Sustainability reporting

DNCA INVEST - EUROSE

Summary

DNCA INVEST - EUROSE is a sub-fund of the Luxembourg SICAV DNCA Invest managed by DNCA Finance.

The Sub-Fund promotes environmental and social characteristics within the meaning of Article 8 of the European Regulation (EU) 2019/2088 known as Sustainable Finance Disclosure (SFDR) and although it does not have sustainable investment as its objective, it contains a minimum share of 20% of sustainable investments.

The characteristics promoted by the Sub-Fund are Governance, the Environment as well as social and societal criteria. In promoting these characteristics, the Sub-Fund will take into account ESG factors specific to each pillar.

The Sub-Fund is managed using ABA (Above and Beyond Analysis), an internally-developed analysis tool applicable to both private and public issuers, and a restrictive exclusion policy.

The investment strategy applied to the Compartment is based on the selection of the investment universe combining a financial and extra-financial approach; the allocation of asset classes according to the analysis of the investment environment and the risk appetite of the management team and; the selection of securities based on a fundamental analysis from the point of view of minority shareholders and/or bondholders, taking into account ESG criteria and the valuation of the instruments.

To this end, the Sub-Fund aims to invest at least 80% of its net assets in investments that comply with the environmental and social characteristics it promotes, and 20% of these assets are directly invested in sustainable investments.

To assess whether investments comply with these characteristics, checks are carried out using indicators (e.g. the ABA internal rating method for private and public issuers). The data used in this context comes mainly from public sources and external service provider databases. Consequently, there may be limits to the availability and quality of this data.

In addition, DNCA Finance has implemented due diligence on the underlying assets by monitoring for controversies and applying exclusions based on the results of ESG analysis, as well as a shareholder engagement policy as part of its responsible investor approach.

The sub-fund has no benchmark for environmental or social characteristics promoted by the financial product.

Sustainable investment

This financial product promotes environmental or social characteristics, and although it does not have sustainable investment as its objective, it contains a minimum of 20% sustainable investments.

These investments do not materially prejudice any of the sustainable investment objectives, insofar as the negative impacts of corporate activities on social and environmental objectives are directly integrated into the ABA Corporate Responsibility Rating (which incorporates indicators of negative impacts on sustainability factors in Table 1 of Appendix 1 of the SFDR RTS), and may result in a downgrade of the ABA rating below the minimum rating.
In this context, DNCA Finance is implementing the following exclusions in line with its exclusion policy:

- Thermal coal and unconventional oil and gas: DNCA Finance will progressively exclude companies involved in activities related to thermal coal and unconventional oil and gas;
- Controversial weapons: issuers are excluded from all DNCA Finance portfolios;

- Non-compliance with the United Nations Global Compact: issuers that have committed serious breaches of the principles of the UN Global Compact are included in DNCA Finance's "worst offenders" list and excluded from all portfolios.

In addition, the main negative impacts are included in the key performance indicators (KPIs) collected for the analysis. Issuers whose main negative impacts are severe will be given a poor corporate responsibility rating (CR rating). A minimum score of 2 out of 10 is therefore consistent with the approach of not causing significant harm to environmental or social objectives.

Finally, issuers that do not comply with the principles of the United Nations Global Compact are rated poorly in terms of according to the ABA tool.

Issuers identified as controversial or in serious violation of the UN Global Compact principles (human rights or anti-corruption) on the basis of the internal approach are excluded from the portfolio via the list of worst offending companies once the internal analysis has been completed. The internal approach enables DNCA Finance to draw up a list of issuers identified as violating the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, and which have been qualified as a "serious offence" by DNCA Finance's Ethics Committee. These issuers are therefore included in an exclusion list of "worst offenders" and are prohibited from investing.

To carry out this analysis, DNCA Finance uses the database of an external data provider:

1) Extract issuers with "standards-based" alerts;
2) Eliminate irrelevant issuers;
3) Quantitative analysis of violations by DNCA Finance's Ethics Committee;
4) Include issuers identified as having committed a "serious violation" in the list of worst offenders.

Environmental or social characteristics of the financial product

The characteristics promoted by the Sub-Fund are governance, the environment and social and societal criteria. and societal criteria.

The Sub-Fund's management is based on an environmental, social and governance analysis tool developed in-house ABA (Above and Beyond Analysis).

