

QUARTERLY SUSTAINABILITY REPORT - 31 MARCH 2022

DPAM B EQUITIES
SUSTAINABLE FOOD TRENDS

Sub-fund of DPAM B

DEGROOF PETERCAM ASSET MANAGEMENT

DPAM B EQUITIES **SUSTAINABLE FOOD TRENDS**

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DEAR PARTNER,

The War in Ukraine is a daily reminder of how precious freedom and democracy are, and how essential security is. Paradoxically, it is in this context that so-called sustainable ESG investments are experiencing a certain identity crisis. Indeed, almost unanimously, these investments exclude the defence sector because they do not finance armaments. Furthermore, while sector biases are not systematically comparable, the underweighting of the energy sector in a context of rising prices (and therefore relative outperformance) is also a constant in these investments.

War in Ukraine and armaments

Sustainable investments are generally not exposed to the defence sector for ethical reasons. Most European labels on the market require, in addition to the generalised legal exclusion of controversial armaments, the full exclusion of weapons and armaments.

The current conflict brings the whole **divestment versus engagement debate back into focus.** However, it is highly unlikely that such investments will return to the issue of arms exclusion. Beyond financial performance, sustainable skills and the defence of values are equally important to these types of investments.

Relocation and democracy

Europe has relocated strategic industries such as semi-conductors or telecoms to third countries in Asia, and now depends on states with disputable democratic standards. While climate continues to dominate ESG research, the pandemic had already brought social issues, and in particular employee's safety, to the forefront. Today, it is the governance issue of respect for political rights and civil liberties that is being highlighted.

The "G" dimension refers to corporate governance and business ethics for corporates. Similarly, for countries and investments in sovereign bonds, this refers to institutions and democratic requirements.

Sustainable investments tend not to finance certain countries that do not respect minimum democratic standards or that are under embargo. However, most sustainable sovereign bond investments remain exposed to countries such as Russia or China, as traditional market indices do, and **this calls into question the credibility** of the responsible and sustainable approach.

When DPAM launched its first strategy investing in sovereign bonds with a sustainable overlay, it clearly put the respect of civil liberties and political rights in the heart of its proprietary model. When we launched the expertise back in 2013, the question of democratic values in emerging countries was key and challenging. Here are some key highlights we took into account to deal with this predicament:

- DPAM does not have the legitimacy to determine whether a country is democratic or not.
- Academic research has demonstrated the correlation between the quality of a country's governance institutions and its default risk.
- Empirical evidence demonstrates that when a country is in default, the sovereign bonds issued in hard currencies are impacted; the country does not default on the local currency issued bonds, which are in the hands of the population. Russia is the only example of a country which defaulted on the local currency bonds.

We decided therefore that the strategy will not invest in countries that do not meet minimum democratic requirements, as stipulated by external, independent experts. Freedom House issues an annual survey on the level of democracy in the world and classifies countries according to three statuses: 'free', 'partially free' and 'non-free'. The Democracy Index, published by the Economist Intelligence Unit, publishes an annual survey on democracy as well with four categories: 'democracy', 'flawed democracy', 'hybrid regime' & 'authoritarian regime'. As exclusion is a severe decision, which closes the door to progress and engagement, we decided to exclude countries which are 'non-free' and confirmed as 'authoritarian regimes' from our sustainable emerging market strategy. Independently of the weight of some countries like China or Russia in the benchmark, we have not invested in countries which do not meet these minimum requirements.

It should also be noted that, in terms of democratic requirements, the NGO Freedom House publishes an annual report on the state of democracy in the world and, in recent years, has issued constant warnings on the decline of global democracy, including Europe's democracy.

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Country versus corporates

Sustainable investments generally differentiate between the country (and the investment in government bonds) and the companies located in it. Thus, an investment in Russian government debt and an investment in a company located in Russia should be looked at separately. However, while the two are distinct, the line is not so clear-cut. The close link between state-owned companies such as Gazprom and the reigning dictatorship hinders most responsible investors.

However, the situation is rarely black and white. Several examples of investments in Chinese companies have demonstrated involvement in human rights controversies related to government policy despite the privatisation of the companies.

The example of the American microprocessor manufacturer Intel apologising following the negative reactions to its letter inviting its suppliers not to source products or labour from the Chinese region of Xinjiang is telling in this respect. **The situation is therefore complex, and the relocation of key operations is at the heart of the debate.** Beyond the concern for sustainable strategies, we should also consider relocating European key industries to the West.

