

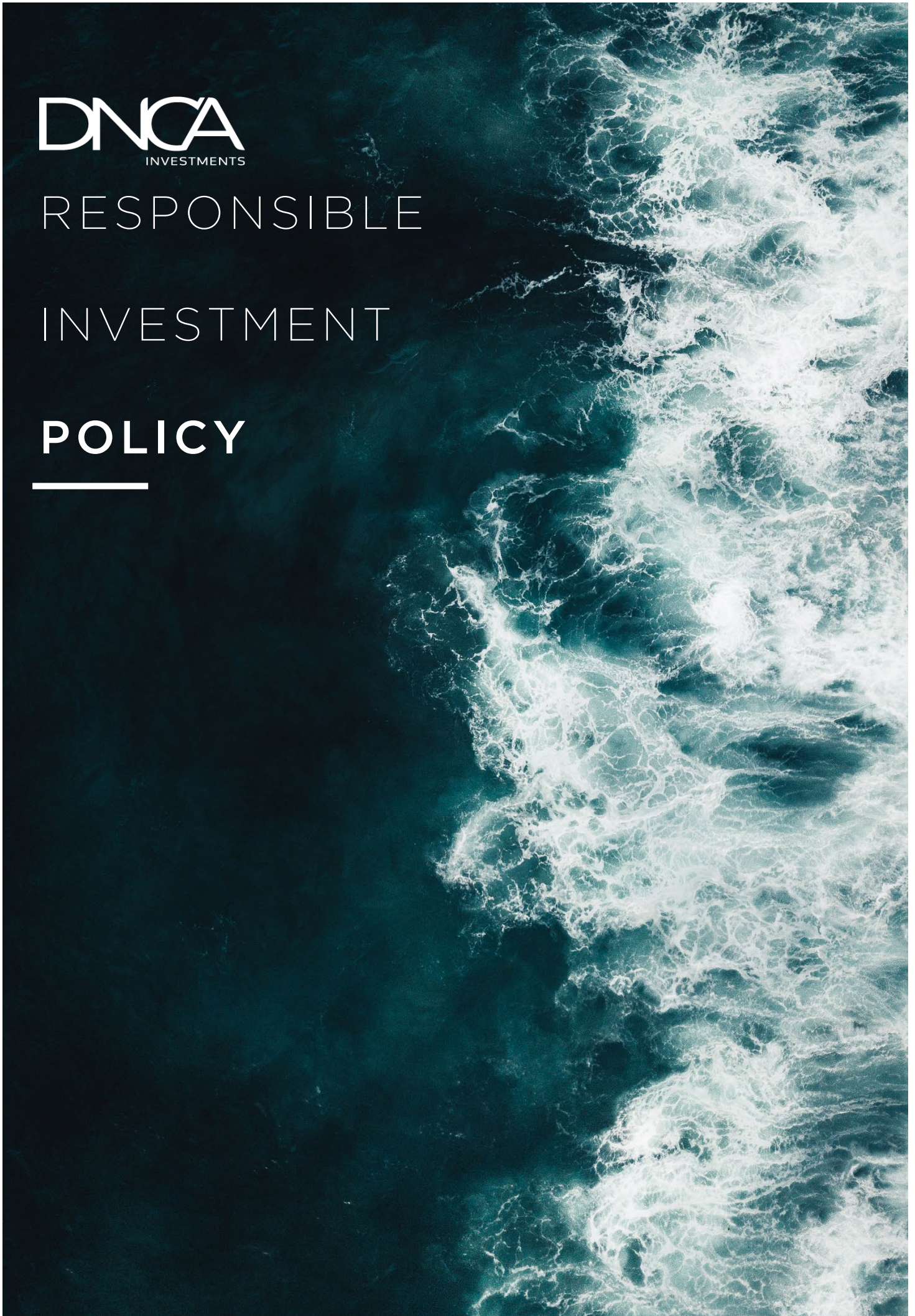


RESPONSIBLE

INVESTMENT

**POLICY**

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The Responsible Investment Policy details how DNCA Finance implements its engagement to act as a responsible asset manager in its investments and operations.

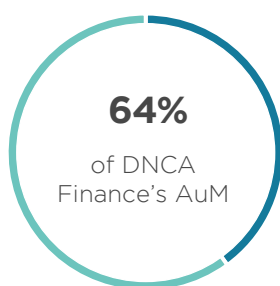
A more detailed presentation of the various topics addressed in this policy can be found in the following documents :

- Sustainability Risk Management Policy
- Policy for Managing Adverse Sustainability Impacts
- Environmental policy
- Exclusion policy
- Shareholder engagement and voting policy
- Transparency code
- Report on Article 29 of the Energy and Climate Law

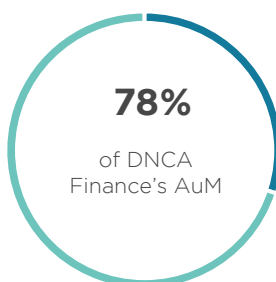
All these documents are published on the DNCA Finance website.

### ***DNCA Finance's SRI assets***

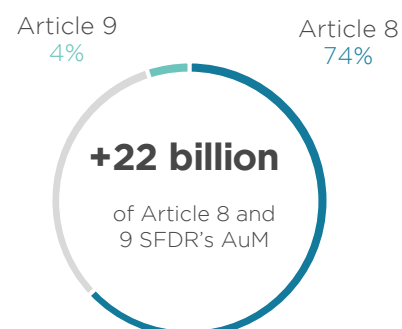
#### **SRI LABELLED**



#### **SFDR REPORTING**



#### **ARTICLE 8 AND 9 SFDR**



*Source : DNCA Finance as of 30/06/2022. Data may change over time.*

# 1. The challenges of Responsible Investment Policy today

DNCA Finance's conviction is based on a **long-term perspective of financing the economy**. As a responsible asset manager, its role is to select companies with the best strategic and economic strengths to meet the challenges of tomorrow. DNCA Finance is convinced that the ability of these players to anticipate their market is crucial to conquer or maintain their leadership.

As a responsible investor, DNCA Finance believes that Environmental, Social and Governance (ESG) factors must be integrated into the heart of financial management: on the one hand, these factors can have a **significant impact on financial performance**, and on the other hand, and increasingly, the responsibility of investors on the **consequences of their decisions on the environment and society** is underlined; the latter is naturally in line with the contribution of the world of finance to the United Nations Sustainable Development Goals<sup>1</sup>.

Mastering data is now a key issue in the financial services industry. Fragmented. Variable in quality and sometimes in very short supply, non-financial data is the subject of great attention from European authorities and market players.

Thus, the European Union is putting in place standards for the communication of extra-financial information concerning investors (SFDR<sup>2</sup>), and, in parallel, standards for communication concerning companies (CSRD<sup>3</sup>). At the international level, following the example of the IFRS standards for corporate financial accounting, extra-financial ISSB standards<sup>4</sup> are being prepared.

Finally, the race for comparability is becoming clearer with certain criteria soon to be harmonized. From 2023, the European Taxonomy will make it possible to have comparable data between companies and then on a consolidated scale for a financial product. We are talking here about a single measure, "green" turnover (environmentally sustainable economic activity, or Taxonomy-aligned).

The generalization of these regulatory measures to other data points makes database management crucial for the coming years. Within asset management companies, "data science" is a must. It requires unprecedented human and financial resources. It will allow to ensure a relevant, measurable, and verifiable responsible asset management.

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*1 The Sustainable Development Goals, adopted in 2015 by the United Nations as part of the 2030 Agenda for Sustainable Development, are a universal call to action to eradicate poverty, protect the planet, and improve the daily lives of all people everywhere, while creating opportunities for the future.*

*2 Particularly structuring, the "Sustainable Finance Disclosure Regulation" (SFDR) published in 2019 by the European Commission and entering into force in March 2021 aims to provide a supranational transparency standard through the publication of information on the sustainability of financial products.*

*3 In September 2020, the European Commission strengthened non-financial transparency requirements for companies, announcing its intention to create an EU-wide platform for investors to access corporate financial and sustainability information on a continuous basis. The European Single Access Point (ESAP) appears to be the strongest initiative of the European public authorities in the field of financial services. It responds to the respect of the climate commitments to which the Union has committed itself in the framework of the Green Deal.*

*4 International Sustainability Standards Board (ISSB): a framework of non-financial standards promoted by the IFRS Foundation.*

## 2. Fundamental principles : long-term investment and integration of ESG issues

### Our values

DNCA Finance is an asset management company created in 2000 by specialists with a patrimonial approach to asset management for private and institutional investors. Over the years, the founders have assembled a team of experienced and recognized managers to develop a range of simple, easy-to-understand and high-performance funds, centered around conviction-based management. Our investment choices are the result of an in-depth fundamental analysis of companies. Before investing, we study a stock in its entirety in order to select the bonds and equities offering the best performance potential according to the risk taken.

Naturally, our analyses and the ongoing dialogue we maintain with companies are filled with environmental and societal issues. Our investments are resolutely geared towards long-term **performance that considers all the risks and challenges facing companies**. Governance has always been a decisive criterion, and today it is unthinkable to invest in a company without ensuring the quality of its management, the independence of its control bodies or the respect of its minority shareholders. Gradually, the integration of social and environmental issues has become an integral part of our approach, convinced of their relevance to our business: selecting the winners of tomorrow.

### Our beliefs

If there is one question that the last ten years have answered, it is that of **value creation due to the integration of ESG criteria in the management of financial products** or rather, the non-destruction of value. While conventional financial theory illustrates that narrowing an investment universe - by excluding companies with controversial behaviors - decreases diversification and precludes certain opportunities, resulting in a lower capacity to perform, over the past decade several studies have demonstrated that there is no significant difference in financial performance between SRI funds and traditional funds.

On the contrary, the integration of ESG criteria allows for a better understanding of companies and their activities, reduces volatility, and is thus a good way to identify risk factors that are not taken into account in a traditional financial analysis: (fraud, accounting manipulations, denunciation of discriminatory or even illegal practices, deliberate pollution, cyber-attacks...). In short, the debate on the performance of Responsible Investment funds is no longer valid.

Not only does ESG analysis help limit "bad risks", but it also helps identify opportunities: this has been further accelerated since 2018 by the increase in regulation and pressure from civil society towards companies addressing sustainable development issues through their activities (energy efficiency, renewable energies, new technologies, health, eco-design, recycling, healthy food...).

### DNCA Finance's 3Ps : Patience, Prudence and Perseverance

Since its foundation, DNCA Finance has adopted a philosophy based on the **3Ps: Patience, Prudence, and Perseverance**. These three key words, which reflect a desire to align the company's expertise with **long-term asset** management, based on **solid convictions and** always in the interest of clients, are also strongly reflected in the deployment of DNCA's ESG approach.

**Patience:** While it may seem inappropriate to evoke the virtues of patience in the face of the urgency of ESG issues, particularly climate change, we believe that this notion is nevertheless crucial to avoid confusing goodwill with feasibility. Indeed, in a constantly changing environment, marked by a regulatory framework that is being formalized very quickly, faster than the market reality, and in parallel by the slow adoption of a

homogeneous and standardized framework for extra-financial data, it seems to us essential to take a long-term approach.

