NOVEMBER 2023

SUSTAINABILITY

RISK MANAGEMENT

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FOREWORD

DNCA Finance has initiated in 2021 a large project to overhaul the ESG data sourcing and review all ESG processes deployed within the management company.

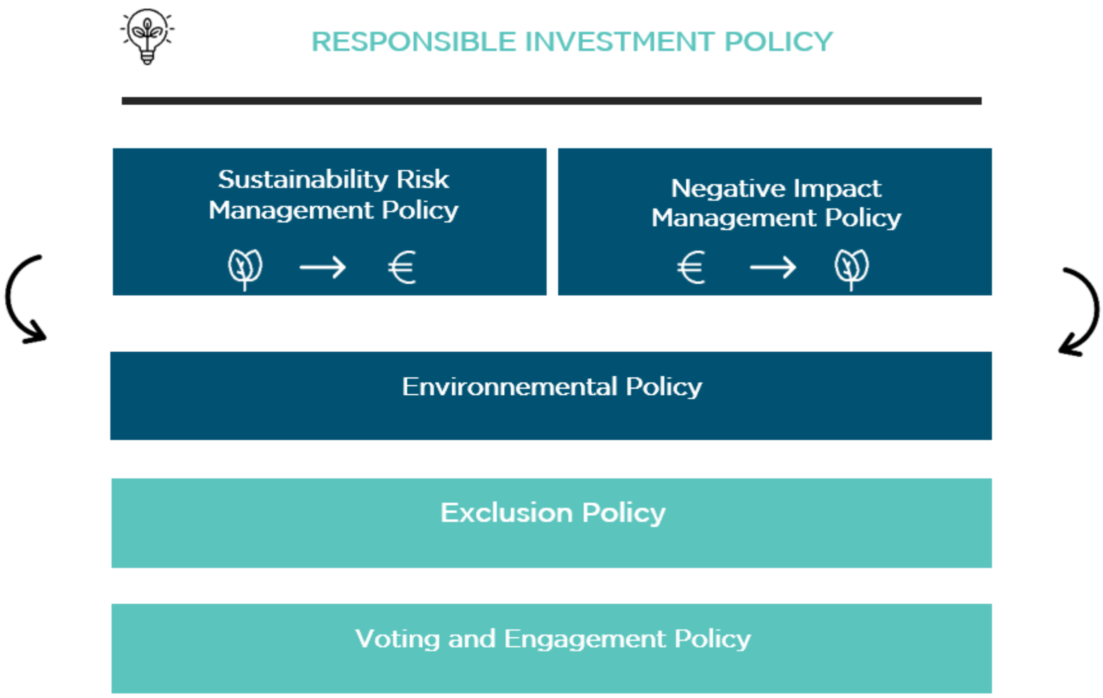
The Policy for managing adverse impacts will be fully operational at the end of this project (2023) and may be adjusted when the associated processes are finalized.

I. PREAMBULE

As a responsible investor, DNCA Finance believes that Environmental, Social and Governance (ESG) factors can have a significant impact on financial performance.

DNCA Finance's investments are resolutely geared towards long-term performance, considering all the risks and opportunities faced by issuers (companies, organizations, and governments).

DNCA Finance's approach to risk management, particularly financial risks related to environmental, social or governance events ("sustainability risks"), is an integral part of its responsible investment policy, which is centered around processes for ESG analysis and integration of investments:



This "Sustainability Risk Management Policy" meets the expectations of the European SFDR Regulation (Article 3) as well as those of Article 29 of the French Energy and Climate Law[1] ("document outlining (the) policy on the inclusion of environmental, social and governance criteria in (the) investment strategy").

[1] Decree no. 2021-663 of 27 May 2021 implementing article L. 533-22-1 of the Monetary and Financial Code

II. DEFINITIONS

Several concepts are used in the "Sustainability Risk Management Policy", the main ones being defined below.

A. Sustainability risks

1. Sustainability risk/General

The European SFDR defines sustainability risks as "an environmental, social or governance event or situation which, if it occurs, could have a material adverse effect, actual or potential, on the value of the investment" (Article 2).