Rising energy prices

The rise in energy prices is detrimental to the relative performance of sustainable investments and could lead to a reallocation of these to so-called mainstream investments, with greater exposure to the energy sector.

However, this fear of a flow reversal is limited. On the contrary, the energy crisis and the geopolitical situation could lead to an acceleration of the energy transition, which is at the heart of the objectives of sustainable investments.

On the one hand, the latest IPCC report is unequivocal: climate change is a scientifically-proven threat to human welfare and global health. On the other hand, several countries such as the UK and Germany have further strengthened their renewable-energy policies and projects.

The 6th Assessment Report on Climate Change (IPCC) shows a 14% increase in greenhouse gas emissions since the signing of the Paris Agreement in 2015. Even though signatories have committed to a 45% reduction by 2030, last year was a record year in terms of carbon emissions. To have a chance at limiting global warming to 1.5% by 2100, greenhouse gas emissions must peak by 2025.

Without debating the issue of a credible universal carbon pricing and potential taxes, this implies an aggressive decarbonisation and a real financing of the energy transition, i.e., reorienting financial flows towards the latter.

Today, the European taxonomy (and other smaller taxonomies that are emerging outside the European continent) is the only relatively effective instrument to achieve this objective, although it does come with its share of weaknesses in terms of investment opportunities. However, the extension to the other 4 environmental objectives should already partly correct this situation.

The paradox of sustainable investments

In conclusion, sustainable investments are in a paradoxical situation today. On the one hand, the War in Ukraine reminds us of the importance of key values such as democracy, security, and freedom. Values that should be at the heart of a sustainable approach to SRI qualified investments.

On the other hand, the almost standardised exclusion of the defence and armaments sectors and the strong and generalised underweighting in the energy sector might work against this type of investments. We could see some relative and temporary underperformance. This is why we have to remember that financial performance is just as important as the credibility of the sustainable value of these investments: Above all, sustainable investments aim to guide governments and companies toward inclusive growth and sustainable performance in the medium-to-long term.

European regulations, in particular the SFDR, are clear on this point: the so-called Article 9 (dark green) products of the SFDR classification put the sustainable objective ahead of any other objective, financial or otherwise. The reference framework remains the European Commission's action plan for sustainable finance, i.e., financing a sustainable and inclusive energy transition. Scientific evidence also reminds us that short-term greed will not be beneficial and that it is important **to constantly question the core values that companies and states promote or neglect. In the end, it is all about impact and value alignment.**

Ophélie Mortier
Chief Sustainable Investment Officer

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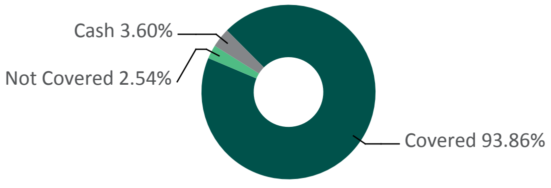
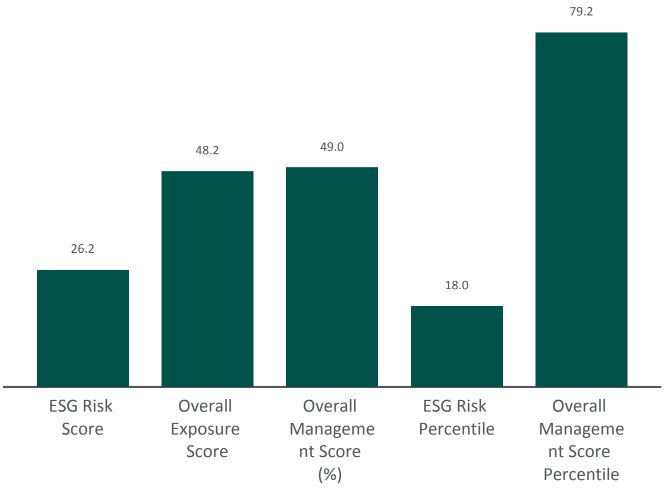
ESG PROFILE

