Sustainability disclosure

DNCA INVEST - GLOBAL EMERGING EQUITY

Summary

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

The Sub-Fund promotes environmental and social characteristics within the meaning of Article 8 of the European Regulation (EU) 2019/2088 known as Sustainable Finance Disclosure (SFDR) and although it does not have sustainable investment as its objective, it contains a minimum share of 20% of sustainable investments.

The characteristics promoted by the Sub-Fund are Governance, the Environment and Societal criteria. In promoting these characteristics, the Sub-Fund will take into account ESG factors specific to each pillar.

The Sub-Fund is managed using ABA (Above and Beyond Analysis), an internally developed analysis tool, and a restrictive Exclusion policy.

The investment strategy applied to the Compartment is based on the selection of the investment universe, combining a financial (quantitative and microeconomic) and non-financial (qualitative) approach in two stages: the selection of issuers according to the financial approach described below, and the exclusion of issuers that present a high risk profile in terms of corporate responsability risk or are exposed to major controversies.

As such, the Sub-Fund aims to invest at least 80% of its net assets in investments that comply with the environmental and social characteristics it promotes, and 20% of these assets are directly invested in sustainable investments.

To assess whether investments comply with these characteristics, checks are carried out using indicators (e.g. the ABA internal rating method). The data used for this purpose comes mainly from public sources and external service provider databases. Consequently, there may be limits to the availability and quality of this data.

In addition, DNCA Finance has implemented due diligence on underlying assets by 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 investment approach.

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

Sustainable investment

This financial product promotes environmental or social characteristics, and although it does not aim to be a sustainable investment, it does contain a minimum of 20% sustainable investments.

These investments do not materially prejudice any of the sustainable investment objectives insofar as the negative impacts of corporate activities on social and environmental objectives are directly integrated into the ABA Corporate Responsibility Rating (which integrates indicators of negative impacts on sustainability factors in Table 1 of Appendix 1 of the SFDR RTS), and may result in a downgrade 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 & gas**: DNCA Finance will progressively exclude companies involved in thermal coal and unconventional oil & 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 United Nations Global Compact are included in DNCA Finance's list of "worst offenders" and excluded from all portfolios.

In addition, the main negative impacts are included in the Key Performance Indicators (KPIs) collected for the analysis. Issuers with serious major negative impacts will be given a poor corporate responsibility rating (ABA). A minimum score of 2 out of 10 is therefore in line with the approach of not causing significant harm to environmental or social objectives.

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

Issuers subject to controversy or serious violations of United Nations Global Compact principles (human rights or anti-corruption) on the basis of the internal approach are excluded from the portfolio via the Worst Offenders List 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 "serious offenders" 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) Inclusion of issuers identified as having committed a "serious violation" in the list of worst offenders.

Environmental or social characteristics of the financial product

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

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

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

- **Environmental**: GHG emitters, air pollution, water pollution, water consumption, land use, etc;
- **Social**: Exorbitant CEO compensation, gender inequality, health and safety issues, child labor, etc.; and
- **Governance**: Monitoring of corruption and influence peddling, tax evasion, etc.
- **Overall ESG quality rating**.

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 a non-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 the ESG characteristics it promotes.

Investment strategy

The investment process applied to the Sub-Fund is based on the selection of the investment universe combining a financial (quantitative and microeconomic) and non-financial (qualitative) approach in two stages:

- **Selection of issuers** according to the financial approach described above;
- **Exclusion of issuers** with a high corporate responsibility risk profile (rating below 2/10 according to the proprietary ESG tool) or exposed to major controversies. This filter excludes a minimum of 20% of issuers based on the non-financial analysis described above.

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

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

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

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

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

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

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

Proportion of investments

The Sub-Fund aims to invest at least 80% of its net assets in investments that comply with the environmental and social characteristics it promotes, and 20% of these assets are directly invested in sustainable investments.

The remainder of the Sub-Fund's net assets will consist of derivative financial instruments, sight deposits, money market funds, money market instruments and other deposits used for hedging and/or exposure purposes and efficient portfolio management, as well as to manage portfolio liquidity or reduce any specific financial risk.

Checking environmental and social characteristics

To assess whether investments comply with the environmental or social characteristics promoted by the Sub-Fund, checks are carried out through the use of the following indicators:

- ABA internal rating ;
- The rating of the transition to a sustainable economy;
- Portfolio carbon footprint (expressed in tCO2/million USD invested);
- Exposure to the United Nations Sustainable Development Goals (SDGs).

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

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

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

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

- No investments are made in issuers targeted by Exclusion policies;
- The minimum AIM, sustainable transition and climate (transition/contribution) ratings are respected.

Methods

The methods used to determine the Sub-Fund's achievement of social or environmental characteristics are as follows:

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

Data sources and processing

The data used to achieve each of the environmental or social characteristics promoted by the Sub-Fund come from public sources, databases from specialized external service providers, direct dialogue with issuers and internal analysis carried out by DNCA Finance.

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

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

Estimated data is only used when it is sourced **from specialized external service providers** (such as MSCI, CDP or equivalent) and concerns specific cases such as the drawing up of exclusion lists (normative or sectoral) or the calculation of DNCA Finance's climate trajectory, as presented in particular in the environmental pressures report. This approach bears witness to our commitment to both transparency and rigorous integration of ESG criteria into our investment processes.

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

- Improve the reliability of issuers' data and indicators of impact on climate and biodiversity;
- Fill in information on activities aligned with the EU Taxonomy;
- Enrich the existing ESG analysis process (notably by integrating physical and climate risks) and enable its systematic use (via the use of an "ABA Quant" rating assessed over the entire investment universe);
- Extend the scope of application of other ESG processes.

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

Service providers used :

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

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

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

Limitations to methods and data

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

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

These limitations may affect the comparability and accuracy of ESG assessments, but do not influence the extent to which the promoted environmental or social characteristics are achieved, as DNCA Finance opts for a continuous approach to ESG processes in order to overcome these shortcomings. DNCA Finance has therefore opted for a gradual approach to the Deployment of ESG policies, to enable a pragmatic application and integration of ESG issues throughout its value chain.

Due diligence

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

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

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

- Identify the nature of the negative impacts (ESG impacts) associated with its investment activities;
- Evaluate and prioritize negative impacts;
- Manage (prevent, mitigate, stop) some of the negative impacts;
- Monitor the implementation of results (measure the effectiveness of actions);
- Adjust the negative impact management strategy if necessary.

The principles adopted by DNCA Finance are :

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

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

Engagement policies

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

This policy is based in particular on :

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

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

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

Benchmark index

The Sub-Fund's benchmark index does not meet the environmental or social characteristics promoted by the Sub-Fund.