Examples of sustainability risks include:

SUSTAINABILITY RISKS

Environmental	Social	Governance
▪ Controversies over environmental impact (pollution, poor waste management, damage to biodiversity: legal consequences for the company (risk of fines, legal action). ▪ Unsuited to the fight against climate change and the Energy and Ecological Transition (TEE) and obsolete economic models (thermal engines, coal production, etc.) ▪ Production equipment or buildings, in the company or at one of its suppliers, exposed to extreme weather events, which could lead to damage or disruption of the production chain	▪ Inadequate forward-looking management of jobs and skills and inappropriate human resources (lack of training, demotivation of employees, lack of appropriate resources), leading to difficulties in ensuring the company's production and meeting customer needs. ▪ Serious violations of human rights (forced labor, child labor) leading to legal consequences (lawsuits, fines) and commercial consequences (consumer boycotts, risk to image). ▪ Unhealthy atmosphere in the company, leading to a wave of suicides: legal consequences (lawsuits) and commercial consequences (image, consumer boycott).	▪ Lack of checks and balances (excessive concentration of power, lack of competence or involvement of directors) in the management of the company, leading to poor decisions that penalize the company's economic performance. ▪ Corruption, lack of integrity, tax evasion, conflicts of interest… with legal consequences (fines) for the company, financial penalties, closure of access to certain markets… ▪ Absence or inadequacy of risk management systems within the company, including about environmental and social risks, leading to excessive and unmeasured risk-taking and poor economic performance.

2. Sustainability risks specific to climate change

Climate change has an impact on the financial performance of issuers and therefore on the risk-return profile of the securities they issue. Climate risks are generally classified into two categories:

- Physical risks: risks associated with the physical impact of climate change on the activities of emitters, for example from extreme temperatures, floods, storms, or forest fires.
- Transition risks: risks associated with the transition to a low-carbon economy, for example changes in policy, technology or supply and demand in certain sectors.

As of example, here are the climate risks defined by the TCFD (Task-force on Climate-related Financial Disclosure):

Climate risk categories[2]		Subcategories	Illustrations: risks from...
Physical risks	Risks related to the physical impact of global warming	Acute risks	▪ Extreme weather events, such as storms, hurricanes and floods
		Chronic risks	▪ Changes in precipitation and extreme volatility in weather patterns ▪ Rising temperatures and chronic heat waves ▪ Rising sea levels
Transition risks	Risks related to the transition to a low-carbon economy	Political and legal risks	▪ Increasing the price of carbon emissions (by introducing carbon pricing mechanisms) ▪ More stringent reporting obligations on GHG emissions ▪ Regulations on existing products and services ▪ Litigation
		Technological risks	▪ Substitution of existing products and services for less GHG-emitting alternatives ▪ Insufficient investment in new technologies ▪ Costs of the transition to low-carbon technologies
		Market risks	▪ Changing consumer behaviour ▪ Market uncertainties ▪ High cost of raw materials
		Reputation risk	▪ Changes in consumer preferences ▪ Stigmatization of a sector of activity ▪ Increased concern or negative reaction from stakeholders

[2] Source: Final Recommendations Report, TCFD (Task-force on Climate-related Financial Disclosure)

3. Sustainability risks specific to biodiversity loss

Similarly, biodiversity loss can be a source of potential economic and financial losses for issuers. However, the means of analysis, the technologies and the data are still largely very limited and not yet mature.

In the case of biodiversity loss, as in the case of climate change, there are two types of risk: physical risks and transition risks. These risks are described as follows by the TNFD (Task-force on Nature-related Financial Disclosure): "all the financial risks and opportunities for the organization resulting from impacts on nature and/or dependence on nature"[3] .

- Physical risks and opportunities related to nature: "Physical risks resulting from the loss of natural environments can be classified as being caused by events (acute) or related to longer-term transformations (chronic) in the way natural ecosystems function or cease to function. Physical risks can have financial consequences for organizations, such as direct damage to assets, loss of ecosystem services (local and regional) essential to production processes or employee well-being, and indirect impacts arising from supply chain disruption. (...) Examples include the financial losses to the agricultural sector, at local and regional levels, resulting from the decline in pollinating insects, as well as the financial losses to the pharmaceutical and technology sectors on a global scale as a result of reduced genetic biodiversity hampering research and development."
- Transition risks and opportunities: "the transition to a nature-positive economy may lead to significant political, legal, technological and business changes. (...) These risks include reputational, compliance, corporate responsibility, and litigation. In some cases, an asset may become uneconomic or overvalued. Transitional opportunities may arise where companies benefit financially from changes in market preferences/demands that reward their positive impact on nature."