ESG scores coverage rate



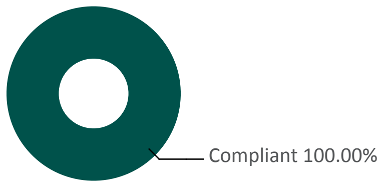
Source: Sustainalytics, DPAM

ESG Risk Scores



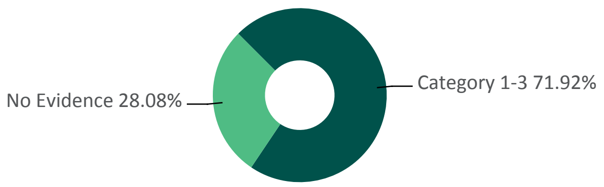
Source: Sustainalytics, DPAM

Compliance with the recognized Global Standards



Source: Sustainalytics, DPAM

Severity of controversy exposure



Source: Sustainalytics, DPAM

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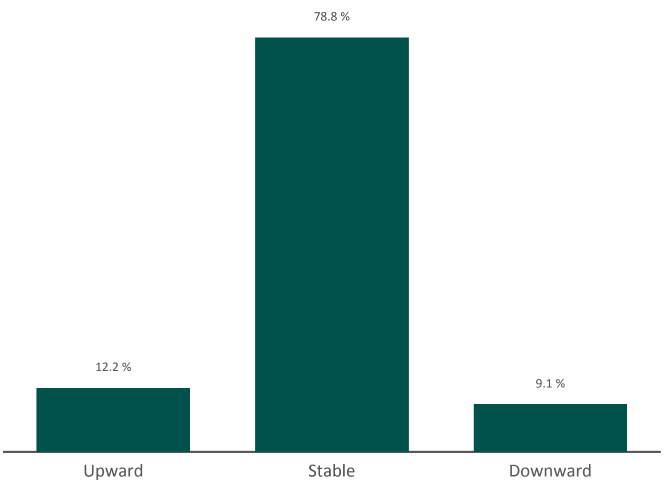
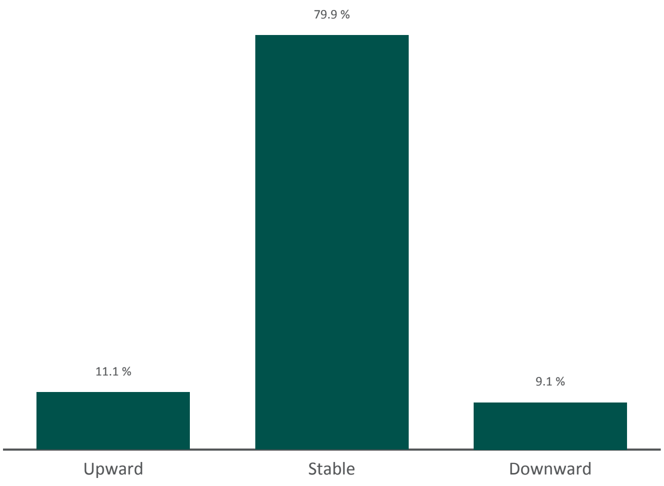
ESG PROFILE

ESG risk score momentum

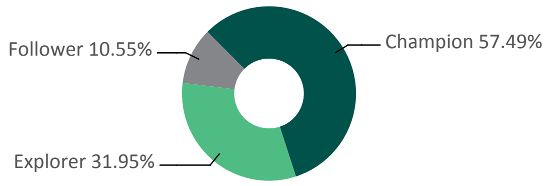


Source: Sustainalytics, DPAM

ESG management score momentum



DPAM sustainability profiles (proprietary classification)



Source: Sustainalytics, DPAM
**For more detailed explanations about the five categories, please refer to the Lexicon at the end of this report.*

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ESG PROFILE

ESG Score

The ESG profile of the portfolio remained fairly stable compared to the last quarter of 2021. All portfolio companies are UN Global Compact compliant, and none of the investees is exposed to a controversy level (note that controversy level companies are by default excluded from the investible universe).

During the first quarter of the year, several changes were made to the portfolio. As such, **Select Harvest** and **Kalera** were sold. Both companies were sold due to fundamental concerns. Although Kalera's products and services are innovative, our portfolio managers have some concerns on the profitability of its business model.

Proceeds were invested in two new initiations: **Tate & Lyle** and **Robertet**. The former is a UK-based provider of food and beverage ingredients and solutions to industrial markets. Originally founded as sugar refining business, it diversified operations and eventually divested the sugar refining business in 2010. Nonetheless it still has a majority stake in a commodity business with large exposure to high fructose corn syrup, mainly used in soft drinks. However, the partial sale was announced, and the company is clearly targeting a full exit over time. This triggered our portfolio managers' and analyst's conviction as the company's remaining business exposure is more skewed towards sugar reduction through sucralose and stevia (next to fibers and texturants), an interesting play given the healthier eating and drinking trends and regulatory scrutiny. Both products are amongst others used in Splenda, a global brand of sugar substitutes and reduced-calorie food products.