**Prudence:** This patience is also accompanied by a desire for prudence on our part. We are convinced that the race for image and the outrageous communication that accompanies the craze for responsible investment pose real risks for asset management companies and the products they market. Faced with the proliferation of Article 9 funds, DNCA has decided to maintain a demanding approach to SFDR classification by declaring Article 9 funds only those who have a clear sustainable development objective and a high level of sustainable investments in their portfolio.

**Perseverance:** Finally, our strong belief in the relevance of our approach is the best possible illustration of this notion of perseverance. Indeed, as early as 2018, DNCA has made the strong choice to rely on an internal model, ABA, with the objective of offering a rating for which we control the entire construction, with information from companies constituting the bulk of the data used. Over the long term, we are convinced that our model, in which data is controlled and integrated into a proprietary analysis grid, is a guarantee of added value for our investments.

## The fundamentals of our Responsible Investor philosophy

Our ambition is to offer a differentiating and innovative approach that evolves in line with the new issues to be integrated. As such, our Responsible Investor philosophy distinguishes two concepts: Responsibility Risk and Sustainable Economic Transition. The evaluation of these two dimensions is based on an in-depth analysis of economic and social trends, but also on recognized expertise in the field of responsible investment.

DNCA Finance has developed a unique approach, based on the proprietary ABA (Above and Beyond Analysis) rating tool. DNCA Finance's ESG analysis covers all aspects of responsible investment, including the "**Corporate Responsibility Risk**" of companies and organizations and their contribution to the "**Sustainable Economic Transition**". The ABA methodology is developed in chapter *Our proprietary ESG analysis model*.

### *Assessing the Responsibility risk for Corporates*

The evolution of certain indicators offers an additional analysis that is often not yet integrated into the financial statements. An abnormal increase in turnover, work accidents or absenteeism may indicate a lack of well-being in the company or a deteriorated social climate that will have an impact on competitiveness and economic performance (1% absenteeism represents 1% additional payroll costs).

In this context, we consider the analysis of Corporate **Responsibility Risk** not as an investment opportunity but as a formidable source of information to assess the risks faced by companies, particularly in their interactions with their stakeholders: employees, suppliers, customers, local communities, shareholders... and this, whatever their sector of activity.

### *Identifying sustainable investment opportunities*

Our conviction is based on a long-term perspective on the financing of the economy. As a responsible asset manager, our role is to select companies with the best strategic and economic assets to meet the challenges of tomorrow, particularly those corresponding to the United Nations Sustainable Development Goals.

We are convinced that the ability of these players to anticipate their market is crucial to conquer or maintain their leadership. Thus, by identifying exposure to the **sustainable economic transition** of companies, we are targeting a robust outperformance for our portfolios.

### *The 17 United Nations Sustainable Development Goals*



Sustainable economic transition is above all a source of investment opportunities. Our job is to identify the themes relevant to sustainable economic transition and, by extension, to select the companies that contribute to it. Our proprietary analysis model, presented in the section "Our ESG proprietary analysis model" on page 12 of this document, covers five major areas of sustainable transition and their material themes.

#### *Limiting negative environmental and social impacts*

DNCA Finance has deployed a management strategy to limit negative impacts on the environment and society, in line with the contribution to the Sustainable Development Goals.

This strategy applies to the entire management company (application of the policy of excluding thermal coal and non-conventional hydrocarbons and the Climate Trajectory), and more specifically to certain specialized funds.

### **A Responsible Investment Policy that integrates the two axes of "double materiality"**

The two aspects of responsible investment (impact on financial performance and the consequences of investment decisions on the environment and society) constitute what is now called "**dual materiality**": the management of (financial) sustainability risks (described in our document "[Sustainability Risk Management Policy](#)") and the management of negative impacts of investments on sustainability factors (see our document "Policy for Managing Adverse Sustainability Impacts").

This duality is notably illustrated in our Environmental Policy, by analysing both how **companies and organizations can be weakened** (impact of global warming, dependence on an ecosystem...) and how DNCA Finance can **limit the negative impacts of its investment decisions on the environment** and contribute to the achievement of international objectives (Paris Agreement on limiting temperature increase, Convention for Biological Diversity).



## RESPONSIBLE INVESTMENT POLICY



### DNCA Finance's environnemental Policy and engagements

DNCA Finance places particular emphasis on taking into account environmental issues, including climate and biodiversity erosion, both in the analysis of portfolio risks and in the analysis of the impacts that the portfolio may generate. In particular, as part of the "Portfolio Climate Trajectory", DNCA Finance is committed to a progressive approach to reducing GHG (greenhouse gas) emissions and aligning with the Paris Agreement to limit global warming. GHG emissions, a major negative impact of financial portfolios, are thus the negative impacts on which DNCA Finance focuses its attention.

The Environmental Policy is the subject of a dedicated document on our website. DNCA Finance has also detailed in its article 29 Report of the Climate and Energy Law, published in June 2022, how biodiversity issues are considered in its investment policy.

### *2-degree alignment and the Paris Agreement*

Adopted in December 2015 at COP21, the Paris Agreement<sup>5</sup> establishes an international framework for cooperation on climate change that includes the goals of limiting warming "well below 2°C, and continuing action to limit it to 1.5°C" (Article 2) and achieving a global balance between greenhouse gas emissions and removals in the second half of the 21st century (carbon neutrality) (Article 4).

Since COP 21 and the Paris Agreement, climate change mitigation and adaptation must be part of the daily agenda of the private and public sectors. For the financial sector, the agenda is defined in the key objectives agreed at COP 21: "Make financial flows consistent with a low greenhouse gas emission and climate resilient development pathway."

<sup>5</sup> <https://www.un.org/fr/climatechange/paris-agreement>



## *Alignment with the International Objectives of the Convention on Biological Diversity*

The tenth Conference of the Parties (COP10) of the Convention on Biological Diversity (CBD), which took place in Nagoya (Japan) in 2010, resulted in a "Strategic Plan for Biological Diversity for the Planet", including the 20 detailed and quantified Aichi Biodiversity Targets<sup>6</sup> for the period 2011-2020. These 20 targets were approved by the 120 ministers and heads of delegation present in Nagoya. These targets are currently being reviewed by the COP15, scheduled for December 2022 in Montreal (Canada).

## *Climate related risks*

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

- Physical risks: risks associated with the physical impacts of climate change on the activities of emitters resulting, 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.

## *Risks related to the erosion of biodiversity*

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

In the case of biodiversity loss, we distinguish, as for climate change, two types of risk: physical risks and transition risks. These risks are described by the TNFD (Task-force on Nature-related Financial Disclosure) as *"all financial risks and opportunities for the organization resulting from impacts on nature and/or dependence on nature"*<sup>7</sup>.

## *DNCA Finance's Climate Strategy*

DNCA has committed<sup>8</sup> to achieving the following objectives by 2021 in its **"Climate Trajectory"**:

- **Short-term goal (2021-2022)**
  - *Improved data coverage*
  - *Improved temperature analysis to include comparison with absolute carbon emissions, carbon footprint, carbon intensity and change between 2020 and 2021*
  - *Dialogue with the 10 "worst contributors"<sup>9</sup> in terms of induced temperature assessment*
  - *Dialogue with the 10 companies without a climate related target<sup>10</sup> and representing the largest exposure in terms of assets under management*
  - *Support for climate resolutions*
  - *Implementation of management tools to achieve medium-term objectives*

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<sup>6</sup> <https://www.cbd.int/doc/strategic-plan/2011-2020/Aichi-Targets-FR.pdf>

<sup>7</sup> Source: "Proposed Technical Scope - Recommendations for the TNFD", TNFD

<sup>8</sup> DNCA Finance: "Climate Trajectory" <https://www.dnca-investments.com/actualites/2021-07-19-dnca-finance-publie-un-reporting-complet-sur-sa-trajectoire-climatique>

<sup>9</sup> DNCA performs a climate performance attribution; "poor contributors" combine a high induced temperature and a large weight in DNCA's overall portfolio

<sup>10</sup> These are the 10 companies with the highest weight in DNCA's overall portfolio with zero transparency on strategy and climate objectives

- **Medium-term ambitions (2025-2030)**
  - *Decrease in the average temperature index of DNCA Finance portfolios (compared to 12/31/20)*
  - *Reduction of the average carbon intensity of DNCA Finance portfolios (compared to 12/31/20)*
  - *Decrease in the share of funds that are not aligned with a 2° temperature*
- **Long-term ambitions**
  - *100% of the securities in the portfolio should have a validated 2-degree alignment<sup>11</sup>*
  - *100% of the funds should be 2-degree aligned*
  - *Alignment with the objectives of the European Commission*

These ambitions are deliberately not quantified. It is indeed difficult to commit to ambitions for which we do not have control over one of the main indicators, the data, without running heavy reputational risks. We do not wish to oppose the urgency of the situation and the patience inherent in the discipline.

In 2022, DNCA Finance is strengthening its climate strategy by **gradually excluding companies involved in the production and use of thermal coal and unconventional hydrocarbons<sup>12</sup>**

This new exclusion is detailed in the chapter *Exclusions practiced by DNCA Finance*.

In addition, DNCA Finance is analysing physical and transition risks on all securities in the portfolio; the analysis of these risks is part of the sustainability risk management.

### 3. Contributing to promote responsible investments

#### Our participation to working groups and think tanks

In 2017, DNCA Finance signed the United Nations **Principles for Responsible Investment (UNPRI)** to provide a structuring framework for the approach and participate in market debates as an active long-term investor.

We want to participate in all initiatives and events that will help disseminate responsible investment (to the general public, institutions and companies) and contribute to regulatory issues (particularly consultation with public authorities). We also wish to enable academic research to evolve on these subjects, and any positive action in this direction will be supported.

DNCA Finance also pays particular attention to the French government labels, SRI and Greenfin, as well as the Belgian label issued by Ethibel in their current form and intends to participate in their development.

In addition, DNCA Finance is a member of the AFG Responsible Investment Commission and participates in the working group on the European consultation on sustainable finance initiatives. DNCA Finance also adheres to the AFG-FIR-Eurosif transparency code for SRI funds open to the public.