In promoting these characteristics, the Sub-Fund will in particular take into account the following ESG factors relating to private issuers:

- Environment: GHG emissions, air pollution, water pollution, water consumption, land use, etc ;
- Social: Exorbitant CEO compensation, gender inequality, health and safety issues, child labor, etc;
- Governance: Monitoring of corruption and influence peddling, tax evasion, etc.
- Overall ESG quality rating.

The investment process and the resulting selection of shares and bonds in private companies take account of an internal rating concerning both the responsibility and sustainability of companies, based on an extra-financial analysis carried out using a tool developed in-house by DNCA Finance, using the "best in universe" method. There may be a sector bias.

In promoting these characteristics, the Sub-Fund will in particular take into account the following ESG factors relating to public issuers:

- Environment: Carbon intensity and breakdown of energy consumption;
- Social: Compliance with international standards (child labor, discrimination, freedom of association, money laundering, labor rights, human rights, freedom of the press and torture);
- Governance: Signatory to the Paris Agreement, signatory to the UN Convention on Biodiversity, coal phase-out policy, nuclear non-proliferation agreement.

Global ESG risk rating and coverage:

The process of investing in government bonds and their resulting selection takes into account an internal rating concerning the responsibility of public issuers, based on an extra-financial analysis carried out via a tool developed in-house by DNCA Finance, using the minimum rating approach method.

The Sub-Fund does not use a benchmark index to achieve the ESG characteristics it promotes.

Investment strategy

The investment process applied to the Sub-Fund is based on these three factors:

- Selection of the investment universe combining a financial and extra-financial approach, in particular by excluding issuers with a high risk profile in terms of corporate responsibility (rating below 2/10 according to the internal ESG tool);
- Asset class allocation based on analysis of the investment environment and the management team's risk appetite and ;
- Security selection based on fundamental analysis from the perspective of minority shareholders and/or bondholders, taking into account ESG criteria and instrument valuation.

ABA rating: ABA is our in-house developed analysis and rating tool for corporate responsibility.

The field of corporate responsibility is an extremely useful source of information for anticipating corporate risks, particularly in their interactions with stakeholders: employees, suppliers, customers, local communities, shareholders, etc., whatever their sector of activity.

For private issuers, corporate responsibility is analyzed by the ABA tool according to four fundamental principles principles:

- Shareholder responsibility: board of directors and senior management, accounting practices and financial risks, etc.
financial risks, etc. ;
- Environmental responsibility: environmental footprint of the production chain and product life cycle or responsible sourcing, energy and water consumption, company CO2 emissions and waste management, etc ;
- Responsibility towards workers: in terms of ethics and working conditions on the production line, treatment of employees, safety, well-being, diversity, staff representation, wages, quality of products or services sold, etc.; and
- Social responsibility: product quality, safety and traceability, respect for local communities and human rights human rights, etc.

Each fundamental principle is independently rated by DNCA Finance and weighted according to its importance for the target company. Each component is broken down into a set of criteria, selected according to their relative importance (correlation with economic performance), numbering around 25 in all. These criteria include the quality of board evaluation, CEO remuneration, impact on biodiversity, climate policy and energy efficiency, etc.

In addition, monitoring the level of controversy is directly taken into account in corporate responsibility and can affect the rating.

This in-depth analysis, which combines qualitative and quantitative research, results in a rating out of 10. As far as

investments in government bonds are concerned, this asset class is subject to an extra-financial analysis comprising financial analysis based on 4 fundamental principles

- ESG risk analysis;
- Infringement of international standards,
- Adherence to international conventions,
- Climate profile.

ESG risk analysis is based on 4 fundamental principles, rated from 0 to 10:

- Governance: this covers the rule of law and respect for freedom, the quality and transparency of institutions and the regulatory framework, military status and defense, democracy institutions and regulatory framework, military status and defense, and democracy;
- Environment: this pillar covers agriculture, climate change, energy, waste management and recycling;
- Social: this pillar covers education and training, employment and health;
- Society: living conditions, freedom and respect for fundamental rights, inequality.

The definition of breaches of international standards is based on a binary approach aimed at determining any infringements in the following areas: Child labor, discrimination, freedom of association, money laundering, labor rights, human rights, freedom of the press and torture practices.

Commitment to international conventions is a binary approach aimed at identifying commitment to the SDGs (United Nations Sustainable Development Goals), the Kyoto Protocol, the Paris Agreement, the UN Convention on Biological Biodiversity, coal phase-out, coal-fired power generation capacity, the Nuclear Non-Proliferation Treaty and the fight against money laundering and the financing of terrorism.

The climate profile is a combination of energy mix and trends, carbon intensity and primary energy reserves.

