Publication of sustainability information

DNCA INVEST - FINANCIAL CREDIT

Summary

DNCA INVEST - FINANCIAL CREDIT 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) but does not have sustainable investment as its objective.

The characteristics promoted by the Sub-Fund are Governance, the Environment as well as Societal and Societal criteria.

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 Sub-Fund is based on the selection of the investment universe combining a financial and non-financial approach; the selection of securities on the basis of a fundamental analysis taking into account ESG criteria and the valuation of instruments; and the calibration of the modified duration, the overall credit risk of the Sub-Fund and the level of liquidity according to the analysis of interest rates and the macroeconomic environment.

As such, 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.

To assess whether investments comply with these characteristics, checks are carried out using indicators (such as 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 through controversy monitoring and the application of exclusions based on the results of ESG analysis, as well as a shareholder engagement policy as part of its responsible investment approach.

The Compartment does not have a benchmark indicator to meet the environmental or social characteristics promoted by the financial product.

Sustainable investment

This financial product promotes environmental or social characteristics, but does not aim to be a sustainable investment.

Environmental or social characteristics of the financial product

The characteristics promoted by the Compartment are governance, the environment and social and Societal criteria.

The Sub-Fund is managed using ABA (Above and Beyond Analysis), an environmental, social and governance analysis tool developed in-house.

For public issuers, the investment process and resulting selection take into account an internal rating concerning the responsibility of public issuers such as countries, based on a non-financial analysis using a proprietary tool developed in-house by the management company, with a 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 non-financial approach, in particular, excluding issuers that do not meet our minimum standards for inclusion (rating below 2/10 according to the internal ESG tool) or exposed to major controversies ;
- **Security selection** based on fundamental analysis, taking into account ESG criteria and instrument valuation;
- **Calibration of the modified duration**, the overall credit risk of the Sub-Fund and the level of liquidity according to the analysis of interest rates and the macroeconomic environment.

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, clients, 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:

- **Shareholder responsibility:** board of directors and senior management, accounting practices and financial risks, etc. ;
- **Environmental responsibility**: the environmental footprint of the production chain and product life cycle, or responsible sourcing, energy and water consumption, corporate CO2 emitters and waste management, etc;
- **Responsibility towards workers**: in terms of ethics and working conditions on the production chain, treatment of employees, safety, well-being, diversity, staff representation, wages, quality of products or services sold, etc.; and
- **Societal responsibility**: product quality, safety and traceability, respect for local communities and 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), of which there are several in total. These criteria include the quality of board evaluation, CEO compensation, 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 public issuers are concerned, this asset class is subject to a non-financial analysis in 4 fundamental principles including:

- **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 pillar covers the rule of law and respect for freedom, the quality and transparency of institutions and the regulatory framework, military status and defense, 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 identifying any infringements in the following areas: Child labor, discrimination, freedom of association, money laundering, labor rights, human rights, freedom of the press and torture.

Engagement with 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 evolution and primary energy reserves.

Proportion of investments

The Sub-Fund aims to invest at least 80% of its net assets in environmentally and socially compliant investments.

The remainder of the Sub-Fund's net assets will be invested in derivative financial instruments for hedging or exposure strategy purposes, as well as in sight deposits, money market funds, money market instruments and other deposits for liquidity purposes.

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;
- The rating of the transition to a sustainable economy;
- 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 controls 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. In the case of sector exclusions, the Risk Department uses CRD to monitor the correct application of sector constraints relating to lists of issuers (*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;
- The minimum AIM, sustainability and climate (transition/contribution) scores are met.

Methods

The methods used to determine the achievement of social or environmental characteristics differ depending on 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 core 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 assesses 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;
- Carbon emissions intensity (t CO2/m$ invested) of the Sub-Fund's portfolio.

For public issuers, the sustainability indicators used by the Sub-Fund 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 issuers' climate profile based on energy composition and evolution, carbon intensity evolution and resource stock;
- **Carbon data**: carbon footprint (t CO2/$m debt) of the Sub-Fund's portfolio;
- **Carbon emissions intensity** (t CO2/m$ GDP) of the Sub-Fund's portfolio;
- The proportion of the Sub-Fund's portfolio invested in **controversial issuers**, based on various 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 is only used when it comes from **specialized external service providers** (such as MSCI, CDP or equivalent), 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 bears witness to our commitment to both transparency and rigorous integration of ESG criteria into our investment processes.

In order to meet the principles of its responsible investment policy, as well as new environmental and regulatory challenges, DNCA Finance has enlisted **the help of external ESG data providers**, and is implementing a project to enhance its processes, with a view to :

- Improve the reliability of issuers' data and indicators of impact on climate and biodiversity;
- Provide information on activities aligned with the EU 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 quality control process for 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 the 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 the analysis of responsibility risk, the analysis of the contribution to sustainability, the 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 adopted by DNCA Finance's management teams to construct their ESG analysis may present 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 therefore opted for a gradual 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 reviewed in line with the responsible investment policy 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 :

- 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.

Engagement policies

DNCA Finance implements a shareholder engagement policy as part of its responsible investment 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 & 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 characteristics promoted by the Sub-Fund.