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<sup>11</sup> Alignment 2 is carried out by CDP or SBTi (Sciences Based Target Initiatives). DNCA wishes to use an observation and analysis phase of these two methodologies

<sup>12</sup> Unconventional oil and gas is derived from oil sands, shale energy and Arctic drilling

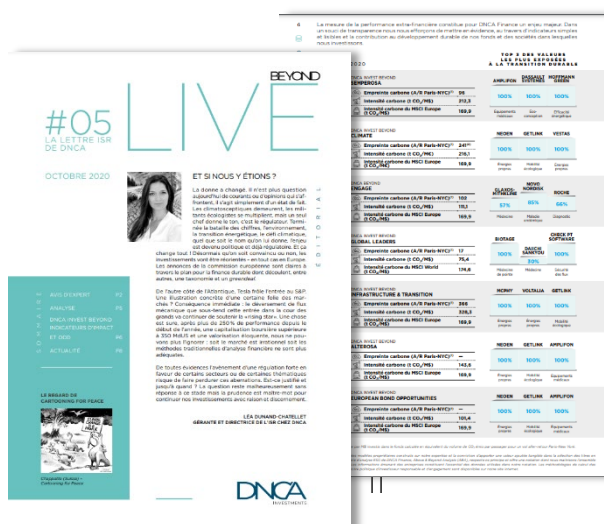
## Membership, codes and SRI initiatives

Initiatives	Membership date	Main missions
<p>Principles for Responsible Investments</p> 	2017	<ul style="list-style-type: none"> <li>Help investors incorporate environmental, social, and corporate governance considerations into investment decision-making and asset practices, thereby improving long-term returns for recipients</li> </ul>
<p>Carbon Disclosure Project</p> 	2018	<ul style="list-style-type: none"> <li>Help to disclose the environmental impact of companies</li> <li>Enable investors, businesses, cities, and national and regional governments to make the right choices today to build a thriving economy that works for people and the planet over the long term</li> </ul>
<p>Climate 100+</p> 	2021	<ul style="list-style-type: none"> <li>Put pressure on the world's largest greenhouse gas emitting companies to ensure that they take the necessary measures</li> </ul>
<p>TCFD</p> 	2021	<ul style="list-style-type: none"> <li>Encourage companies and organizations to be transparent about their climate risks, in order to make investments in these companies more secure</li> </ul>
<p>AFG / Sustainable Finance Commission</p> 	2018	<ul style="list-style-type: none"> <li>Publish annual statistics on responsible investment</li> <li>Promote the SRI Label and the work on the evolution of its specifications</li> <li>Supporting asset management companies on the application of SFDR, Taxonomy, Article 29 of the LEC</li> <li>Revise the guide to developing a coal strategy</li> <li>Launch working groups around themes such as biodiversity, non-conventional energy, and impact investing</li> </ul>

## Sharing our beliefs

DNCA Finance wishes to share its convictions as a responsible investor with its stakeholders and contribute to fuel the overall debate on sustainable investment.

To this end, DNCA Finance participates in articles and interviews published in the specialized press (TV and magazines) and edits an SRI newsletter containing information related to investment themes, interviews with experts or company managers, and detailed reporting on the SRI Beyond range.



DNCA Finance also organizes conferences and events to which it invites its clients and publishes a number of thought-provoking and educational works.



- Climate Club: organized on a semi-annual basis, this event, intended for DNCA's clients and partners, brings together managers and experts on topics related to climate change (e.g.: Climate Club on 14/06/2022 on the theme "Metals & Mining: the challenge of the energy transition")
- Beyond Day : organized on a biennial basis, this event, intended for DNCA's clients and partners, has a primarily educational vocation of raising awareness of the major challenges of responsible investment by bringing together experts and players in sustainable development.



- All our communication actions are detailed in the *appendix a) Communication*.

## 4. Implementation of the Responsible Investment Policy

### Our proprietary ESG analysis model

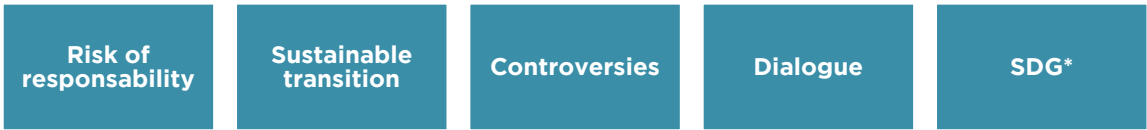
#### *Private issuers: the ABA (Above and Beyond Analysis) model*

We attach particular importance to developing proprietary models based on our expertise and the conviction that we add tangible value to the selection of securities in our portfolio. DNCA Finance's ESG analysis model respects this principle and aims to offer a rating whose entire construction we control.

Information from the companies constitutes the major part of the data used. Dialogue with management and site visits reinforce our understanding and are an invaluable source of added value.



Our model is built around five independent and complementary analytical pillars common to all strategies:



\*Sustainable Development Goals

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

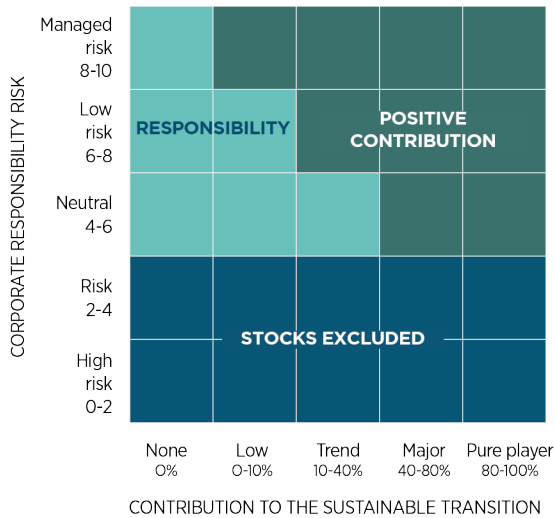
The ESG analysis of stocks is carried out under the supervision of the management and expertise of the Responsible Investment team. Using the ABA tool, it reviews the analysis of Responsibility Risk, the analysis of the contribution to Sustainable Transition, the monitoring of controversies, the newsflow and meetings with company managers. The analysis is carried out exclusively in-house and does not include any ratings from external agencies.

The ESG analysis also relies on data from external service providers chosen for their specific expertise, following a major data sourcing tender launched at the end of 2021 (see section 5).

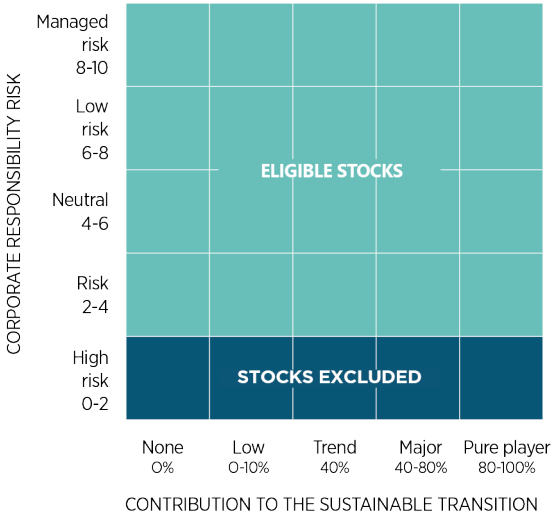
Synthesis

Our model allows us to measure both the investment risks from the Corporate Responsibility Risk score, including the assessment of the risk of controversies, and the positive contributions through the assessment of the exposure to the Sustainable Transition. The exchanges and information about the company are elements kept in the model and constitute our data history. By combining Corporate Responsibility Risk and Sustainable Transition, we aim to map companies according to a risk/opportunity approach.

Universe eligible for the SRI Beyond range



Universe eligible for the Responsible SRI range



Corporate Responsibility risk pillar

One of the sources of financial value creation is to avoid liability risks (reputation, controversies, operations). The evolution of these risk indicators offers a complementary analysis, often not yet integrated into financial statements, allowing companies to anticipate risks, particularly in their interactions with their stakeholders: employees, suppliers, customers, local communities, shareholders, etc., regardless of their sector of activity.

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 taking into account the most material issues for companies and the number of criteria is deliberately limited to 24.

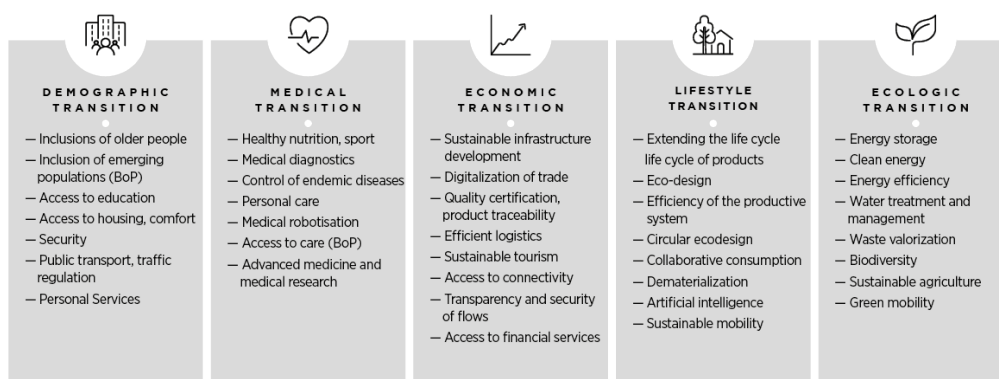
### *Criteria and pillars of corporate responsibility analysis*



### Sustainable transition pillar

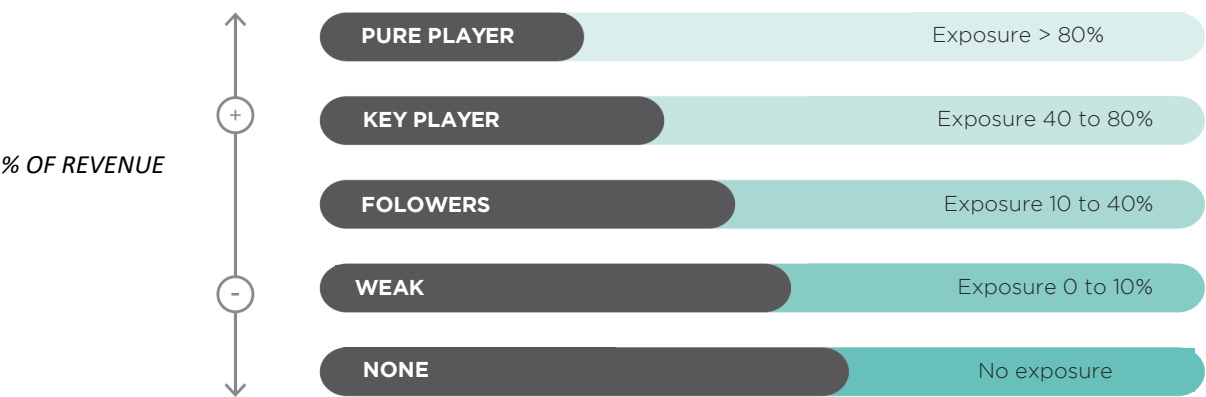
The second source of "alpha" comes from investments oriented towards major long-term trends, naturally growing. Analysing the sustainable economic transition allows us to select companies that benefit from these trends. Five macroeconomic transitions have been identified: demography (inclusion of seniors, access to education, etc.), medicine (diagnosis, fight against endemic diseases, etc.), economy (access to financial services, digitalization of exchanges, etc.), lifestyle (eco-design, collaborative consumption, etc.) and ecology (water treatment, renewable energies, etc.).

### *Analysis of the Sustainable Transition through 5 pillars*



On this basis, the Sustainable Transition pillar offers an analysis of the positive contributions of a company through its activities, products, and services, by identifying whether a company contributes to the Sustainable Transition, in which area(s) and in what proportion. For reasons of transparency of information, to date the criterion of exposure retained is that of turnover. However, we would like to move towards other criteria such as net income, research and development expenditure or the proportion of products.

