Publication of sustainability information

DNCA INVEST - STRATEGIC RESOURCES

Summary

DNCA INVEST - STRATEGIC RESOURCES 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 Compartment are Governance, the Environment as well as Societal and Societal criteria. The Sub-Fund is mainly exposed to the commodities market through derivatives, and is also directly invested in bonds issued by public issuers.

The Sub-Fund is managed using ABA (Above and Beyond Analysis), an internally developed analysis tool applicable to public issuers and commodities, and a restrictive Exclusion policy.
The investment strategy applied to the Compartment is based on two successive stages: selection of the initial investment universe, which includes financial instruments exposed to commodities, bonds and money market instruments, followed by selection of commodities and issuers based on a hybrid combination of non-financial and fundamental analysis.

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 (e.g. the ABA internal rating method for public issuers and raw materials). 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.

The Compartment is mainly exposed to the commodities market through derivative instruments.
is also directly invested in bonds issued by public issuers.

DNCA Finance has created a variant of the "Above and Beyond Analysis" ("ABA", the proprietary tool) model specifically designed for commodities, focusing on environmental, social and societal characteristics.

For the universe composed of direct investments (such as bonds or equivalents, money market instruments) and indirect investments (derivatives on financial indices eligible for UCITS composed of commodities), the Sub-Fund is managed taking into account the principles of responsibility and sustainability. Accordingly, the investment process and resulting exposure to commodities, bonds and money market instruments take into account an internal assessment of issuers' responsibility and sustainability profile, based on a non-financial analysis carried out using an exclusive tool developed in-house by DNCA Finance, according to the "best in universe" method. There may be a sector bias.

For commodities, in promoting these characteristics, the Sub-Fund will in particular take into account the following ESG factors:

- Environmental: negative effects linked to CO2 and/or GHG emitters; water consumption, land use, opportunities to reduce CO2 and GHG emitters by facilitating low-carbon power generation technologies and low-carbon transport technologies, current and future opportunities for commodity recycling;
- Social and Societal: negative effects on human rights and fundamental freedoms, working conditions and employment opportunities.

For public issuers, the Sub-Fund's management relies on the proprietary environmental, social and governance analysis tool: ABA (Above and Beyond Analysis), as part of the promotion of the characteristics listed above, the Sub-Fund will in particular take into account the following ESG issues:

- Environmental: carbon intensity and energy consumption breakdown;
- 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 assessment and coverage.

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 two successive stages:

- Selection of the initial investment universe, which includes both commodity-exposed financial instruments, bonds and money market instruments, is subject to the non-financial process described below, which participates in the Sustainable Transition while seeking to limit negative impacts (including in particular the "Main negative impacts" and the "Do no significant harm" principle). This selection implies the exclusion of raw materials and issuers that do not meet a minimum score of 2 on our "Above and Beyond" Responsibility Risk Score ranging from 0 to 10, or that are exposed to major controversies ;
- Selection of commodities and issuers based on a hybrid combination of non-financial and fundamental analysis. The non-financial scores described below, fundamental analysis and risk market indicators such as volatility, duration, etc.... will be used to size positions. The Sub-Fund's allocation will be the result of this two-stage investment process. The non-financial and financial approaches used in this two-stage process are described below.

The non-financial analysis is applied to both (i) the underlying investment in commodity-linked derivative financial instruments, and (ii) the Fixed income or equivalent securities and money market instruments that may make up the portfolio.

Additional financial analysis of commodities

For each commodity, the ABA rating, a proprietary ESG analysis tool, is composed of the following elements:

- Responsibility Risk Rating (Environmental, Societal) out of 10,
- Country risk rating,
- Exposure to Sustainable Transition sectors,
- ESG momentum.

The Responsibility Risk analysis is broken down into three pillars:

- Environmental responsibility: CO2 emitters, water consumption, energy consumption, end-of-life recycling;
- Social responsibility: fundamental human rights, modern slavery and child labor, freedom of expression and association, treatment of equality and discrimination;
- Corporate responsibility: corruption and business ethics.

The ABA country risk analysis is based on the analysis of public issuers described below, which aims to obtain a score out of 10. The overall score for each country has a direct impact on the Responsibility Risk score, depending on the geographical breakdown of raw materials production.

The ABA analysis for sustainable transition exposure examines end-market breakdowns for the commodities analyzed, opportunities for CO2 emitters savings and recycling efforts. The share of low-carbon energy or mobility technologies in these end markets, actual and potential recycling, and CO2 saved through the potential shift from fossil energy to low-carbon energy and mobility technologies facilitated by these commodities will, where possible, enable an estimate to be calculated of the spot and forward exposure of these commodities to the Sustainable Transition.

The ABA analysis of ESG commodity dynamics is based on the macroeconomic information and outlook resulting from the analysis of supply and demand induced by the transition scenario established within the framework set by the scenarios mentioned above.

The combination of each rating implies a global non-financial analysis.

The Responsibility Risk rating will be used to exclude certain commodities from the investment universe, representing at least 20%, (rating below 2 out of 10) and can also be used to size portfolio exposure.

Internal analysis is based on factual data published by companies (commodity exchanges and basic resource companies) and/or organizations (NGOs, OECD, ILO, UN, supranational organizations...) which may be incomplete or inaccurate, supplemented by ongoing dialogue with company and organization managers.

