Sustainability reporting

DNCA INVEST - BEYOND GLOBAL LEADERS

Summary

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

The Sub-Fund has a sustainable investment objective within the meaning of Article 9 of the European Regulation (EU) 2019/2088 known as Sustainable Finance Disclosure (SFDR). The financial product's investments do not cause significant harm to any of the sustainable investment objectives insofar as the indicators relating to negative impacts are taken into consideration in the corporate responsibility rating of our in-house tool and the sustainable investments comply with the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles.

The Compartment is managed according to the principles of sustainable and responsible management and aims to achieve significant exposure to the 17 United Nations Sustainable Development Goals, with a minimum threshold of 50% of the consolidated sales of the entities held in the portfolio (excluding cash, derivatives and money market funds).

The investment strategy applied to the Sub-Fund is based on three steps: the exclusion of companies presenting high risks in terms of corporate responsibility; the selection of companies identified as meeting the Sub-Fund's sustainable strategy objective; and the construction of a portfolio based on fundamental analysis, liquidity and valuation of the companies considered.

As such, the Sub-Fund aims to invest at least 100% of its net assets in sustainable investments, including at least 3% with an environmental objective aligned with the EU taxonomy and at least 1% with a social objective.

To assess the achievement of the sustainable investment objective, controls are carried out through the use of indicators (e.g. the ABA internal rating method). The data used in this context comes mainly from public sources and external service provider databases. Consequently, there may be limits to the availability and quality of this data.

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

The financial product does not have a benchmark index aligned with the sustainable investment objective.

No significant detriment to the sustainable investment objective

The financial product's investments do not cause significant harm to any of the sustainable investment objectives insofar as the negative impacts of companies' activities on social and environmental objectives are directly integrated into the ABA Corporate Responsibility Rating (which integrates the indicators of negative impacts on sustainability factors in Table 1 of Appendix 1 of the SFDR RTS), and may result in a downgrading of the ABA rating below the minimum rating.

In this context, DNCA Finance implements the following exclusions in line with its exclusion policy:

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

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

The minimum rating of 4 out of 10 (corporate responsibility according to the ABA tool developed in-house) is in line with the objective of not causing significant harm to social or environmental objectives.

In addition, the main negative impacts are included in the key performance indicators (KPIs) collected for the analysis. Issuers whose main negative impacts are severe will be given a poor corporate responsibility rating (CR rating). A minimum score of 4 out of 10 is therefore consistent with the approach of not causing significant harm to environmental or social objectives.

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

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

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

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

Sustainable investment objective of the financial product

The Compartment's objective is sustainable investment within the meaning of article 9 of the SFDR. The Sub-Fund is managed according to the principles of sustainable and responsible management and aims to achieve significant exposure to the 17 United Nations Sustainable Development Goals, with a minimum threshold of 50% of the consolidated sales of the entities held in the portfolio (excluding cash, financial derivatives and money market funds).

In order to achieve the Sub-Fund's sustainable investment objective, DNCA Finance has identified global environmental and sustainability challenges, which include (but are not limited to) climate change mitigation and adaptation. These sustainable investment objectives may be clarified and updated by DNCA Finance from time to time. In this case, the Prospectus will be updated accordingly at the time of the first subsequent update.

The investment strategy is geared towards a low-carbon economy, leading to a portfolio carbon footprint lower than that of the benchmark index.

To be eligible for the investment universe, issuers must comply with the following criteria, which are based on a "pass-fail" approach:

- a minimum of 5% of revenues exposed to the SDGs, according to the internal ranking framework based on sustainable transition activities (demographic transition and/or healthcare transition and/or economic transition and/or lifestyle transition and/or ecological transition), as stipulated below under the investment strategy section.

- a minimum corporate responsibility score of 4 out of 10 (taking into account controversies and major negative impacts) combined with the exclusion policy, incorporating the principle of "Do no material harm" for any environmental or social objective (see above).

- a minimum governance score of 2 out of 10 (corporate governance practices).