Robertet is considered as one of the main suppliers of natural extracts (flavors and fragrances) and ingredients, supplying the consumer and perfume industry. Remarkably, the strength of the company's business mainly sits in its (strategical) partnerships with growers from all over the world and in the extraction technology that enables it to supply specific flavors or fragrances. Some other noteworthy highlights from a sustainability perspective are:

- **Security of supply chain:** the company diversifies its supply chain (less single source), applies safe stock management based on thresholds, implements pre-financing for crops as well as financial support (e.g. destillation or extraction, seeds), next to technical support, agricultural/environmental practices exchange (and defined a policy for the application of Good Agricultural Practices or "GAP" in 2017. Suppliers commit to respecting GAP by signing the ethical charter) and the strategic importance of suppliers is assessed and followed-up/guarenteed via partnerships or joint ventures.
- **Traceability of supplies:** Robertet reaches an impressive 82% traceability for the supply of raw materials sourced under its long term partnerships (up from 53% in 2018).
- **R&D and health/nutrition offering:** the company focuses on a green chemistry program in R&D and developed a new horizon strategy for its flavor division (focus malnutrition, obesity, climate). Furthermore, Robertet aims to (1) Increase natural ingredients in compositions, (2) increase renewable and biodegradable products, (3) green chemistry product assessment. Its products also target low salt/sugar/fat, increase plant protein offering through a nutritional innovation program/function product development.

Small updates on the social unrest results in a strike at Deere

Last quarter of 2021 we highlighted social unrest over wages (due to wage stagnation over the past years), retiree health benefits, working hours and conditions eventually resulted in strikes at multiple US sites of Deere, the manufacturer and distributor of agricultural, forestry and construction equipment. The strike continued for about five weeks, and resulted in operational impacts, mainly with delays on the shipment of parts, while at the same time gaining support in European sites. Eventually, even a Deere Strike Rank-and-File Solidarity Committee was launched by the employees, as support from the United Auto Workers union is lacking (most likely due to corruption). Although a 6-year lengthy agreement has been reached (including a USD 8,500 signing bonus, a 20% increase over six years, a 10% increase in 2021, three 3% lump sum payments and enhanced retirement options), concerns over the true value of the contract and agreement, the way it has been put in place and agreed upon by employees, was raised by several organizations and workers. Can we expect future social unrest? And will the company face additional operational impact of the five weeks strike? Definitely something to watch out for. For now, it seems like the company and unions have approved a new collective agreement. Furthermore, the dismissal of 11 employees in Getafe, Spain caused some controversy at the start of the quarter, but was solved later on. Under the agreement, the employees will be relocated or compensated via the voluntary redundancy plan.

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ESG Score Momentum

In terms of ESG momentum tracking (performance), we switched to Sustainalytics' overall risk rating and ESG risk management scores. Several companies have been assigned a higher ESG risk management score (note that we take scoring changes into account as of a 5% change). They represent 11.2% of portfolio assets. The bulk of companies have maintained their previously assigned score (79.9% of assets), and another part received a lower ESG risk management score (9.1%).