The level of exposure ranges from 0 to 100%, classifying companies into 5 categories, and gives rise to an evaluation of the level of positive contribution to the Sustainable Transition, according to a "sustainable transition" benchmark specific to DNCA Finance (see appendix b) **"Sustainable Transition" reference framework and linkage with the Sustainable Development Goals**). The distribution of the universe is independent of our evaluation.



The analysis of the exposure to each transition is based on the information published by the companies. We do not make estimates and in the absence of precise information we send a specific request to the company.

Controversies pillar

This pillar allows us to monitor the level of controversy of companies by using the typology used in the Responsibility Risk analysis: shareholder controversies, environmental controversies, social controversies, and societal controversies. Our objective is to match the principles laid down by companies with the reality observed, and to provide a basis of alerts for managers. Each identified controversy is the subject of a complete analysis recorded in our proprietary ABA tool. At the end of this work, we distinguish the controversies according to their level of seriousness to obtain an aggregate rating.

We use this analysis as a leading indicator when it is tangible and not as a systematic sanctioning tool. Indeed, the international dimension of companies and the profusion of information force us in each situation to distinguish isolated cases of alerts from major alerts. However, a succession of isolated cases may, for example, be an evidence of a generalized violation at the level of the entire company.

Dialogue and newsflow pillar

Exchanges with managers and executives are at the heart of our business as asset managers. The extra-financial analysis is also committed to meeting with companies as often as possible to discuss responsibility and sustainable transition issues. We value this dialogue, which allows for a better understanding of the company and its strategy. It is for this reason that we meet with companies, either in the form of one-on-one meetings with their managers or during site visits.

A precise report of these meetings dedicated to extra-financial issues is entered by the managers in our analysis tool, as well as important information on the companies (newsflow). In addition, we apply DNCA Finance's own engagement and voting policy at companies' general meetings.

### SDGs pillar

In 2015, UN member states adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals. The Sustainable Development Goals (SDGs) address global challenges, including those related to poverty, inequality, climate, environmental degradation, prosperity, peace, and justice. The goals are interconnected. We have developed a section in our proprietary ABA analysis model dedicated to the SDGs to be able to adapt these issues to asset management and in particular to companies. In this pillar, the benchmark used is directly that of the Sustainable Development Goals.

Where applicable, the exposure and contribution of a company to one or more objectives is entered into our tool.

The Positive Contribution/AIM<sup>13</sup> and Climate pillars are complementary and optional, dedicated to positive contribution strategies.



### Climate pillar

#### **Analysis of transition risks related to climate change**

Our approach is based on a matrix that combines a detailed assessment of the climate risks faced by each company with an analysis of its climate strategy to determine the quality of its climate risk management.

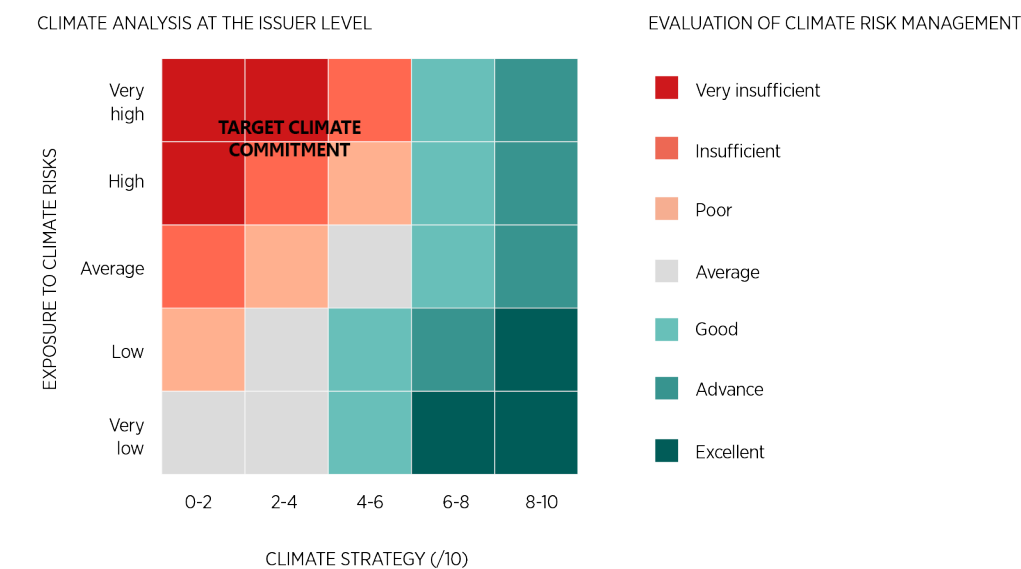
- Transition risk exposure is determined for each company based on its industry and geographic footprint. We follow the same analytical framework as presented in the TCFD, with an assessment of political and regulatory risks, technological risks, market risks and reputational risks. The level of risk assessed ranges from "very low" to "very high".
- The evaluation of the company's climate strategy is one of the 24 criteria included in the Responsibility Risk analysis, the criterion entitled "Climate and energy policy". We evaluate the quality of the climate policy, the relevance of the actions implemented, as well as the results obtained to obtain a score out of 10.

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<sup>13</sup> AIM: Additionality, Intentionality, Measurability analysis



Proprietary analysis model Climate



This assessment allows us to determine which companies have an adequate management of their climate related risks and which are at risk; the most at risk (combining a high exposure and an insufficient climate strategy) will be targeted in our engagement policy.

Companies with "insufficient" or "very insufficient" management are excluded from SRI funds with a climate-related management philosophy (DNCA INVEST BEYOND Climate).

Transition/Contribution Rating

The selection of companies in our portfolios is based on a fundamental analysis of the activity, business model and strategy of each company considered to determine the level of alignment with a scenario in line with the Paris Agreement. This analysis allows us to determine for each company whether its decarbonization trajectory is compatible with the international objectives (Transition analysis) and whether the company contributes to the decarbonization of other companies and sectors through its products and services (Contribution analysis).

This double analysis results in a Transition / Contribution climate score for each company, with a gradation of - / = / + for each of the 2 aspects. Only companies with a Transition = or + rating are eligible for the Climate fund (DNCA INVEST BEYOND Climate). Companies with a positive contribution (C+) are favored.

Positive Contribution Pillar : AIM (Additionality, Intentionality, Measurability)

The Positive Contribution pillar aims to measure precisely and, on a case-by-case basis the positive contributions of a company on specific environmental, social and societal issues. This part of the model is based exclusively on company data and identifies the relevant indicators for each activity and each player. Our methodology, AIM, is based on three principles inherent to positive contribution analysis: the additionality of the products and services offered, the intentionality of the company and the measurability of the contribution. The concept of positive contribution complements traditional ESG analysis by providing objective and quantifiable reporting indicators.

Each company is assigned an AIM score according to the following scale:



## Public issuers/Countries : specific ESG analysis criteria



**Environment**



**Social**



**Societal**



**Governance**

Within our proprietary ABA tool, the ESG analysis of states/public issuers is broken down into:

- An analysis of the 4 pillars Environment, Governance, Social & Societal.
- A Climate Analysis.

We attach particular importance to the use of consistent and reliable data. Thus, our ESG assessment model for public issuers is based on a set of indicators selected from the ISS Country Ratings database and tested for their statistical relevance. These indicators are subject to a proprietary reprocessing to calculate our proprietary rating at the country level.

<b>Environmental analysis</b>	<ul style="list-style-type: none"> <li>• Natural resources (land use, renewable water, drinking water, forest management...)</li> <li>• Climate change (alignment with the Paris agreements, GHG emissions, fine particle emissions, etc.)</li> <li>• Energy (primary energy reserves, energy mix, energy consumption per household...)</li> <li>• Agriculture (share devoted to sustainable agriculture, use of GMOs, meat production...)</li> <li>• Mobility (Energy consumption by transport, freight vs. passenger transport...)</li> <li>• Waste management and recycling (freshwater discharges, waste production and recycled portion...)</li> </ul>
<b>Governance analysis</b>	<ul style="list-style-type: none"> <li>• Rule of law and respect for freedoms (independence and efficiency of justice, rule of law, respect for fundamental rights, human rights...)</li> <li>• Quality of institutions and regulatory framework (quality of governing bodies, quality of regulations...)</li> <li>• Democratic life (political vitality, electoral system, level of democracy, political stability...)</li> <li>• Military status and defense (military spending as a percentage of GDP, involvement in conflicts...)</li> </ul>
<b>Social analysis</b>	<ul style="list-style-type: none"> <li>• Employment (unemployment rate, long-term unemployment rate, employment rate 15-64 years...)</li> <li>• Health (life expectancy, health expenses, access to medical services...)</li> <li>• Education and training (expenditure on education as a percentage of GDP, pupil/teacher ratio at primary level, access rate to secondary education, etc.)</li> </ul>
<b>Societal analysis</b>	<ul style="list-style-type: none"> <li>• Inequality (income distribution, poverty rate, GINI index...)</li> <li>• Living conditions, freedoms and respect for fundamental rights (non-discrimination, right of association, child labour, forced labour...)</li> </ul>
<b>Climate Analysis</b>	<p>The climate profile of a public issuer is analysed separately within our proprietary tool and is broken down into 4 main criteria:</p> <ul style="list-style-type: none"> <li>• Energy mix (fossil fuels, renewable sources, total energy supply...)</li> <li>• Evolution of the energy mix over 5 years (fossil fuels, nuclear, renewables...)</li> <li>• Carbon intensity (total emissions, share of global emissions, intensity...)</li> <li>• Reserves (coal, gas, oil and share of world reserves...)</li> </ul>

### Country rating

Within the five main pillars of analysis described above, 86 key indicators are rated out of 10, the result of a weighted average of the indicators.

A final ESG rating for each country is assigned from 0 to 10, by weighting the 5 main pillars of analysis equally.

Finally, several controversies considered serious at the country level are listed (respect for human rights, discrimination, respect for freedom of association, freedom of the press, etc.). The fact that a country contravenes one or more of these controversies is reflected by a penalty applied to the pillar concerned.

## **Sustainability risk management core to our processes**

DNCA Finance's sustainability risk management is based on the analysis of the various risks (environmental, social and governance) that make up the "Corporate Responsibility Risk" assessed by ABA, to which is added the analysis of climate risk (physical and transition risks related to climate change) and the analysis of risks related to biodiversity loss.

Sustainability risk management is detailed in the "Sustainability Risk Management Policy" document on our website.

### *Sustainability risk indicators*

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

- Ratings from ABA
- Controversies followed by ABA (private issuers), or from ISS
- Climate-related financial risk indicators (Climate VAR) and biodiversity
- Raw data (fossil fuel exposure, sectoral exposure, etc.)

### *The use of indicators and the alert system*

DNCA Finance has planned to create dashboards showing portfolio exposures to selected indicators, updated regularly, and used by all managers.