Within this framework, the investment process and resulting *stock-picking* take into account an internal rating based on corporate responsibility and the sustainable transition of companies based on extra-financial analysis using a proprietary tool developed by the Management Company, with a "*best in universe*" approach. There may be a sector bias.

The Sub-Fund does not use a benchmark index to achieve its sustainable objective.

Investment strategy

The investment process applied to the Sub-Fund is based on the following three steps:

- Exclusion of companies with high corporate responsibility risks (minimum rating of 4/10 according to DNCA Finance's internal model). This selection meets the requirements of the French SRI label;
- Selection of companies identified as meeting the Sub-Fund's sustainable strategy (i.e., reducing carbon emissions to meet the Paris Agreement's long-term global targets on global warming);
- Portfolio construction based on fundamental analysis and the liquidity and valuation of the companies under consideration.

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

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

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

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

Corporate responsibility is analyzed by the ABA tool according to four fundamental principles:

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

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

Sustainable transition focuses on the positive impacts generated by companies through their activities, products and services. The aim is to determine whether or not a company is contributing to sustainable transition. In the model, this pillar has been broken down into 5 major themes: demographic transition (inclusion of senior citizens, access to education, etc.), medical transition (access to healthcare, medical diagnosis, fight against endemics, etc.), economic transition (infrastructure development, digitization, access to connectivity, etc.), lifestyle transition (extension of product lifestyles, circular economy, sustainable mobility, etc.) and ecological transition (renewable energies, biodiversity, green mobility, etc.). Some 34 activities contributing to sustainable transition have been identified and integrated into the model. Sustainable transition includes the United Nations' Sustainable Development Goals.

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

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

Proportion of investments

The Sub-Fund aims to invest at least 100% of its net assets in "sustainable investments" (of which at least 3% in sustainable investments with an environmental objective aligned with the EU taxonomy and at least 1% in sustainable investments with a social objective).
This percentage of net assets does not include cash, cash equivalents, derivatives, money market instruments and funds.
These exclusions may fluctuate over time and are held on an ancillary basis, either for hedging purposes, to manage portfolio liquidity and/or to reduce any specific financial risk.

Monitoring the sustainable investment objective

To assess the achievement of the sustainable investment objective, controls are carried out using the following indicators :

- ABA internal rating ;
- Transition to a sustainable economy rating;
- Portfolio carbon footprint (expressed in tCO_2/million USD invested);
- Exposure to the United Nations' Sustainable Development Goals (SDGs).

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

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

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

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

- Compliance of SRI-labeled funds monitored in ABA with the relevant label standards;
- No investments are made in issuers targeted by exclusion policies;
- Minimum AIM, sustainable transition and climate (transition/contribution) ratings are met;
- Other SRI constraints specific to certain UCIs.

Methods

The indicators used to measure the Sub-Fund's achievement of its sustainable investment objective are as follows:

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

Data sources and processing

The data used to achieve the Sub-Fund's sustainable investment objective comes from public sources, databases from specialized external service providers, direct dialogue with issuers and internal analysis by DNCA Finance.

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

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

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

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

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

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

DNCA INVESTMENTS

Service providers used :

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

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

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

Limitations to methods and data

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

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

These limitations may affect the comparability and accuracy of ESG assessments, but do not affect the achievement of the sustainable investment objective, as DNCA Finance opts for a continuous approach to ESG processes in order to overcome these shortcomings. DNCA Finance has therefore opted for a gradual approach to the deployment of ESG policies, to enable a pragmatic application and integration of ESG issues in all links of its value chain.

Due diligence

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

Investments are reviewed in accordance with the responsible investment policy and the exclusion policy.

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

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

The principles adopted by DNCA Finance are :

- The management of impacts for which DNCA Finance targets quantitative objectives (carbon footprint and induced temperature of portfolios in particular);

DNCA INVESTMENTS

- Measuring and steering biodiversity footprint indicators: water management and land use.
  land use.

Commitment policies

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

This policy is based in particular on :

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

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

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

Sustainable investment objective

The financial product does not have a benchmark index aligned with the sustainable investment objective.