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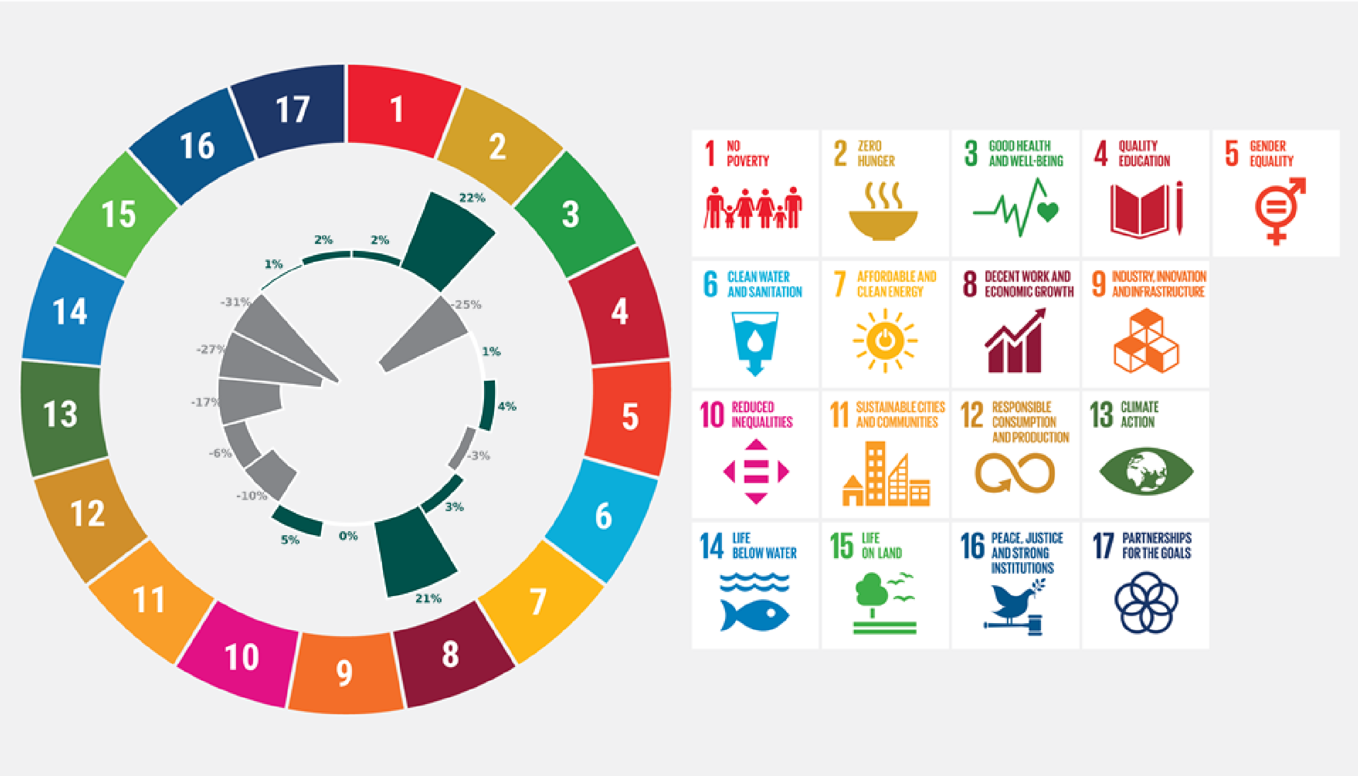
ESG IMPACT

Net SDG alignment scores



Source: Util, DPAM

As stated in past quarterly reports, it is important to **look into the objectives of the companies** that the fund invests in. The analysis process we have developed looks at the ESG impact of the portfolio using the United Nations' 17 Sustainable Development Goals as a starting base. We have defined four major impact themes based on SDGs, namely climate change and stability, natural capital, essential needs and empowerment. Companies that objectively offer solutions to sustainability challenges by means of their products and/or services are included in the relevant thematic categories.

As a reminder, new positions are selected on fundamental as well as ESG-related grounds. A diversified approach across the whole agri-value chain and a focus on sustainability, in line with the UN SDGs, remain core elements of the fund's process.

Some noteworthy sustainability news can be shared for the 1st quarter of the new year. On a positive note, notably **DSM** received good news from EU regulators, whereas **Tate & Lyle**, a position initiated in January, already provided some positive M&A news at the end of the 1st quarter. Also **Deere** (the US-based agricultural machinery provider) further strengthens conviction with new announcement on its 'See and Spray' technology. Furthermore, we engaged with our close-contact taste and nutrition company **Kerry** on its executive remuneration.

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DSM will be tackling methane emissions in Europe

Last quarter we provided an update on DSM's Bovaer product, which is a unique feed additive that reduced methane emissions from cattle by over 30% as it gained market authorization in South America while also receiving positive feedback from the European Food Safety Authority. The latter was now confirmed as the European Union (EU) member states approved the marketing of Bovaer in the EU. This is remarkable news since it is the first time a feed additive authorised in the EU for environmental benefits can be marketed. Knowing the company has a €100m sales target by '25, sufficient production will be put in place (i.e. the construction of a new plant) to start the commercialisation phase.

Remember that Methane has a significant Global Warming Potential (28 times bigger than carbon), and hence tackling those emissions is a significant short-term mean to limit global warming. With the Global Methane Pledge launched at COP26, which target a 30% reduction by 2030, countries will increasingly start focusing on tackling these emissions.

New company initiation bringing good news: Tate & Lyle in the picture

Around the end of the 1st quarter, **Tate & Lyle** announced the acquisition of Quantum Hi-Tech Biological, a Chinese producer of probiotic fibres. Probiotics are products that support the human digestive system, hence providing positive health benefits.