B. Negative sustainability impacts

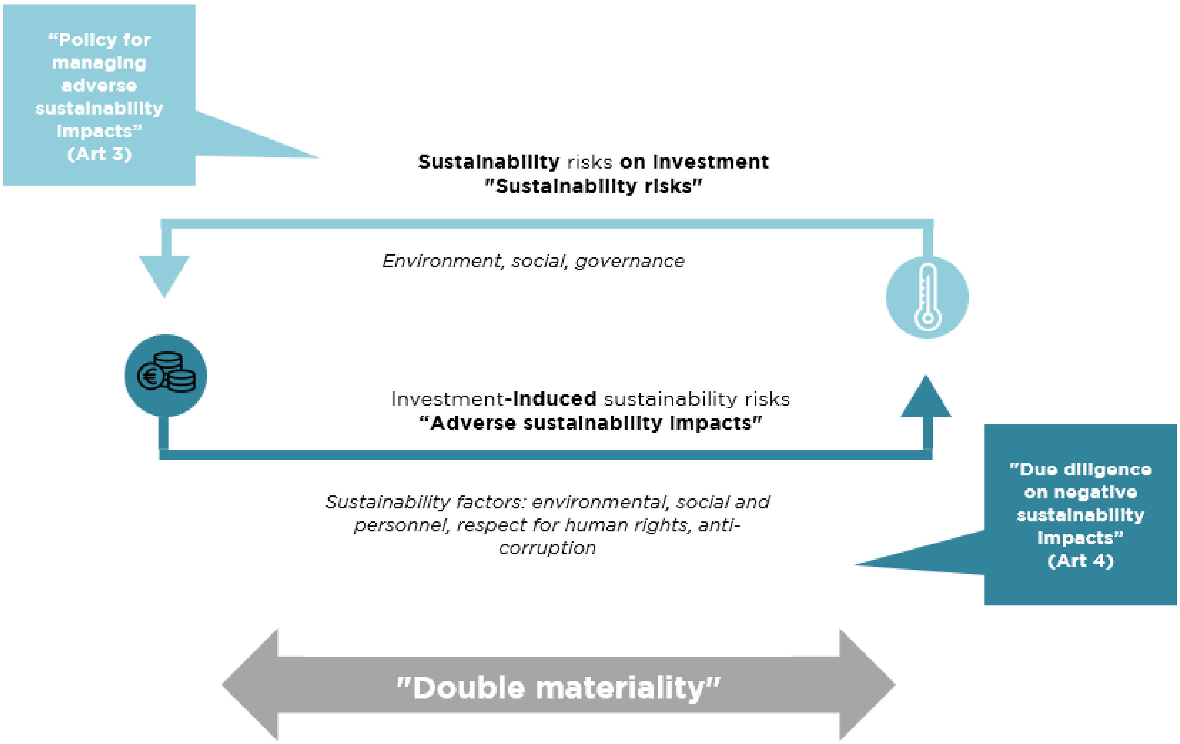
Sustainability risks" (extra-financial events that may affect the value of the portfolios managed by DNCA Finance) are to be differentiated from "negative sustainability impacts" (consequences of DNCA Finance's investment decisions on sustainability factors) on "sustainability factors". According to the SFDR Regulation, sustainability factors are "environmental, social and labor issues, respect for human rights and the fight against corruption and bribery" (Article 2 of the Regulation).

These "negative impacts" are subject to additional transparency requirements, as set out in article 4 of the same regulation. DNCA Finance's " negative sustainability impact management policy " is the subject of a specific document.

C. Interactions between "sustainability risk" and "negative sustainability impacts"

The management of "sustainability risks" should not be separated from the management of "negative sustainability impacts", which are intrinsically linked (see "double materiality").

[3] Source: "Technical Scope Proposal - Recommendations for TNFD", TNFD



There are transmission belts between the two dimensions of "double materiality", as mentioned when the SFDR regulation was published. Issuers (companies, organizations, governments) are increasingly made responsible for the impacts ("negative impacts") they generate on the environment, society, and all stakeholders (pollution, human rights violations, failure to respect business ethics, etc.). These can lead to legal action, financial penalties, reduced consumer confidence, image degradation which translate into lower economic and financial performance, and therefore a "proven sustainability risk".

Sustainability risk management" of financial asset portfolios must be conducted in parallel with the search for ways to limit the negative impacts generated by these portfolios.

III. GUIDING PRINCIPLES, SCOPE OF THE POLICY AND CONDITIONS OF APPLICATION

A. Guiding principles of the Policy

DNCA Finance's responsible investment policy is based on the conviction that long-term management must encompass all the risks and opportunities faced by issuers.

DNCA Finance's analysis of risks and opportunities is based on two levers: "risk management" ("Corporate Responsibility Risk") and "identifying opportunities linked to sustainable transition" ("Sustainable Economic Transition").

DNCA Finance's sustainability risk management is based on the analysis of the various sustainability risks listed on p.4 (environmental, social and governance) "Responsibility Risk", plus the analysis of climate risk (physical and transition risks related to climate change) and the analysis of risks related to biodiversity loss.

B. Scope of the Sustainability Risk Management Policy

The Incident Management Policy applies to all assets managed by the following teams:

- Mixed funds
- Flexible funds
- Europe and International Growth Funds
- Multi-management
- Thematic equities
- European equities - All caps Quality Growth
- Absolute performance equities
- European Value Equities
- Multi-strategy bonds
- Emerging market equities
- European small cap equities
- Convertible Bonds
- Beyond range of funds

The Policy is adapted to the type of assets under management and the strategies adopted.