DNCA Finance has planned the development of an alert system based on the behaviour of ESG indicators (start of the project planned by the end of 2022). These alerts, whose triggering threshold and type depend on the portfolio strategy, could be based on, for example

- Change in the "Liability Risk" rating and/or crossing of a certain threshold (depending on the management strategies)
- Variation in upstream indicators, identified as material according to the sector (e.g. variation in GHG emissions for very fuel-intensive sectors)
- The appearance of controversies, graduated according to their gravity and frequency
- Variation in Climate VAR and/or crossing of Climate VAR limits (depending on management strategies)

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

- Review the assumptions of the investment case
- Start or accelerate an engagement process

- Lighten, divest, or strengthen the position
- Put the stock under surveillance if necessary

### *Creation of a "worst offenders" list*

DNCA Finance has set up a "worst offenders" list, made up of the issuers most at risk from a social responsibility perspective, or in serious violation of one of the principles of the United Nations Global Compact. This list is drawn up based on **major controversies**, after analysis by members of the SRI team, and with validation by the Sustainable Investment Monitoring Committee (SID Committee).

An issuer on this "worst offenders" list can no longer be held in the portfolios managed by DNCA Finance: investment is not authorized (blocking pre-trade constraint in the investment management system), and the security is, if necessary, disinvested as quickly as possible, depending on market conditions and in the best interest of the fund holders.

### *Integration of sustainability risk into DNCA Finance's risk control system*

DNCA Finance integrates the main sustainability risks into its financial risk control system.

The monitoring of these risks is integrated into DNCA Finance's overall risk control system; as part of this process, performance indicators will be presented to the Risk Committee.

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

- Minimum score "Corporate Responsibility Risk" (already in effect)
- Maximum exposure to certain sectors (already in effect)
- Climate Value-at-Risk limits (to come)

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 the limit, to enable the manager to adjust and anticipate changes in the portfolio.

In addition, the Risk Control Department ensures that the "worst offenders" list is implemented at the second level, with the Middle Office performing the first level of control.

## **Managing the negative impacts or consequences of investment decisions on the environment and society**

Negative sustainability impacts" are the consequences of investment decisions on "sustainability factors. According to the SFDR regulation, sustainability factors are "environmental, social and personnel issues, respect for human rights and the fight against corruption and bribery" (Article 2 of the regulation).

DNCA Finance's negative impact management is described in the "Policy for managing adverse sustainability impacts document on our website.

DNCA Finance's negative impact analysis is based on three principles:

- Compliance with major international standards in social responsibility (guidelines set by the UN, ILO, and OECD) when selecting issuers
- Contribution to the achievement of the United Nations Sustainable Development Goals
- Contributing to energy, ecological and social transitions, in particular the Paris Climate Agreement and the objectives of the Convention on Biological Diversity



### *Objectives for limiting negative impacts*

DNCA Finance has set objectives to limit negative impacts at two levels:

- Objectives for the entire management company
- Objectives for certain specialized funds

#### *Objectives for the entire management company*

These objectives will be precisely defined by the Sustainable Development and Investment Committee (DID Committee), in conjunction with the Executive Committee and the Supervisory Board. They will then be broken down, strategy by strategy, at the funds level, under the responsibility of the Head of Investments and the Sustainable Investment Committee (ID).

DNCA Finance's Environmental Policy describes these medium- and long-term objectives and ambitions, including the reduction of greenhouse gas (GHG) emissions and the implied temperature of portfolios.

#### *Objectives of specialized funds*

Some specialty funds have additional or more specific negative impact limitation objectives.

The objectives of these funds are determined at the time of their creation by the management team and the Product Committee.

### *Negative impact management and alert system*

DNCA Finance will have a due diligence mechanism, which will consist of :

- Identify the nature of the negative impacts (ESG impacts) associated with its investment activities
- Assess and prioritize negative impacts
- Manage (prevent, mitigate, stop) some of the negative impacts
- Monitor the implementation of results (measure the effectiveness of actions)
- Adjust 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, according to the Environmental Policy), as well as certain impacts identified as targets in the strategy of specialized funds
- Measuring for steering biodiversity footprint indicators: water management and land use
- Measuring other negative impacts to allow for an observation and ownership phase, as well as quality control of the data used

DNCA Finance has planned the development of an alert system based on the behaviour of the indicators of negative impact ( start of the project planned by the end of 2022 ):

- Carbon emission indicators and induced temperature (all managed and controllable assets), starting from a threshold (example: induced temperature of the portfolio higher than 2.5°)
- Negative impacts or impact indicators targeted by specialized funds, above a certain threshold

Depending on the evolution of the exposure and the alerts, the managers may have to adjust the investment decisions in the following way (depending on the management strategies):

- Review the reasons for investment
- Start or accelerate an engagement process
- Lighten, divest, or strengthen the position
- Put the stock under surveillance if necessary

## Exclusions practiced by DNCA Finance

DNCA's exclusion policies are validated and supervised by the Sustainable Investment Monitoring Committee (SID Committee), which operates as described in chapter *Sustainable Investment Monitoring Committee (SID Committee)*.

The exclusions listed below are detailed in the Exclusions Policy on our website.

### *General exclusions for all DNCA Finance funds:*

#### Creation of a "worst offenders" list

DNCA Finance has set up a "worst offenders" list, consisting of the issuers most at risk from a social responsibility point of view. This list is drawn up based on major controversies (major violations of one of the principles of the United Nations Global Compact), after analysis by members of the Responsible Investment team, and after validation by the Sustainable Investment Monitoring Committee (SID Committee).

The 10 Principles of the United Nations Global Compact, defined in 2000, are considered a set of minimum standards that all companies worldwide must respect to conduct their activities in a responsible manner and limit potential negative impacts on their stakeholders. They are divided into 4 pillars: human rights, labour, environment, and anti-corruption.

An issuer on this "worst offenders" list can no longer be held in the portfolios managed by DNCA Finance: investment is not authorized (blocking pre-trade constraint in investment management system), and the security is, if necessary, divested as quickly as possible, depending on market conditions and in the best interest of the fund holders

#### Exclusion of controversial weapons

The practice of excluding so-called controversial weapons from its investments appeared in the 2000s, particularly following the signing of the Ottawa Convention in 1997, which aims to prohibit the use, stockpiling, production, and transfer of anti-personnel mines "MAP", as well as that of the Oslo Treaty in 2008 aimed at the prohibition and elimination of cluster bombs "cluster bombs".

France transposed these texts into its national law on July 8, 1998, and July 20, 2010, respectively; Luxembourg also transposed them on April 29, 1999, and June 4, 2009.

MAP and cluster munitions are weapons that can reach non-conflict populations. Financing can therefore be seen as an incentive to produce these weapons. The scope of the ban may differ from one regulator to another; DNCA Finance follows the recommendations of the AFG (see below).

DNCA Finance has therefore adopted an exclusion policy which :

- Defines the criteria used to identify the companies it wishes to exclude (i.e., types of weapons, level of involvement, etc.).
- Based on a list of "excluded companies" established from data provided by an extra-financial agency specialized in the field of armaments, to which the criteria defined by DNCA Finance are applied in accordance with the methodology described below.
- Defines the scope and key points of its implementation.

### Exclusion of thermal coal and unconventional hydrocarbons

DNCA Finance aims to progressively reduce its coal exposure to zero by 2030 for EU and OECD companies, and by 2040 for other companies. The horizon for reducing exposure to unconventional hydrocarbons is 2040 (for companies operating in the European Union, and for those operating in the rest of the world).

This timetable, which is a translation of the Natixis Group's principles at the DNCA level, is also aligned with the International Energy Agency's Sustainable Development Scenarios (SDS).

The activities and timelines covered by DNCA's coal policy are as follows:

Activity	Starting in 2022	Companies with headquarters in the European Union or OECD	
		Exclusion as of December 2027	Exclusion as of December 2030
Thermal coal production	From 10% of turnover	From 5% of turnover	Final exit (0% turnover)
Coal-fired power generation	From 10% of turnover	From 5% of turnover	Final exit (0% turnover)

Activity	Starting in 2022	Exclusion as of December 2030	Exclusion as of December 2040
Production of unconventional oil or gas	From 10% of turnover	From 5% of turnover	Final exit (0% turnover)

If a company violates the above principles, it will be immediately excluded from all DNCA investments.

### Exclusions specific to certain DNCA Finance funds:

In line with its Responsible Investment strategy, DNCA Finance has decided to exclude several sectors and activities that are not compatible with the approach of some of its funds. This sectoral exclusion approach varies according to the management strategies; the specific exclusions for the funds labelled "Towards Sustainability" (FebelFin) are the subject of a dedicated paragraph below. The exclusions are based on the exposure, by revenue, of companies to the excluded activities.

### Sectoral exclusions

Sectoral exclusions concern companies because of their involvement in certain activities. Compliance with the application of these exclusions is carried out as part of the risk control of investments, using a database administered by a specialized independent extra-financial agency. Alerts are issued daily for the investments concerned.

When an alert is raised, it is analysed by the Responsible Investment Management Expertise Unit by cross-checking it with information from other sources and/or dialogue with the company in question to determine the company's true level of involvement.

The exclusion is effective when the alert is confirmed by the Sustainable Investment Monitoring Committee and brought to the attention of the managers concerned.

Activities that may be subject to exclusion include :



Tobacco production: exclusion of companies producing tobacco (from 0% turnover).



Weapons production: Exclusion of companies producing weapons (from 10% of turnover);



Thermal coal production: Exclusion of companies that extract thermal coal (from 10% of turnover).

Production of non-conventional oil and gas: exclusion of companies involved in the extraction or refining of non-conventional oil and gas (from 20% of turnover)



Coal-fired power generation: exclusion of companies involved in coal-fired power generation (from 10% turnover)

In the case of companies in transition, exceptions are possible within the limit of 5% of the portfolio. The analysis is performed internally by whom? with the help of external service providers.

### Focus : FebelFin's "Towards Sustainability" label

In the context of the marketing of our "Toward Sustainability" (FebelFin) labelled funds in Belgium, the thresholds for the exclusion of companies are more demanding, in order to respect the conditions of the label.

The specific exclusion thresholds applied are as follows:

- Tobacco (production, products containing tobacco and wholesale): Excludes companies producing tobacco, products containing tobacco and/or involved in the wholesale of tobacco (from 0% of turnover).
- Weapons production: We strictly exclude any company whose turnover is more than 5% derived from weapons production. Note that involvement in the production of certain weapons (white phosphorus, depleted uranium) is strictly excluded (0% of turnover).
- Oil & Gas: We strictly exclude any company involved in the production and/or exploration of unconventional and conventional oil and gas (from 0% of turnover). However, companies that have adopted a 2° or 1.5°C SBTi certified emissions reduction scenario are eligible, even if the issuer exceeds the turnover threshold.
- Companies in violation of the UNGC: We exclude companies in violation (structural, repetitive, and severe) of the principles of the United Nations Global Compact.
- Coal mining: We strictly exclude companies that mine coal, as no revenue is derived from coal mining. However, companies that have adopted a 2° or 1.5°C certified emissions reduction scenario through the Science Based Target initiative (SBTi) are eligible, even if they exceed the revenue threshold.
- Fossil-fired power generation: We exclude companies whose revenues are derived more than 50% from fossil-fired power generation (including nuclear power).

However, companies that have adopted an emission reduction scenario certified at 2° or 1.5°C by the SBTi are eligible, as are companies with a Carbon Factor in line with the trajectory below, even if the issuer exceeds the turnover threshold.

