
- DPAM's voting policy helps to promote good corporate governance practices (separation of powers, independence and adequacy of the board of directors, respect for minority shareholders' rights, quality of internal and external audit, etc.).

DPAM's engagement policy is linked to this voting policy and applies its principles. Governance issues are also an integral part of the monitoring of investments, notably through [DPAM's voting policy](#) and [engagement policy](#).

■ **For direct investments (in sovereign bonds) :**

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

■ **For investments in UCIs: depending on the consideration of the PAIs by the underlying UCI.**

The promotion of environmental and social characteristics through investments in UCIs is done via UCIs that promote, inter alia, environmental or social characteristics within the meaning of Regulation 2019/2088 or have a sustainable investment objective within the meaning of that Regulation. In accordance with Regulation 2019/2088, the companies in which investments are made by these UCIs must apply good governance practices.

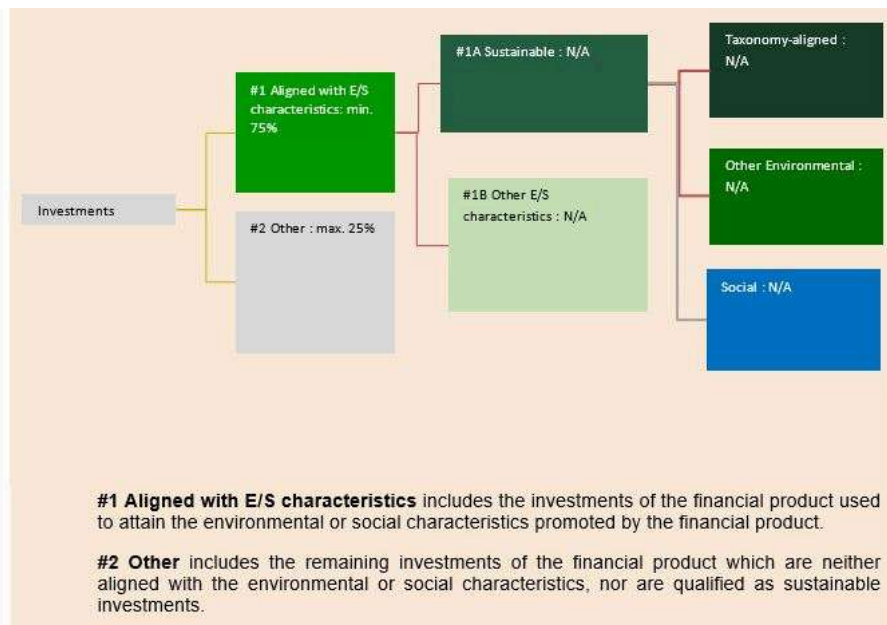
The way in which compliance with this requirement is verified may vary from one UCI to another.

PROPORTION OF INVESTMENTS

By applying the investment strategy described above, the Sub-fund invests a minimum of 75% of its assets:

- in securities that satisfy the environmental and social characteristics it promotes; or
- in UCIs which promote, inter alia, environmental or social characteristics within the meaning of Article 8 of Regulation 2019/2088 or have a sustainable investment objective within the meaning of Article 9 of Regulation 2019/2088.

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

For direct investments or DPAM Funds - equity or corporate bond strategies

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 three steps of the screening include a norms-based screening, controversial activities-based screening and a negative screening based on the controversial behaviour of companies. The qualitative ESG approach is 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 Sub-funds to identify potential breaches with specific indicators.

Through the electronic trading platform, all portfolio managers have access to the performance of their Sub-funds on their relevant ESG indicators. This serves two purposes. First, the portfolio manager can calculate the impact of a trade on the different indicators. Second, the manager can determine the performance of its Sub-fund on the different indicators in real time.

For direct investments or DPAM Funds - Sovereign bonds

At the country level, a blacklist based on minimum democratic requirements is generated each semester for the Sub-fund. This blacklist encompasses countries in which the Sub-fund cannot invest due to not respecting international treaties or being non-democratic.

For investments in third party funds

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

DPAM engages in a regular dialogue with the managers of third-party funds. If a UCI no longer has the classification (Article 8 or Article 9 according to Regulation 2019/2088) according to the information declared in its prospectus or information document, DPAM will sell the investment in the UCI concerned in the interest of the sub-fund's shareholders as soon as possible if such a sale is necessary in order to comply, at the overall level of the sub-fund, with the promoted environmental and social characteristics. The exclusion of the related third-party fund from the investment universe of the sub-fund would be necessary where keeping such investment in portfolio would have as a consequence that minimum threshold regarding the promotion of environmental and social characteristics would no longer be met. Otherwise, the investment is considered as part of the 'other's' category as defined in the asset allocation of the prospectus.

METHODOLOGIES

For direct investments (in equities or corporate bonds):

The binding investment restrictions apply to (a) companies that do not comply with the principles of the Global Standards described below, (b) companies involved in controversial activities, and (c) companies involved in ESG controversies of maximum severity:

- Compliance of the portfolio with Global Standards: The Sub-fund does not invest in companies that do not comply with the 10 principles of the Global Compact and the United Nations Guiding Principles, ILO instruments, OECD Guidelines for Multinational Enterprises and the underlying conventions and treaties.
- Exclusion of companies involved in controversial activities: The Sub-fund excludes securities whose business is the manufacture, use or possession of anti-personnel mines, cluster munitions, depleted uranium ammunition and armour, chemical or biological weapons. The Sub-fund also excludes securities of companies which have material exposure to the production or distribution of tobacco or raw materials and equipment for the production of tobacco, the mining of thermal coal, or the generation of electricity from coal. These exclusions and their thresholds are detailed in [DPAM's Controversial Activities Policy](#) (section on "conventional" strategies).
- Portfolio exposure to ESG controversies of maximum severity: companies involved in ESG controversies of maximum severity are not eligible for investment.