C. Conditions of application

The application of the Sustainability Ris Management Policy takes place within a framework constraints:

- ESG data quality: DNCA Finance's investment and risk management processes rely on the analysis of external data provided mainly by issuers and ESG data providers. DNCA Finance will implement a quality control process for ESG data received from its suppliers. However, DNCA Finance cannot guarantee the accuracy of the data, nor can it remedy the methodological and cultural biases introduced by the data providers.
- The maturity of methodologies: DNCA Finance is aware of the technical limitations due to the emerging maturity of analytical technologies, particularly with regards to climate and biodiversity. It opts for a continuous improvement approach to ESG processes to overcome these shortcomings.

DNCA Finance has therefore opted for the principle of progressiveness in the deployment of ESG policies, to allow pragmatic application and integration of ESG issues in all links of its value chain.

D. ESG data sourcing

To meet new environmental and regulatory challenges, DNCA Finance launched a major project at the end of 2021 to overhaul the sourcing of all its ESG data to:

- Improve the reliability of issuer data and indicators of impact on climate and biodiversity
- Enter information on activities aligned with the European Taxonomy
- Enrich the existing ESG analysis process (by integrating physical and climatic risks) and enable its systematic use (with an "ABA Quant" rating assessed over the entire investment universe).
- Expand the scope of other ESG processes

Subject to the reservations set out in section III. C, the Responsible Investment Policy is now being implemented, from the integration of data into the information systems to their dissemination within the management processes.

IV. GOVERNANCE

A. DNCA Finance ESG governance

DNCA Finance has adapted its governance to better apply the Responsible Investment Policy, of which the Environmental Policy is one component.

ESG governance is made up of several bodies:

- Sustainable Development and Investment Committee (SDI Committee)
- Sustainable Investment Committee (SI Committee)
- Sustainable Investment Monitoring Committee (SIM Committee)
- Transverse Sustainable Investment Committee (TSI Committee)

1. Sustainable Development and Investment Committee (SDI Committee)

The objective of the Sustainable Development and Investment Committee is to define the strategic orientations of DNCA Finance's CSR and Sustainable Investment policies, including orientations concerning climate and biodiversity, in line with the ESG orientations of the Supervisory Board.

It is composed of members of the Executive Committee, the Head of Compliance the Head of SRI Department and representatives of the main functions (Responsible Investment management and expertise, risk, marketing, legal, sales, etc.).

Its main tasks are to:

- To determine strategic orientations in terms of corporate social responsibility and responsible investment
    - Translate and consider the orientations of DNCA Finance's shareholders in terms of corporate social responsibility and sustainable investment
    - Establish the CSR commitments of DNCA Finance as a company, including the commitments in the investment function
- To define and evolving SRI policies:
    - Sustainable development and its components
    - Responsible investment and its components
    - Policy design
    - Evolution of policies (based on proposals from the SI Committee, the Operational CSR Committee, other committees, and all stakeholders, including shareholders)
- To assess the operational implementation of SRI policies over the past year, through the production of associated reports (DPEF, commitment report, Art. 29 of the LEC, Annex 1 SFDR, etc.), and draw lessons from this to revise strategic orientations / SRI policies

2. Sustainable Investment Committee (SI Committee)

The objective of the Sustainable Investment Committee is to define, deploy and monitor the Sustainable Investment processes.

It is composed of the Head of the SRI Department, Deputy of the CIO, one representative per management team, one representative from the Compliance team and one representative from the Risk team.

Its main tasks are to:

- Define SRI processes, including:

  - Rating process for private issuers
  - Rating process for sovereign issuers
  - Exclusion process
  - SRI selectivity process
  - Sustainability risk management process
  - Process for monitoring negative impacts
  - Fund labelling process
  - Engagement and voting process
  - Climate trajectory management process
- Deploy and monitor SRI processes:
  - Ensuring the operational deployment of the strategic guidelines on Responsible Investment of the Sustainable Development and Investment Committee (SDI Committee)
  - To manage the temperature of portfolios according to the trajectory decided by the DSI Committee
  - Review the implementation of SRI processes and the achievement of the objectives set by the DSI Committee
  - Arbitrate proposals for changes to the SRI processes of subordinate committees
  - Submit proposals for changes to SRI policies to the SDI Committee

3. Sustainable Investment Monitoring Committee (SIM Committee)

The aim of the Sustainable Investment Monitoring Committee is to monitor all developments relating to the exclusion policy and the negative impacts identified.

It is composed of the Head of the SRI Department, Deputy of the CIO and at least one representative of the Compliance team and one representative of the Risk team.

Its main tasks are to:

- Review the exclusion policy
- Validate and maintain traceability and justification of changes that are made to exclusion lists
- Monitor and control negative impacts identified

4. Transverse Sustainable Investment Committee (TSI Committee)

The aim of the Transverse Sustainable Investment Committee is to define, deploy and monitor the operational processes supporting and framing Sustainable Investment.