	2019	2020	2021	2022	2023	2024	2025
Max. gCO <sub>2</sub> /kWh	<b>429</b>	<b>408</b>	<b>393</b>	<b>374</b>	<b>354</b>	<b>335</b>	<b>315</b>

In addition, for labelled funds, the "Towards Sustainability" label requires that the management company or distributor specify its position on the following critical ESG topics and explain the extent to which they are relevant to the management of labelled funds:

- Biodiversity (e.g., deforestation, palm oil)



- Water use
- Pollution and waste (e.g., plastics)
- Gender and diversity
- Taxation
- Oppressive regimes (state and company level)
- Death penalty
- Forward contracts on agricultural commodities

Several of these topics are monitored and are the subject of dedicated indicators in our proprietary rating tool (corporate responsibility rating, public issuer rating). They are therefore an integral part of our management process and as such are included in our assessment of the level of corporate responsibility risk of issuers.

Nevertheless, the topics listed above are not as such used as exclusion criteria in our management process and are therefore not the subject of a specific policy.

Moreover, fully aware of the various pressures exerted by its investments on the environment, and, in parallel, of the financial risks related to the environment, DNCA Finance has chosen to take into account all environmental issues in its responsible investment policy, developed in the "Environmental Policy" (see above and on our website).

## Dialogue, Voting and Engagement

As a responsible investor, DNCA Finance attaches the utmost importance to maintaining a **constant dialogue** with the issuers in which it invests. DNCA Finance's shareholder engagement is detailed in the "Shareholder engagement and voting policy" document. This engagement approach allows DNCA Finance to:

- **Encourage issuers to adopt best practices**, whether in terms of taking ESG issues into account in their business model or in managing the impact of their activity on the environment and society (in particular, to adopt a climate strategy and to work towards the Paris Agreement)
- To 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 and to the management of negative impacts. The level of engagement and dialogue depends on the level of sustainability risk.

DNCA Finance distinguishes two ways of interacting with companies:

- Dialogue with issuers
- Shareholder or investor engagement

### *Dialogue with issuers*

DNCA Finance considers it essential to meet very regularly with issuers in which it invests or plans to invest, for both financial and ESG analysis purposes. 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 ESG issues and the company's culture.

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

### *Shareholder or investor engagement*

DNCA Finance believes that improving the practices of the issuers in which we invest helps to protect the value of portfolios and has taken steps to encourage 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 greater transparency from issuers.

DNCA Finance distinguishes 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 SRI issues

These two cases are subject to a formalized engagement process, detailed in the "Shareholder Engagement and voting Policy" document.

### *Collaborative engagement*

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

DNCA Finance conducts its collaborative engagement activity through direct contact with investors and participation in initiatives that bring together many international investors.

### *Integration of the engagement approach into the analysis model and investment decisions*

#### Integration within the 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, if necessary, the "Risk of Responsibility" or "Transition" rating of the company, and to keep track of exchanges with the management of the invested issuers
- The ResearchPool (RMS) tool, in which managers complete all information relating to discussions with issuers

#### Integration with investment decisions

The results of the engagement actions are integrated into the ESG analysis and can notably impact the "Corporate 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 it can belong to the eligible investment universe of SRI funds.

Managers are systematically invited to participate in engagement meetings with the issuers they hold in their portfolio.

The application of sustainability risk management principles may lead to the adjustment of the engagement policy.

### *Voting Policy Guidelines*

The Shareholder Engagement and Voting Policy available on the internet details the conditions and guiding principles of DNCA Finance's Voting Policy.

These guidelines are based on the work carried out by the AFG<sup>14</sup>.

The most prominent guiding principles are:

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<sup>14</sup> AFG: "Recommendations on corporate governance", January 2022 <https://www.afg.asso.fr/afg-document/recommandations-ge-2022/>

- Emphasis on the quality of the Board and the consistency of its composition with the company's strategy
  - Appropriate board size, reflecting shareholder base as much as possible
  - Professional skills, complementarity, and diversity of profiles
  - Proportion of women 40% minimum
  - Independence of the Board (AFEP MEDEF criteria)
- Executive compensation
  - Transparency of compensation
  - Alignment with the company's medium and long-term performance, integrating non-financial criteria
- Corporate Responsibility
  - Integration of environmental and social issues in the company's strategy

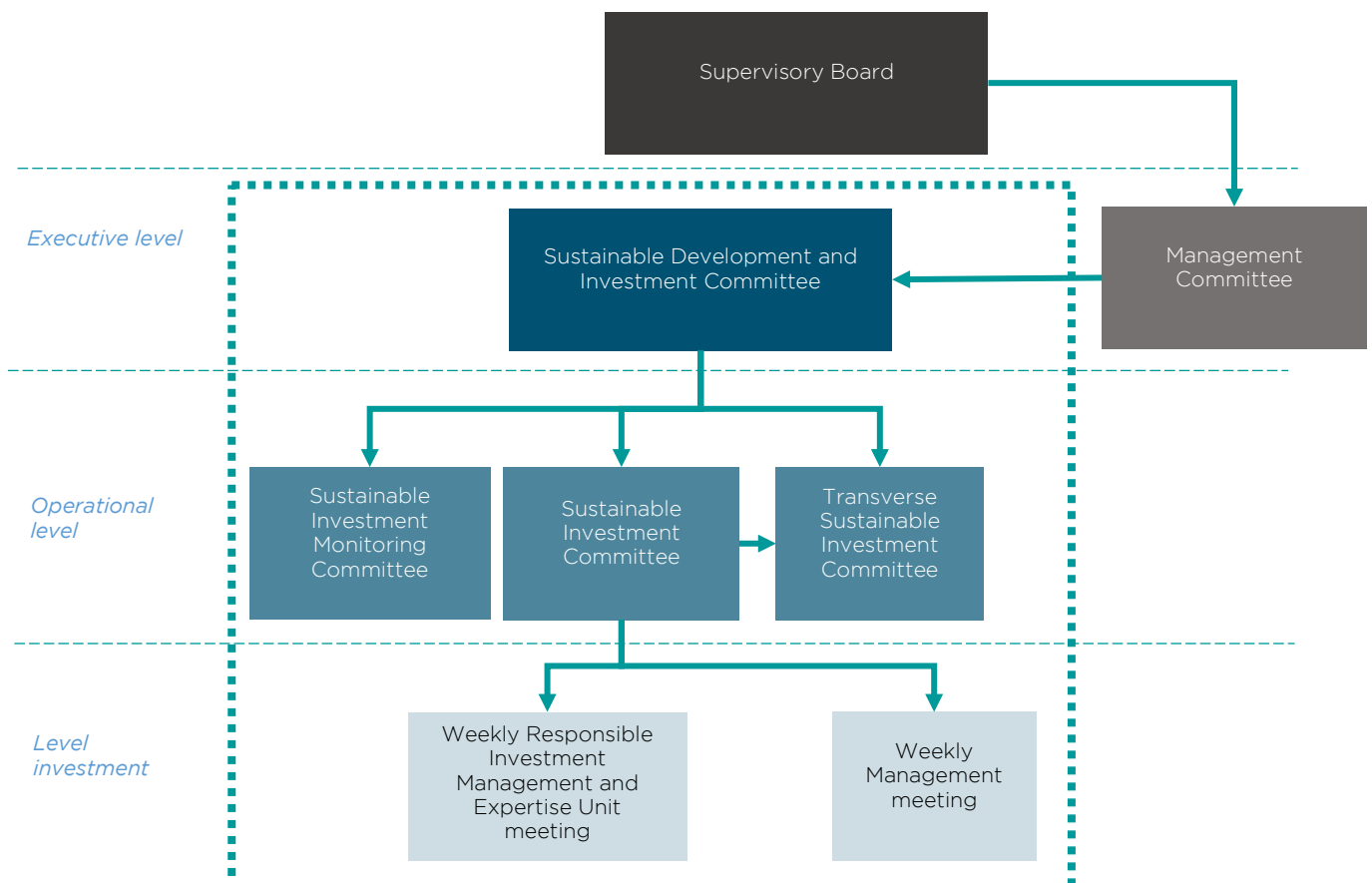
## 5. The means of the Responsible Investment Policy

### A specific governance ESG, integrated into the governance of the investment management company

DNCA Finance has adapted its governance in 2022 to better apply the Responsible Investment Policy.

DNCA Finance's ESG governance consists of several bodies:

- Sustainable Development and Investment Committee
- Sustainable Investment Committee
- Sustainable Investment Monitoring Committee
- Transverse Sustainable Investment Committee



### *Sustainable Development and Investment 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, in line with the ESG orientations of the management company's Supervisory Board.

It is composed of the members of the Executive Committee, the RCCI, the Head of the Responsible Investment Management and Expertise Unit, as well as representatives of the main functions (risk, marketing, legal, sales, etc.)

Chief Executive Officer (CEO)
Associate Director
Chief Investment Officer (CIO)
Head of the SRI Department
Deputy-head of SRI Department
Head of Compliance
Head of Risks
Head of Marketing
Head of Legal
Head of Sales
Chief Financial Officer
Head of Projects

### *Sustainable Investment Committee*

The objective of the Sustainable Investment Committee is to define, deploy and monitor Sustainable Investment processes at the level of DNCA Finance's management teams.

It is composed of the Head of the Responsible Investment Management and Expertise Unit, the General Secretary of Management, one representative per management team, one representative of the Compliance team and one representative of the Risk team.

Head of the SRI Department
Head of Compliance
General secretary
Head of Risks
Head of Projects

The committee will also be represented by a representative from each portfolio management teams.

### *Sustainable Investment Monitoring Committee*

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

It is made up of the Head of the Responsible Investment division, the General Secretary of Management, and at least one representative of the Compliance team and one representative of the Risk team.

Head of the SRI Department
Head of Compliance
General secretary
Head of Risks
Head of Projects

### *Transverse Sustainable Investment Committee*

The objective of the Transverse Sustainable Investment Committee is to define, deploy and monitor the operational processes that provide a frame to Sustainable Investments.

It is composed of the Operations Department, the Responsible Investment Management Division, and the risk, marketing, legal, sales, data, compliance, and middle office teams.

Head of the SRI Department
Head of Compliance
General secretary
Head of Risks
Head of Projects
Head of Marketing
Head of Legal
Head of Sales
Head of RFP
Chief Data Officer
Head of Middle Office

### **Risk Control, playing a key role in the Responsible Investment Policy**

Responsible Investment, and in particular the monitoring of sustainability risk, as well as all monitoring of Responsible Investment criteria, constraints and ratios are integrated into DNCA Finance's control system.

Responsibilities are divided between first-level controls carried out in particular by the Middle Office teams, according to criteria defined by the Risk Department, monitoring by the risk control team and second-level controls

As such, the Risk Department is an integral part of DNCA's Responsible Investment governance.

### *Setting up risk control tools*

The Risk Department sets up the CRD tool<sup>15</sup> to monitor the eligibility criteria and exclusions of mutual funds. Alerts are processed at the first level by the Middle Office.