Exclusion lists of individual companies excluded under criteria (a), (b) and (c) above are regularly updated and feed into the portfolio investment monitoring systems. Security exclusions 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 strategy group, with DPAM applying a similar exclusion/restriction threshold. 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's strategies.

DPAM uses ESG research from extra-financial rating agencies to assess the severity of controversies to which companies are exposed and excludes the most severe 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.

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.

For direct investments (in sovereign bonds):

The Sub-fund does not invest in countries considered not to meet minimum democratic requirements. To determine whether a country does not meet these minimum requirements the manager applies a methodology which is primarily based on the classifications of the International NGO Freedom House ("not free") and The Economist Intelligence Unit ("authoritarian regime"). This exclusion and the underlying methodology are detailed in [DPAM's Controversial Activities Policy](#) (section on "Sovereign Bonds").

For investments in UCIs:

depending on the consideration of the PAIs by the underlying UCI. As indicated above, among its ESG investments, the Sub-fund may invest in UCIs that are classified as financial products that promote, inter alia, environmental and/or social characteristics within the meaning of Regulation 2019/2088 and/or have a sustainable investment objective within the meaning of Regulation 2019/2088. In selecting these UCIs for the Sub-fund,

DPAM therefore takes into account the integration of environmental, social and/or governance criteria by the third party manager in the management of these funds. The list of collective investment schemes in which the Sub-fund may invest is updated on a regular basis by DPAM and on an ad hoc basis in case of deterioration.

At least once a year, DPAM conducts an analysis of the underlying collective investment schemes in order to verify the extent to which their selection methodology is aligned with the environmental and/or social characteristics that the Sub-fund aims to promote. In addition, DPAM engages in a regular dialogue with the managers of these collective investment schemes.

If a UCI no longer has the aforementioned classification (Article 8 or Article 9 according to Regulation 2019/2088) according to the information declared in its prospectus or information document, DPAM will sell the investment in the UCI concerned in the interest of the Sub-fund's shareholders within six months if such a sale is necessary in order to comply, at the overall level of the Sub-fund, with the promoted environmental and social characteristics.

DATA SOURCES AND PROCESSING

For direct investments or DPAM Funds - Sovereign bonds

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, 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 ad hoc 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 first describe the main different data sources used and the portion of estimated data for each source, before detailing the specific data sources used to attain each of the environmental and social characteristics promoted by the Sub-fund.

For direct investments or DPAM Funds - Corporate equities or bonds

- Sustainability: 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)
- Public data sources, such as SBTi, (0% estimated)

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

The data is derived from two data providers, Sustainability and MSCI ESG Research. 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 involved in the excluded controversial activities

The blacklist is created each quarter and uses different activity thresholds to exclude specific companies. [DPAM's controversial activity 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 Sustainability. 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 issuers facing major controversies of maximum severity on environmental, social or governance issues.

The data provider Sustainability scans over 55000 daily news sources to identify potential incidents linked to companies. Eventually, the 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 fund's eligible universe. Moreover, each month, the Responsible Investment Steering Group gathers to discuss issuers facing a controversy level 3 with a negative outlook or 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 the issuer.

For direct investments or DPAM Funds - Sovereign bonds

- Bloomberg: Green, social and sustainability bond classification (0% estimated)
- Democratic requirements: Public data sources, such as Freedom House's Freedom in the World Index and the Economist Intelligence Unit Democracy Index (0% estimated)
- The proprietary country model built on environmental, social and governance factors from public data sources such as World Bank, OECD, ILO, WHO, UN or Unesco.

The percentage of impact obligations is derived from Bloomberg, both for the fund and the reference index.

Exclusion of countries that both do not meet minimum democratic requirements according to a methodology which is mainly based on the classifications of the International NGO Freedom House (i.e. countries classified as 'non-free'), and the Economist Intelligence Unit (i.e. countries classified as 'authoritarian').

For investments in third-party funds

To assess the ESG profile of the external funds, DPAM relies on the prospectus of the funds to assess whether they promote environmental and social characteristics.

LIMITATIONS TO METHODOLOGIES AND DATA

DPAM funds and direct investments

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 to have an impact on the real-world economy. Working with data providers may always lead to inaccuracies, which DPAM tries to remedy through different means. Below we provide 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, or the interpretation of raw data extracted from company reporting. It is also a way to convey its main expectations as ESG Investor. Next to engaging, DPAM relies 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 assess 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 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 or social 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 it to have any exposure to companies facing major controversies or prone to face major controversies in the future.

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.

Third party-funds

We refer to the monitoring section, detailing the regular engagement and due diligence steps taken to ensure the accuracy of information on which investment decision are made.

DUE DILIGENCE

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

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

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 program](#).

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.

The elements described above are only applicable for direct investments or DPAM Funds, but DPAM also engages in a regular dialogue with the managers of third-party funds. During these engagements the fund managers' commitment to ESG and/or sustainable investments, notably its policies and rules regarding sustainability factors and risks and, where applicable, consideration of the principal adverse indicators are controlled. Throughout these engagements, the sub-fund's adherence to the promotion of social and environmental characteristic is monitored and adequate escalation steps are taken in case these do not meet DPAM's standards anymore. These steps are detailed in the monitoring section above.