It is composed of the Operations Department, the SRI Department and the risk, marketing, legal, sales, data, compliance, and middle office teams.

Its main tasks are to:

- Define, frame, and monitor the project(s) to be implemented:
  - Define the objectives and the roadmap
  - Define the subdivision
  - Designate those responsible for the actions
  - Estimate the consumption of necessary resources (time, expenses)

  - Define the schedule according to business objectives and constraints
  - Monitor actions and compliance with key milestones
- Monitor and support the operational processes of the business team, including the following items deployed at Data Committee level:
  - ESG data sourcing
  - Flow instruction
  - Structuring ESG data (data dictionary/repository)
  - Quality control of ESG data
  - Dissemination of ESG data (from the repository to any business tools)
- Provide the information necessary to define the assessment of the operational implementation of the ID functional processes over the past year, to produce reports such as the engagement report, Art. 29 of the LEC report, Annex 1 SFDR, etc.

B. Risk Committee

Sustainability risk monitoring, using the indicators and technologies described in chapter V.B.2 - Indicators used to monitor risks

The indicators used, as they become available, in the process of monitoring sustainability risks are mainly:

- Ratings from ABA (private issuers) or ISS (sovereign issuers)
- Discount of controversies monitored by ABA (private issuers), or controversy score from data providers
- Financial risk indicators linked to climate (Climate VAR) and biodiversity

They are integrated into DNCA Finance's risk control system (monitoring of sustainability-related financial risks will be operational once the ESG data sourcing project has been completed).

Considering market developments in data availability, quality, and methodology, DNCA Finance will enrich the monitoring process with additional indicators.

This integration of sustainability risks into DNCA Finance's risk control will meet the expectations of Article 29 of the Energy Climate Law and its implementing decree of 28 May 2021 (Article 8).

The Risk Committee, the central body of the risk management system, meets every six months. It is composed of the three senior executives (the Manager of the Partnership, the Managing Director in charge of Operations and the Director of Management or his representative), the Head of the Risk Department and the RCCI.

The purpose of the Risk Committee is to:

- Present the evolution of the risk management policy, procedures and mapping
- Report on the status of inspection and audit recommendations
- Report on significant issues related to market, concentration, credit, counterparty, foreign exchange, liquidity, valuation, and sustainability risks
- To present a follow-up of the funds in VaR, backtesting and stress tests
- Monitor management styles
- Take any decision to regularize an anomaly identified by the Risk Department and subject to an escalation procedure
- Monitor constraints and performance

V. IMPLEMENTATION OF THE SUSTAINABILITY RISK MANAGEMENT POLICY

A. Consideration of sustainability risks in the investment process

1. Risk indicators used by DNCA Finance

DNCA Finance has chosen to use several types of indicators to measure and manage sustainability risks:

- Ratings from ABA (private issuers) or ISS (sovereign issuers)
- Controversies monitored by ABA (private issuers), or from ISS
- Financial risk indicators for climate (Climate VAR) and biodiversity
- Raw data (fossil fuels exposure, sectoral exposure, etc.)

i. Issuer ratings

1) Indicator based on ABA rating (private issuers)

DNCA Finance has developed a proprietary ABA "Above and Beyond Analysis" rating tool. This model is based on five independent and complementary analysis pillars applicable to any company invested in the funds:

Risk of responsibility	Sustainable transition	Controversies	Engagement	SDGs

SDGs: UN Sustainable Development Goals

In addition, a climate pillar and a positive contribution pillar have been developed for some funds.

Climate	Positive contribution

The objective is to provide a detailed analysis that adds value to traditional financial analysis. This analysis is carried out exclusively in-house by DNCA Finance teams and is based on data from issuers.

ABA analysis is deployed on DNCA Finance's active management universe, i.e. approximately 900 issuers (including all corporate securities in the portfolio). To extend the coverage of the investment universe, an ESG data tender has been finalized and will allow DNCA Finance to build an "ABA Quant" rating (See III. D) which will be implemented at the end of the project (target 2023), and which will cover issuers that have not been the subject of an ABA qualitative analysis.

The “Responsibility Risk” pillar is a central indicator in the analysis of sustainability risk.

This pillar offers a score out of 10 and is broken down into 4 themes: shareholder responsibility, environmental responsibility, social responsibility, and societal responsibility. Each theme is constructed considering the most material issues for issuers (correlation between the criteria and the company's economic performance) and the number of criteria is deliberately limited to 24, based on around one hundred raw KPIs.