The constraints and exclusions implemented can be of several kinds, and concern funds in a variable way:

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<sup>15</sup> OMS PMS tool for monitoring portfolios and placing orders

- Contractual constraints related to sustainable finance.
- Constraints emanating from SRI or Towards Sustainability (FebelFin) labels.
- Application of the Exclusion Policy;
- Sustainable Transition related Constraints.
- AIM score related Constraints.
- Internal limits related to the monitoring of sustainability risk.

### *Responsible Investment control system*

DNCA has implemented a Responsible Investment control system that includes both pre-trade and post-trade controls as detailed below.

#### Pre-trade risk controls

The pre-trade checks concern the minimum "Corporate Responsibility Risk" rating, the Febelfin derogatory ratio and the absence of a rating. The alert on the absence of a rating is only intended to inform the SRI team.

The controls are archived by the CRD tool which has its own audit trail.

About sector exclusions, the Risk Department monitors, via CRD, the proper application of sector constraints on lists of issuers (see exclusion policy)

#### Post-trade risk controls

The controls listed below are incorporated into the constraint tracking control scheme:

- Compliance of the SRI and Towards Sustainability label funds monitored in ABA with the relevant label's guidelines.
- No investments are made in issuers targeted by the exclusion policies
- The minimum AIM, sustainable transition, and climate (transition/contribution) scores are met (for the funds concerned)
- Other SRI constraints specific to certain UCIs.

### *Risk Committee*

The Risk Committee, the central body of the risk management system, meets every six months. It is composed of the three senior managers (the General 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
- Draw up the status of the recommendations resulting from the inspection and the audits
- Report on significant issues related to market, concentration, credit, counterparty, foreign exchange, liquidity, valuation, and sustainability risks
- 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
- Ensure the follow-up of the constraints and performances

The monitoring of financial risks related to the environment, including physical and climate transition risks and biodiversity loss, is integrated into DNCA Finance's risk management framework (the monitoring of



financial risks related to sustainability will be operational after the ESG data sourcing project, scheduled for 2023 is finalized). These elements are outlined in more detail in the following policies:

- Sustainability Risk Management Policy
- Policy for Managing Adverse Sustainability Impacts
- Environmental policy

### Staff dedicated to responsible investment

A Responsible Investment Management and Expertise Unit has been created since 2018 to manage and develop the following activities:

- Conduct ESG analysis of issuers
- Develop and deploy the ABA ("Above and Beyond Analysis") proprietary ESG analysis model
- Manage the SRI investment process and the management of funds that include ESG criteria
- Design Responsible Investment reports at the SGP level (Article 29 of the Energy and Climate Law)
- Monitor transparency commitments: extra-financial reporting of funds, transparency code, information for clients, climate trajectory
- Manage the labelling of SRI funds

As of June 30th, 2022, the Responsible Investment management and expertise division consisted of 8 FTEs, including 3 portfolio managers, 4 SRI analysts and 1 IT engineer.



**Léa Dunand-Chatellet**

Head of the SRI  
Department  
17 years of experience



**Romain Avice**

Portfolio Manager, Deputy  
Head of SRI  
14 years of experience



**Mathieu Belondrade, CFA**

Portfolio Manager –  
SRI Analyst, ESG Policy Officer  
24 years of experience



**Vincent Lapointe, PHD**

Senior Quant SRI Analyst  
9 years of experience



**Arthur Morel**

SRI Analyst  
4 years experience



**Aude Magrez**

SRI Analyst  
2 years experience



**Coura Thiam**

SRI Analyst  
12 years of experience

In addition, all managers have access to ESG information through the proprietary ABA tool and can use it directly in their management process, particularly in the "ESG UCIs" (distributed throughout the teams).

## The data needed for ESG analysis and responsible investing

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 in order to:

- Improve the reliability of issuers' data, including 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 enabling its systematic use (through the use of an "ABA Quant" rating assessed on the entire investment universe)
- Expand the scope of other ESG processes

At the end of this call for tenders, this external data will be integrated into DNCA Finance's information system and the associated usage processes, with an operational target in 2023.

### Providers used :

Provider	Use
MSCI	Raw data / companies
	Taxonomy
	Primary Negative Impact (PAI)
	Physical and transitional risk (VAR Climate)
ISS ESG	Sectoral exclusions
	Controversies
	ESG data States
ISS Ethix	Controversial weapons
ISS Proxy Exchange	Advice on voting at AGMs
CDP	Carbon Data
	Water and soil use data
CDP Temperature Ratings	Induced temperature









## 6. Our range of funds

### A diversified approach, differentiated fund ranges





The implementation of responsible investment within the DNCA fund range is not done in a uniform way - a nonsense in our opinion, if only because of the very wide range of needs expressed by our clients - but according to a diversified approach to meet different sensitivities.

A more detailed approach to the DNCA fund management process is presented in the Transparency Code.

## GAMME BEYOND

		DNCA Invest Beyond Alterosa
		DNCA Invest Beyond Semperosa
		DNCA Invest Beyond Global Leaders
		DNCA Beyond Engage
		DNCA Invest Beyond European Bond Opportunities
		DNCA Invest Beyond Climate

## GAMME RESPONSABLE

		DNCA Sérénité Plus
		DNCA Invest Sérénité Plus
		DNCA Invest Lafitenia Sustain BB
		DNCA Invest Convertibles
		DNCA Convertibles Europe
		DNCA Invest SRI Europe Growth
		DNCA Invest SRI Norden Europe
		DNCA Invest Euro Smart Cities
		NIMI DNCA Global Emerging Equity
		DNCA Actions Européennes
		DNCA SRI Euro Quality
		DNCA Invest Euro Dividend Grower

	DNCA Actions Small & Mid Cap Euro
	DNCA Actions Euro PME
 	DNCA Actions Small & Mid Cap France
	DNCA Invest Sustainable China Equity
	DNCA Invest Global New World
	DNCA Invest Archer Mid-Cap Europe
	DNCA Opportunités Zone Euro
	Centifolia
	DNCA Value Europe
	DNCA Invest Value Europe
	Eurose
	DNCA Invest Eurose
	DNCA Evolutif
	DNCA Invest Evolutif
	DNCA Evolutif PEA

## The BEYOND range of funds/sub-funds

Our Beyond range of funds dedicated to Responsible Investment management was launched in 2018, entirely focused on selecting stocks with positive contributions to sustainable development issues. This range includes funds whose management successively integrates in the stock selection process the issues of Corporate Responsibility Risk and positive contributions to the Sustainable Transition ; moreover, these funds meet the criteria of the SRI Label.

Main features :

- Conviction SRI Management
- Best-in-Universe approach
- Exclusion of ratings < 4/10 in Corporate Responsibility (min 20% of the management universe)
- Voting and Engagement Policy

- Controversial weapons exclusion policy
- Sectoral exclusion policy including companies in violation of UNGC
- Search for positive externalities linked to Sustainable Transition

Within the Beyond range, the following funds are covered by article 9 of the SFDR regulation and have the SRI (France) and Towards Sustainability/Febeffin (Belgium) labels :

- DNCA Invest Beyond Alterosa
- DNCA Invest Beyond Semperosa
- DNCA Invest Beyond Climate
- DNCA Invest Beyond Global Leaders

The following funds are covered by article 8 of the SFDR regulation and have the SRI label (France):

- DNCA Invest Beyond Engage
- DNCA Invest Beyond European Bond Opportunities

An illustration of the management process of a Beyond fund, DNCA Invest Beyond Semperosa, is provided in the appendix.

## **The range of Responsible SRI funds/sub-funds**

Our range of Responsible SRI funds dedicated to Responsible Investment management was launched in 2020. It includes funds whose management meets the criteria of the SRI Label by integrating Corporate Responsibility issues into the stock selection process as a filter to exclude companies with bad practices or exposed to significant reputational issues.

Main features :

- SRI management
- Best-in-Universe approach
- Exclusion of ratings < 2/10 in Corporate Responsibility Risk (min 20% of the management universe)
- Voting and Engagement Policy
- Controversial weapons exclusion policy

All of the funds in our Responsible SRI range fall under article 8 of the SFDR regulation and have the SRI label (France).

Within this range, however, differences may exist depending on the exclusion policies that apply to the funds. There are three possible scenarios:

- Sectoral exclusion policy including specific thresholds on tobacco production, coal-based electricity generation, thermal coal production, unconventional oil and gas production
- Sectoral exclusion policy including specific thresholds on arms production
- No specific exclusion policy (except for the controversial weapons exclusion policy, the coal exclusion policy and the "worst offenders" list)

A more detailed presentation of these lists and the criteria used is given in the document "DNCA Finance Exclusion Policy", available on our website.

An illustration of the management process of a responsible SRI fund, DNCA Invest SRI Europe Growth, is provided in the appendix.

## 7. Annexes

### a) Communication


DNCA Finance uses a wide range of means to inform its customers about its responsible investment policy and strategy.

Content		Means	Frequency
<b>Policies of the management company</b>	Responsible Investor Policy	DNCA Finance website, Print	Annual
	Sustainability Risk Management Policy	DNCA Finance website, Print	Annual
	Policy for Managing Adverse Sustainability Impacts	DNCA Finance website, Print	Annual
	Environmental policy	DNCA Finance website, Print	Annual
	Exclusion policy	DNCA Finance website, Print	Annual
	Shareholder engagement and voting policy	DNCA Finance website, Print	Annual
<b>Management company reports</b>	Environmental pressures report (ex-climate trajectory)	DNCA Finance website, Print	Annual
	Voting and commitment report	DNCA Finance website, Print	Annual
<b>Product information</b>	Transparency code	DNCA Finance website, Print	Annual
	Reporting	DNCA Finance website, Print	Monthly and annual
	SRI Inventory	DNCA Finance website, Print	Semi-annual
	Positive Contribution Reporting	DNCA Finance website, Print	Annual
	Various marketing materials	Communication to customers and distribution networks by any means	
<b>Events</b>	Climate Club	Event	Semi-annual
	Beyond Day	Event	Biennial
<b>Press</b>	Newsletter, Interviews	Website, social networks, specialized news channels	Weekly
<b>Works</b>	Academic book : SRI & Responsible Finance	Book	-
	Educational books : <ul style="list-style-type: none"> <li>"8 keys to understanding SRI</li> <li>"8 keys to understand the climate</li> </ul>	DNCA Finance website, Livret	-
	<ul style="list-style-type: none"> <li>Technical reports on the internal evaluation method for issuers (ABA scores)</li> </ul>	DNCA Finance website	-



**b) "Sustainable Transition" reference framework and linkage with the Sustainable Development Goals**

UN benchmark	DNCA benchmark	
Sustainable Development Goals (UN)	Sustainable Transitions	Activities
11 Sustainable Cities & Communities	Demographic	Access to housing, comfort (BoP)
	Lifestyle	Sustainable mobility
	Demographic	Public transport, traffic regulation
12 Responsible consumption & production	Ecological	Sustainable agriculture
	Lifestyle	Collaborative consumption
	Lifestyle	Dematerialization
	Lifestyle	Eco-design
	Lifestyle	Circular economy
	Lifestyle	Sustainable packaging
	Ecological	Green mobility
	Economic	Sustainable tourism
14 Aquatic Life	Ecological	Waste valorization
	Ecological	Protection of marine biodiversity
15 Earth Life	Ecological	Protection of Terrestrial Biodiversity
3 Health & Wellness	Demographic	Access to basic products and services (BoP)
	Medical	Access to medical care (BoP)
	Medical	Healthy eating, sports
	Medical	Medical diagnostics
	Demographic	Inclusion of seniors
	Medical	Fight against endemic diseases
	Medical	Advanced medicine and innovation
	Medical	Medical robotization
	Medical	Personal care
4 Quality education	Demographic	Access to Education (BoP)
6 Water & Sanitation	Ecological	Treatment and Water Management Efficiency
7 Clean & Affordable Energy	Ecological	Energy infrastructure development
	Ecological	Energy efficiency
	Ecological	Clean energy
	Ecological	Energy storage solutions
8 Economic growth & decent work	Lifestyle	Safety of people