Proportion of investments

The Sub-Fund aims to invest at least 80% of its net assets in investments that comply with the environmental and social characteristics it promotes, and 20% of these assets are directly invested in sustainable investments.

The remainder of the Sub-Fund's net assets will consist of derivative financial instruments, sight deposits, money market funds, money market instruments and other deposits used for hedging and/or exposure purposes and efficient portfolio management, as well as to manage portfolio liquidity or reduce any specific financial risk.

Checking environmental and social characteristics

To assess whether investments comply with the environmental or social characteristics promoted by the Sub-Fund, checks are carried out using the following indicators:

- ABA internal rating for public and private issuers;
- Transition to a sustainable economy rating;
- Portfolio carbon footprint (expressed in tCO2/million USD invested);
- Exposure to the United Nations Sustainable Development Goals (SDGs);
- Climate profile and level of controversy of issuers.

These indicators are systematically defined, implemented and monitored by the management team.

DNCA Finance has also set up a Responsible Investment control system comprising both pre-trade and post-trade controls.

Pre-trade checks cover the minimum "Responsibility Risk" rating and the absence of a rating. The only purpose of an alert on the absence of a rating is to inform the SRI team. Checks are archived by the CRD tool, which has its own audit trail. With regard to sectoral exclusions, the Risk Department uses CRD to monitor the correct application of sectoral constraints on issuer lists (*see exclusion policy*). Issuers on the "worst offenders" list are also monitored pre-trade by the Risk Department.

The post-trade controls listed below are integrated into the constraint monitoring system:

- No investments are made in issuers targeted by exclusion policies;
- Minimum AIM, sustainable transition and climate (transition/contribution) ratings are met;

Methods

The methods used to determine whether social or environmental characteristics have been met differ according to whether issuers are private or public.

For private issuers, the sustainability indicators used by the Sub-Fund are as follows:

- Above and Beyond Analysis" (ABA, the in-house tool) corporate responsibility rating: the main sustainability indicator used by the Compartment is the ABA rating (see "Investment Strategy" section) based on corporate responsibility and divided into four fundamental principles: shareholder responsibility, environmental responsibility, employer responsibility, societal responsibility ;
- Rating the transition to a sustainable economy: DNCA Finance concludes this analysis with an assessment of companies' exposure to the "transition to a sustainable economy". This rating is based on five fundamental principles: demographic transition, health transition, economic transition, lifestyle transition and ecological transition;
- Exposure to the United Nations Sustainable Development Goals: For each company, DNCA Finance
  DNCA Finance evaluates for each company the proportion of revenues linked to one of the 17 United Nations Sustainable Development Goals;
- Carbon data: carbon footprint (t CO2/m$ invested) of the Sub-Fund's portfolio;
- The carbon emissions intensity (t CO2/m$ invested) of the Sub-Fund's portfolio.

For public issuers, the sustainability indicators used by the Compartment are as follows:

- Above and Beyond Analysis (ABA, the in-house tool): a model designed to assess public issuers on the basis of four fundamental principles: governance, environment, social and society;
- Climate profile: DNCA Finance concludes this analysis with an assessment of the climate profile of issuers based on the composition and evolution of energy, carbon emission intensity and resource stocks;
- Carbon data: carbon footprint (t CO2/m$ of debt) of the Sub-Fund's portfolio;
- Carbon emissions intensity (t CO2/m$ GDP) of the Sub-Fund's portfolio;
- The proportion of the Sub-Fund's portfolio invested in controversial issuers based on several criteria such as respect for freedom, child labor, human rights, torture practices, money laundering, etc.

Data sources and processing

The data used to achieve each of the environmental or social characteristics promoted by the Sub-Fund come from public sources, databases from specialized external service providers, direct dialogue with issuers and internal analysis carried out by DNCA Finance.

DNCA Finance has chosen to rely on an internal model, ABA ("Above and Beyond Analysis"), with the aim of offering a rating whose entire construction we control, with information from companies making up the bulk of the data used. In this context, the data is mastered and integrated into a proprietary analysis grid.

As part of its responsible investment approach, DNCA Finance specifies that the data used in its proprietary ABA rating model comes exclusively from public information provided by issuers. These data are audited, published and reflect the operational reality of the companies. Thus, the entire ESG rating methodology applied by DNCA Finance to private issuers is based on real data, to the exclusion of any estimated or modeled data.