SHAREHOLDER RESPONSIBILITY

- Respect for minority shareholders
- Independence of the Board and its Committees
- Accounting risks
- CEO remuneration
- Quality of financial communication
- Tax consistency

ENVIRONMENTAL RESPONSIBILITY

- Environmental management
- Regulation and certification
- Climate policy and efficiency
- Biodiversity impact and externalities

SOCIAL RESPONSIBILITY

- Corporate culture and HR management
- Social climate and working conditions
- Attractiveness and recruitment
- Training and career management
- Promoting diversity

SOCIETAL RESPONSIBILITY

- Supply chain management
- Respect for communities and human rights
- Capacity for innovation
- Customer satisfaction
- Protection of personal data
- Corruption and business ethics

The analysis of each theme is based on a combination of qualitative and quantitative criteria.

The "Responsibility Risk" rating thus reflects the quality of a company's overall approach as an economic player, regardless of its sector of activity.

The "Responsibility Risk" rating is carried out by DNCA Finance analysts on an ongoing basis. The analysis of the "Controversy" pillar, below, makes it possible to complete this "Risk of responsibility" rating according to alerts and current events.

ii. Indicator based on the ESG scores of sovereign issuers

To improve the ESG risk of sovereign issuers, DNCA Finance will rely on the rating agency ISS from 2022.

The ISS ESG Country Rating complements the financial analysis with extra-financial information that may have an impact on the creditworthiness of sovereign issuers and measures the ESG performance of investments in these issuers.

ISS uses several types of data before determining ESG scores:

- Quantitative data: World Bank, Food and Agriculture Organization (FAO), International Energy Agency (IEA), international research institutes such as the Stockholm International Peace Research Institute (SIPRI).
- Scores, quantitative results of analyses by international NGOs such as Germanwatch, International Trade Union Confederation (ITUC), Tax Justice Network or Transparency International.
- Qualitative data based on reports: "World Social Protection Report" (ILO), "Finding on the Worst Forms of Child Labor" (US Department of Labor), "Country Reports on Human Rights Practices" (US Department of State), "Report on Death Sentences and Executions" (Amnesty International).

DNCA Finance plans to enhance the existing ABA model for public issuers by using raw data and ESG sub-scores provided by ISS.

1) Controversy analysis

The ABA Controversy pillar tracks issuers' level of controversy using the typology used in the 'Responsibility Risk' analysis: shareholder controversies, environmental controversies, social controversies, and societal controversies.

Controversies are derived from DNCA Finance's analysis of information using its proprietary model. A daily screening of targeted information is carried out (list of keywords) using an algorithm and dedicated human resources. This analysis is supplemented by external data (rating agencies and broker research).

The aim is to match the principles laid down by issuers with the reality observed, and to provide a basis of alerts for portfolio managers. Each controversy, classified according to theme (shareholder, social, environmental, and societal), is the subject of a complete analysis and a report. At the end of this work, the controversies are distinguished according to their level of seriousness to obtain a score from 1 to 4 (4 being the worst score).

DNCA Finance uses this analysis as a leading indicator when it is tangible and not as a systematic sanctioning tool. The international dimension of issuers and the profusion of information mean that isolated cases must be distinguished from major alerts in each situation. However, a succession of isolated cases may, for example, be evidence of a widespread violation throughout the company.

The score for each controversy applies a significant discount (from 10% to 50%) to the rating for each pillar (shareholder, social, environmental, and societal) and to the ABA 'Responsibility Risk'.

iii. Exposure to physical and transitional risks related to climate and biodiversity

1) Exposure to climate risks and Climate VAR

Climate change may have direct or indirect consequences on the economic and financial performance of companies, governments, or organizations, as discussed in the chapter II-A-2 Sustainability risks specific to climate change.

There are several methods for calculating the financial risk of portfolios related to climate change. In 2024, DNCA Finance will integrate the Climate VaR indicators provided by MSCI. MSCI's Climate VaR model measures the potential impact of different climate scenarios on the valuation of individual securities. Climate VaR indicates, in percentage points, what the potential impact of the effects of climate change could be on the market value of a security by 2100.

It incorporates 3 types of climate change impacts:

- Political risks
- Technological opportunities
- Physical risks and opportunities

These risks are described in more detail in DNCA Finance's "Environmental Policy".

For the three types of impact, the model calculates estimates of future costs and revenues based on the scenario and the company, then applies financial modelling to deduce the impact on stock valuation.

2) Exposure to risks related to biodiversity loss

Financial risks specifically related to biodiversity loss are still very difficult to measure given the current state of knowledge, technology, data and means of analytical tools available. For this reason, DNCA Finance has chosen not to use any specific indicators in the short term, pending progress on methods for measuring and managing biodiversity-related financial risks.

However, DNCA Finance :

- Integrates as far as possible the impact of issuers on biodiversity and externalities into its ABA "Responsibility Risk" analysis.
- Calculates biodiversity footprint indicators.

iv. Other Indicators risk monitoring

DNCA Finance uses many other ESG indicators provided by different data providers, such as:

- Sector exposure of issuers (Energy, fossil fuels, etc.…)
- Other raw data (CO2 emissions, fossil fuel reserves, etc.)