UN benchmark	DNCA benchmark	
Sustainable Development Goals (UN)	Sustainable Transitions	Activities
 Industry, Infrastructure & Innovation	Economic	Access to connectivity (BoP)
	Economic	Access to financial services
	Economic	Certification, quality, product traceability
	Economic	Cybersecurity
	Economic	Sustainable infrastructure development
	Economic	Digitalization of commerce
	Economic	Efficiency of the productive system
	Lifestyle	Artificial intelligence
	Economic	Efficient logistics

### c) Illustration of the management process of a Beyond SRI fund: DNCA Invest Beyond Semperosa

The UN Sustainable Development Goals (SDGs) published in September 2015 designate the priority areas for development on a global scale by 2030. They provide a common frame of reference for action by governments and private actors to address major economic, environmental and social challenges. The fund selects companies with positive environmental and social contributions in relation to the SDGs that we have identified as relevant to the listed equity universe : health and wellness, clean water and sanitation, clean energy, innovative industry and infrastructure, sustainable cities, responsible consumption and production, combating climate change...

#### The definition of the eligible universe is done in two steps :

- Stocks with high liability risks (Liability Risk score below 4 out of 10 in our ABA model) are excluded from the Responsible Universe.
- Stocks with a minimum positive contribution score of 1+ according to our AIM methodology then constitute the "positive contribution" universe.

The AIM rating scale is based on our proprietary model. It assesses how well a company meets the three requirements of Additionality, Intentionality and Measurability that underpin our approach to positive contribution investing.

This analysis is based on the following criteria :

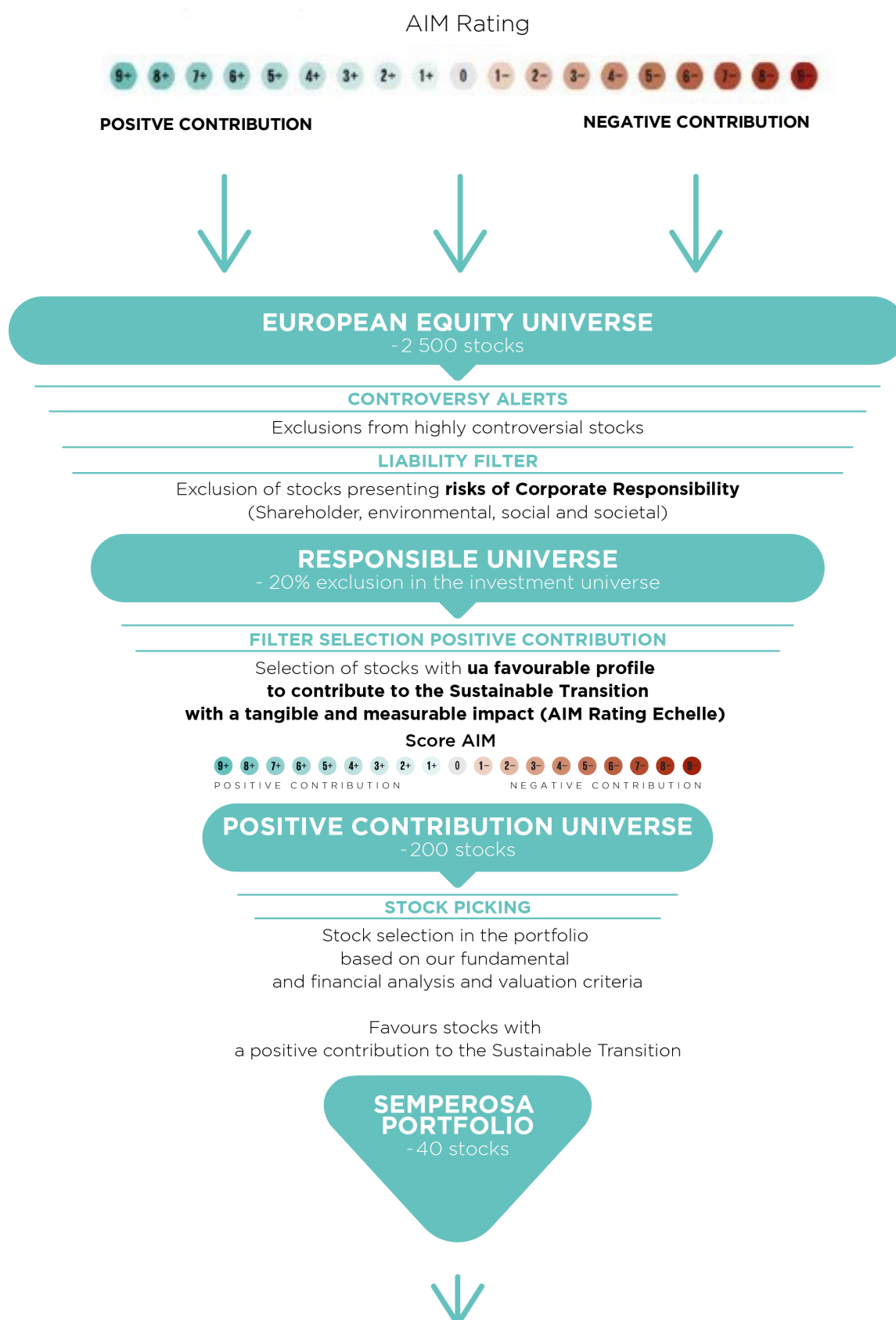
Additionality	Rating	Intentionality	Rating	Measurability	Rating
Company's positioning		Contribution theme		Contributions are	
Above regulation	-/=/+	Integrated in strategy	-/=/+	Disclosed	-/=/+
Above market	-/=/+	Growth driver	-/=/+	Reliable	-/=/+
In line with SDG	-/=/+	Material investments	-/=/+	Material	-/=/+

At the end of the process, an AIM rating scale is used to define the stocks eligible for the portfolio: those with a positive contribution (from 1+).

The selection of eligible securities in the fund is carried out in two stages:

- Extra-financial analysis based on our proprietary ABA (Above & Beyond Analysis) model combining the two dimensions of Corporate Responsibility and Sustainable Transition. Companies with the best profile combining good management of responsibility risks and a real contribution to the sustainable economic transition will be eligible.
- Financial analysis (fundamental quality, valuation and liquidity) determines the entry of a security in the portfolio and its weight.

Transparency and measurement of the positive contribution are necessary. Transparency is a major issue for responsible investment funds and in particular for positive contribution funds. Thus, the fund systematically proposes financial and extra-financial indicators in its reporting. In particular, the fund measures its exposure to Sustainable Transition issues and communicates the portfolio's breakdown according to this level of exposure.

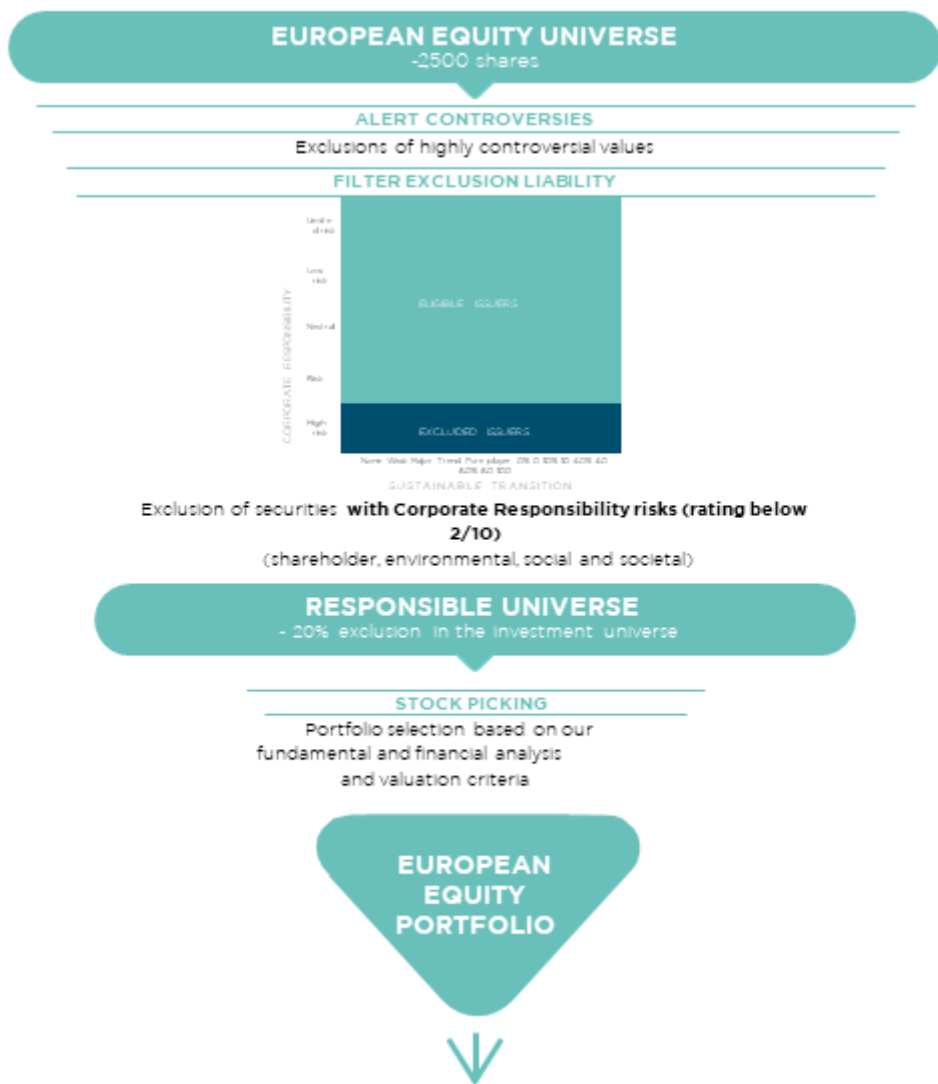


**d) Illustration of the management process of a responsible SRI fund: DNCA Invest SRI Europe Growth**

This strategy excludes companies with high corporate responsibility risks in its stock selection process.

The fund is based on the proprietary ABA (Above and Beyond Analysis) model. All portfolio companies are analysed through two axes : Responsibility Risk and Sustainable Economic Transition, which reflect an in-depth analysis of long-term economic, environmental, and societal trends.

In this way, the management controls the risks linked to sustainable development issues. **Companies with a Corporate Responsibility rating below 2 are excluded from the investment universe.**



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