Estimated data are only used when they are provided by specialized external service providers (such as MSCI, CDP or equivalents) and only in specific cases, such as when drawing up exclusion lists (normative or sector-based) or calculating DNCA Finance's climate trajectory, as presented in the Environmental Pressures report. This approach reflects a commitment to both transparency and rigor in the integration of ESG criteria into investment processes.

In order to meet the principles of its responsible investment policy and the new environmental and regulatory challenges, DNCA Finance has acquired external ESG data suppliers and is implementing a project to enrich its processes, with a view to :

- Improving and making more reliable data on issuers, and indicators of impact and impact on climate and biodiversity;
- Provide information on activities in line with the European Taxonomy;
- Enrich the existing ESG analysis process (notably by integrating physical and climatic risks) and enable its systematic use (via the use of an "ABA Quant" rating assessed on the entire investment universe);
- Extend the scope of application of other ESG processes.

The integration of these data into the information system has been implemented and they are gradually being incorporated.

Service providers used :

Prestataire	Utilisation
MSCI	Données brutes / entreprises
	Taxonomie
	Principales Incidences Négative (PAI)
	Risque physique et de transition (VAR Climat)
ISS Ethix	Armes controversées
ISS Proxy Echange	Conseil pour le vote aux AG
CDP	Données Carbone
	Données eau et usage des sols
CDP Temperature Ratings	Température induite

Lastly, DNCA Finance has set up a process for controlling the quality of ESG data received from its suppliers, notably through the creation of a cross-functional sustainable investment committee, one of whose missions is to monitor and support the operational processes of business teams, including the following points deployed at data committee level (ESG data sourcing, flow instruction, ESG data structuring (data dictionary/repository), distribution of ESG data from the repository to any business tools).

ESG analysis of securities is carried out under the supervision of the Responsible Investment team. Using the ABA tool, it reviews responsibility risk analysis, analysis of contribution to sustainable transition, monitoring of controversies and newsflow, and meetings with company directors. The analysis is carried out exclusively in-house, and does not include any ratings from external agencies.

Limitations to methods and data

The approach used by DNCA Finance's management teams to construct their ESG analysis may have several limitations. several limitations, in particular :

- The availability and quality of ESG data provided by the companies analyzed;
- Differences in coverage between sectors or geographical areas;
- methodological differences between data providers.

These limitations may affect the comparability and accuracy of ESG assessments, but do not influence the extent to which the promoted environmental or social characteristics are achieved, as DNCA Finance opts for a continuous approach to ESG processes in order to overcome these shortcomings. DNCA Finance has also opted for a progressive approach to the deployment of ESG policies, to enable a pragmatic application and integration of ESG issues throughout its value chain.

Due diligence

DNCA Finance has implemented due diligence on underlying assets by monitoring controversies and applying exclusions based on the results of ESG analysis.

Investments are thus reviewed in line with the responsible investment p o l i c y and the exclusion policy.

DNCA Finance has a due diligence mechanism, which consists of:

- Identifying the nature of the negative impacts (ESG impacts) associated with its investment activities;
- Evaluating and prioritizing negative impacts;
- Managing (preventing, mitigating, stopping) some of the negative impacts;
- Monitor the implementation of results (measure the effectiveness of actions);
- Adjust the negative impact management strategy if necessary.

The principles adopted by DNCA Finance are :

- The management of impacts for which DNCA Finance targets quantitative objectives (carbon footprint and induced temperature of portfolios in particular);
- Measuring and steering biodiversity footprint indicators: water management and land use.
  land use.

Commitment policies

DNCA Finance implements a shareholder engagement policy as part of its responsible investor approach.
responsible investor approach.

This policy is based in particular on :

- Regular dialogue with companies, to assess the extent to which ESG issues are effectively taken into account;
- Proactive engagement, aimed at encouraging companies to improve their transparency and management of ESG issues;
- Reactive engagement, triggered in response to a controversy or significant incident.

This policy is described in the "*Shareholder engagement and voting policy*" document available on the DNCA Finance website (https://www.dnca-investments.com/documents/40).

In addition, DNCA Finance analyzes and qualifies the controversies to which companies are subject, both in terms of corporate responsibility and compliance with the United Nations Global Compact. This process makes it possible to qualify the major or severe nature of the controversies and, where appropriate, to classify the company concerned as a Worst Offender. Companies thus qualified as Worst Offenders are excluded from the eligible investment universe. This policy is described in the "*Exclusion Policy*" document available on the DNCA Finance website (https://www.dnca-investments.com/documents/7).

Benchmark index

The Sub-Fund's benchmark index does not meet the environmental or social criteria promoted by the Sub-Fund.