2. Use of indicators and alerts

1) Monitoring of all exposures

Management charts showing portfolio exposure to the selected indicators will be updated regularly and used by all managers.

2) Warning system

DNCA Finance has launched the development of a 2022 year-end alert system.

These alerts, whose triggering threshold and type depend on the portfolio strategy, can be based on, for example:

- Change in the "Responsibility Risk" rating and/or crossing a certain threshold (depending on management strategies)
- Variations in upstream indicators, identified as material depending on the sector (e.g. variations in GHG emissions for very fuel-intensive sectors).
- The emergence of controversies, graduated according to their severity and frequency
- Variation in Climate VAR and/or the crossing of Climate VAR limits (under development for implementation on 30/06/2024).

3) Integration into the management process

Depending on the evolution of exposures and alerts, the managers may need to adjust investment decisions as follows, depending on the management strategy:

- Review the assumptions of the investment case
- Initiate or accelerate an engagement process (see V.D - Link with DNCA Finance's engagement policy)
- Lighten, divest completely, or strengthen the position
- Put under surveillance if necessary

4) Creation of a "worst offenders" list

DNCA Finance has set up a "worst offenders" list, consisting of the issuers most at risk from a societal responsibility point of view. This list is drawn up based on major controversies, after analysis by members of the SRI team and with the validation by the Sustainable Investment Monitoring Committee.

An issuer on this "worst offenders" list can no longer be held in the portfolios managed by DNCA Finance: investment is impossible (blocking pre-trade constraint in the order-passing tool), and the security is, where applicable, disinvested as quickly as possible, depending on market conditions and in the interests of the holders.

B. Sustainability risk control process

1. Integration into the risk control system

DNCA Finance incorporates the main sustainability risks into its financial risk control framework, including the following (as data becomes available):

- Description of environmental, social and governance risks

- Risk characterization
- Risk segmentation :
  - Environmental risks, including :
    - Physical risks: exposure to the physical consequences of environmental factors, such as climate change or loss of biodiversity
    - Transition risks: exposure to changes brought about by the ecological transition, including litigation and responsibility risks
    - For more details on these risks, see Sustainability risks specific to climate change.
  - Societal risks
  - Governance risks
- Indicators of the economic sectors and geographical areas affected by these risks, where the information is relevant and available

The monitoring of these risks is integrated into DNCA Finance's overall risk control system, and management charts are presented to the Risk Committee.

2. Indicators used in risk control

The indicators used, as they become available, in the sustainability risks monitoring are mainly:

- Ratings from ABA (private issuers) or ISS (sovereign issuers)
- Discount for controversies monitored by ABA (private issuers), or controversy score from data providers
- Financial risk indicators for climate (Climate VAR, forthcoming) and biodiversity

These indicators are described in section V-A-1 - Risk indicators used by DNCA Finance. Risk indicators used by DNCA Finance.

Considering market developments in data availability, quality, and methodology, DNCA Finance will enrich the monitoring process with additional indicators.

3. Determing of exposure limits and monitoring alerts

Depending on the management strategies and engagement of the various portfolios, limits on ESG indicators are gradually being introduced in the prospectuses, the exclusion policy, and the internal limit system:

- Minimum "Responsibility risk" rating (already effective)
- Maximum exposure to certain sectors (already effective)
- VAR Climate limit (to be announced)

In accordance with DNCA Finance's internal procedures governing the monitoring of constraints (regulatory and statutory) and the monitoring of internal limits, an alert threshold may be defined to anticipate the risk of exceeding limit, to enable the manager to adjust and anticipate the evolution of the portfolio.

In addition, Risk Control monitors the application of the "worst offenders" list described in point 4). The Middle Office carries out the first level of control.

C. Link with DNCA Finance's exclusion policy

DNCA Finance's exclusion policy contributes directly to the sustainability risk management policy, by protecting the relevant portfolios from financial risks associated with certain ESG themes (e.g. exposure to the thermal coal production sector, etc.).

The "DNCA Finance Exclusion Policy" document, available on the website, details:

- Exclusions from controversial weaponry (for all DNCA Finance funds)
- Sector exclusions (or maximum sector exposure), depending on the management strategy. These sectors may include :
    - Tobacco production
    - Fossil fuel based electricity generation
    - Unconventional oil and gas production
- Exclusions related to violations of the UN Global Compact

The application of sustainability risk management principles can lead to an enriched exclusion policy.