Exposure to commodities not in compliance with the non-financial analysis will be systematically offset by a target exposure of 0. However, residual exposure to these commodities may arise, but will be kept to a minimum, with the aggregate absolute value of the corresponding notional values being less than 2%.

Fundamental analysis of commodities

The fundamental approach involves a detailed, long-term discretionary analysis and assumptions including: the economic relevance of a commodity, anticipated medium- and long-term imbalances between supply and demand, potential supply risks, the role of the commodity in new technology applications, notably to facilitate the decarbonization of the economy, the share of green demand in total commodity consumption, and the economic interest of the commodity in building a diversified commodity portfolio.

Based on these criteria, the management team maps out its investment universe. This mapping is represented distinctly by the estimation of a "strategic score" (noted between 0 and 10) based on a factual evaluation of the above-mentioned criteria, but also discretionary (integration of the management team's scenarios). The strategic score is a tool that can be used by the team to support and help justify its preferences for overweighting or underweighting exposure to a commodity over the long term, relative to the benchmark. Long-term analysis is useful for establishing strategic allocation within the eligible investment universe.

The fundamental approach also includes a short-term analysis: the determination of a target price per product, relative to the market consensus, taking into account certain technical parameters such as visible and invisible stock levels, curve structure, different news flows, etc.

Generally speaking, a pro-risk or risk-on positioning: favoring return prospects by authorizing a higher risk budget and higher average correlation.

The fundamental short-term approach also incorporates a macroeconomic (top-down) analysis, incorporating the main macroeconomic price drivers (monetary and fiscal policies, business cycle, leading and soft indicators, as well as hard

indicators) to assess whether the Fund's macroeconomic outlook for a 3-month to 1-year period tends to be more conservative or more optimistic than the consensus. This helps determine whether the macroeconomic environment is favorable or unfavorable to cyclical and risky assets. In scenarios deemed favorable (risk-on), the management team may choose to steer the portfolio towards commodities with promising revaluation potential, accepting increased portfolio volatility. As a general rule, a "risk-on" or "pro-risk" position means favouring potential returns over risk, accepting a higher risk allocation and higher average correlation.

Short-term fundamental analysis is useful for establishing the tactical allocation, which is aligned with the strategic allocation.

This fundamental demand analysis incorporates an internal scenario of transition to a sustainable economy (based on the International Energy Agency, the Network for Greening the Financial System, the International Panel on Climate Change and the Asia-Pacific Integrated Modeling-Computable General Equilibrium), including the replacement of fossil fuels by alternative energy sources. By seeking exposure to commodity markets, the Sub-Fund may indirectly participate in the liquidity of commodity markets and, consequently, aim to promote environmental, social and societal characteristics in these markets.

Non-financial analysis for public issuers:

With regard to investments in public issuers, this asset class is subject to a four-dimensional non-financial analysis, namely:

- 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.

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 and/or exposure purposes, to manage portfolio liquidity or reduce any specific financial risk.

Checking environmental or social characteristics

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

- ABA internal rating for public issuers and raw materials;
- Transition to a sustainable economy rating;
- Country risk rating;
- ESG momentum;
- ESG risk analysis;
- Exposure to the United Nations Sustainable Development Goals (SDGs);
- Violation of international standards;
- Climate profile.

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;
- Minimum AIM, sustainability and climate (transition/contribution) ratings are respected.

Methods

The methods used to determine whether social or environmental characteristics have been met differ according to whether we are dealing with commodities or public issuers.

For raw materials, the non-financial approach is based on a proprietary tool used to map the negative impacts and environmental, social and societal opportunities offered by raw materials. The tool is fed by DNCA research and external quantitative and qualitative databases, including the following indicators:

- **Above and Beyond Analysis** (ABA, the internal tool): the main sustainability indicator used by the Sub-Fund is the ABA rating (see "Investment strategy" section) based on Corporate Responsibility and divided into three pillars: Environmental responsibility, Social responsibility and Societal responsibility;
- **Rating of the transition to a sustainable economy**: DNCA Finance concludes this analysis with an assessment of the exposure of commodities to sectors involved in the energy and ecological transition (the sustainability transition). This score is based on estimates of the breakdown in demand for raw materials in these sectors;
- **Country risk score**: DNCA Finance supplements the Responsibility Risk score with a country risk analysis based on the breakdown of production by country for each commodity;
- **ESG momentum**: for each commodity, this analysis is based on the trajectory of demand, the balanced trajectory of supply and demand, and the flow of information.

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

- **ESG risk analysis, which consists of 4 pillars, 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.
- **Infringement of international standards**, which is a binary approach to qualifying infringements: child labor, discrimination, freedom of association, money laundering, labor rights, human rights, freedom of the press and torture practices;
- **Engagement with international conventions**, which is a binary approach to identifying engagement with the United Nations Sustainable Development Goals, the Kyoto Protocol, the Paris Agreement, the Convention on 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**, which is a combination of energy mix evolution, carbon intensity and primary energy reserves.

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 use 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;
- Fill in 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

Finally, DNCA Finance has set up a quality control process for ESG data received from its suppliers, notably through the establishment 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 through controversy monitoring and the application of exclusions based on the results of ESG analysis.

Investments are reviewed in accordance 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.