D. Link with DNCA Finance's engagement policy

As a responsible investor, DNCA Finance attaches great importance to maintaining a constant dialogue with the issuers in which it invests. DNCA Finance's shareholder engagement is detailed in the "Engagement Policy" document. This engagement approach enables DNCA Finance to:

- Encourage issuers to adopt best practices
- Benefit from a detailed understanding of the company's strategy and its integration of sustainability risks

The engagement policy thus contributes directly to DNCA Finance's sustainability risk management. The level of engagement and dialogue depends on the level of sustainability risk.

DNCA Finance distinguishes between two ways of interacting with companies:

- Dialogue with issuers
- Shareholder or investor engagement

1. Dialogue with issuers

As a conviction-based manager, DNCA Finance considers it essential to meet very regularly with the issuers in which it invests or plans to invest. This is the case for both financial and SRI analysis. These meetings allow us to question the company's management on its strategy and the extent to which its implementation integrates the interests of all stakeholders. These discussions provide a very relevant picture of the degree of real integration of SRI issues and corporate culture.

The information obtained during these meetings makes a significant contribution to the quality and responsiveness of our SRI research.

The number of contacts with issuers is described in the DNCA Finance Commitment Report (https://www.dnca-investments.com/isr/Rapport%20d%27engagement%20et%20Rapport%20de%20vote%202021.pdf).

2. Shareholder or investor engagement

Convinced that improving the practices of the issuers in which we invest helps to protect the value of portfolios, DNCA Finance has put in place a commitment process aimed at encouraging issuers to take better account of ESG issues. More generally, DNCA Finance believes that it is our fiduciary responsibility not only to select the best investments, but also to encourage better practices and transparency from issuers.

DNCA Finance distinguishes between two types of shareholder engagement:

- Reactive engagement, following a controversy or a particular incident
- Proactive engagement, to encourage issuers to develop better transparency and management of their ESG issues

These two cases are subject to a formalized engagement process, detailed in the "Engagement Policy" document. This process is structured as follows:

- Identification of engagement targets
    - Reactive engagement: detailed analysis of controversies; systematic solicitation of issuers facing controversies deemed "severe".
    - Proactive engagement: a combination of factors
- DNCA Finance's weighting in the company
- Presence of the company in SRI funds (increased focus on ESG risks)
- Unfavorable 'Responsibility Risk' rating, indicating insufficient ESG risk management
- Implementation of the engagement process:
    - Establishment an engagement plan (objectives, indicators for monitoring the progress and success of the engagement, designated interlocutors, estimated duration of the engagement process)
    - Discussions with the company based on the engagement plan
    - Monitoring of the engagement process in the ABA tool (status "in progress" or "achieved"), positive or negative evolution.
    - Reporting: the results of the engagement process are communicated to the managers concerned and are the subject of a dedicated customer report (annual engagement report).

Escalation procedures may be triggered, should the target company refuse to respond or fail to put in place appropriate means to address the identified problems or weaknesses. These escalation procedures are determined on a case-by-case basis in collaboration with the management teams.

3. Collaborative engagement

DNCA Finance partners with other investors to bring a message to companies where it could have limited influence acting alone. Collaborative action can, in some cases, achieve better results with issuers.

DNCA Finance drives its collaborative engagement activity through direct contact with investors and participation in engagement initiatives involving many international investors.

4. Integrating the engagement approach into the analysis model and investment decisions

i. Integration with ABA ESG analysis

Dialogue with issuers is an invaluable source of added value in analyses, whether financial or specifically ESG. All dialogue and engagement actions are thus integrated into two complementary tools:

- The proprietary ABA tool, to adjust the company's "Risk of Responsibility" or "Transition" rating where necessary, and to keep track of exchanges with the management of invested issuers.
- The ResearchPool (RMS) tool in which managers fill in all the information relating to discussions with issuers

ii. Integration into investment decisions

The results of the engagement actions are integrated into the ESG analysis and can notably impact on the "Responsibility Risk" rating. This rating, which is distributed to all management teams, gives an indication of the level of ESG risk, and has a direct impact on whether or not ESG funds are included in the eligible universe.

Managers are systematically invited to participate in engagement meetings with the issuers in their portfolios.

The application of sustainability risk management principles can lead to an enhanced engagement policy.

E. Operating principles : continuous improvement

For the Sustainability Risk Management Policy as for all its ESG policies, DNCA Finance adopts a principle of continuous improvement based on the following steps:

- Objective setting
- Definition of indicators
- Establishment of the results of these indicators and comparison with the objectives
- Revision of strategy based on results

In addition, DNCA Finance participates in several Sustainable Finance initiatives and working groups and is actively monitoring market practices, new technologies, analyses, new indicators, etc. to improve its Responsible Investment Policy and better respond ESG issues, particularly regarding climate and biodiversity risks.

DNCA Finance - 19 place Vendôme, 75001 Paris - Phone : +33 (0)1 58 62 55 00 Email : dnca@dnca-investments.com - www.dnca-investments.com