During the second half of the 1st quarter, **Deere** announced the launch of its 'See and Spray' technology. Through the application of the technology, Deere expects to reduce herbicide applications by up to 77%. With increased regulatory scrutiny on herbicide use (due to its negative effects on biodiversity), especially in Europe with the Farm-to-Fork Strategy (and potentially expanding), but also due to resource efficiency gains, the technique itself might be an interesting value proposition for its clients.

Kerry: continuing the dialogue

It seems to become tradition to provide an update on Kerry in these quarterly updates. Early in the quarter, Kerry pro-actively reached out to discuss its remuneration policy ahead of the Annual General Meeting. The proposals were thoroughly discussed and deemed reasonable. As such, we are in favor of aligning executive director performance and 2021 reward by applying a discretionary adjustment of the vesting level for the 2019 Long Term Incentive Plan award (only to be vested in 2022) to 50%, i.e. shifting away from the formulaic outcome of 18%. This decision is driven by multiple reasons, amongst other the impact of COVID and lockdowns on the financial performance, the (voluntary!) reduced CEO remuneration in 2020 (42%!), below average executive director remuneration for 2020 and 2019 versus FTSE 50 peers, and also the strategic shifts the company is making (disposing the Meats & Meals business and acquiring Niacet to create a leading player in food preservation).

Unfortunately, also some concerns over Sodexo's latest corporate governance action

On a negative note, **Sodexo**'s stock price suffered after announcing some changes to its management, namely a new CEO with family ties. Furthermore, the new CEO will combine the role with Chairmanship of the Board, something triggering concerns amongst shareholders.

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CARBON ANALYSIS

Carbon intensity

	Carbon intensity (tCO2e/$M revenue)	Coverage rate carbon metrics
Fund Scope 1+2	598.88	93.24
Fund Scope 1+2+3	1'039.69	-

Source: Trucost, DPAM

Top 5 contributors to the carbon intensity of the fund

Name	Sector	Portfolio weight (%)	Contribution to the carbon intensity (%)
Cf Industries Holdings, Inc.	Materials	5.87	47.61
Oci N.v.	Materials	4.77	23.96
Nutrien Ltd.	Materials	5.66	6.65
M.p. Evans Group Plc	Food, Beverage & Tobacco	1.58	4.68
Sao Martinho S.a.	Food, Beverage & Tobacco	2.43	3.93

Source: Trucost, DPAM

Top 5 companies with the highest carbon intensity

Name	Sector	Portfolio weight (%)	Carbon intensity (tCO2e/$M revenue)
Cf Industries Holdings, Inc.	Materials	5.87	4'536.22
Oci N.v.	Materials	4.77	2'809.40
M.p. Evans Group Plc	Food, Beverage & Tobacco	1.58	1'652.18
Kws Saat Se & Co. Kgaa	Food, Beverage & Tobacco	1.26	1'171.30
Sao Martinho S.a.	Food, Beverage & Tobacco	2.43	901.87

Source: Trucost, DPAM

The portfolio exhibits a fairly high carbon intensity (both in terms of scope 1 & 2 emissions, as for a combination of all emissions scopes). Compared to the end of last year, the intensity significantly increased due to the overweight of fertilizer names. Especially **CF Industries**, which remains the largest contributor to the portfolio's carbon intensity and **OCI**.

The exposure to the fertilizers industry is significant, however, with the aim of feeding over 7.5 billion people worldwide, the use of fertilizers can likely not be removed from the food system. Nonetheless, we developed dedicated climate risk assessment to assess the companies' positioning towards the energy transition (e.g. green ammonia developments). Referring to the 2020 green ammonia announcements within the fertilizers' industry, one of them concerns CF Industries. In October 2020, the company announced several climate-related initiatives. A first interesting announcement is a 20,000-ton green ammonia project at its Donaldsonville complex (US) for $100M, in partnership with ThyssenKrupp and Haldor Topsoe. Although this is still a small project, it's an important step towards more climate-friendly fertilizers' production. In addition, the company announced several carbon abatement projects as well as a new ESG goals/initiatives including targets to lower carbon emissions by about 25% by 2030. Interestingly, executive compensation is linked to these goals, which increases credibility, something which is aligned with our governance expectations and aligned with our engagement priorities. Note that its ammonia handling expertise (production, storage, distribution) also puts the company is a position to participate in the hydrogen market development.

Ammonia might play an important role in the development of the hydrogen economy. Hence, the fertilizers' industry should be monitored closely, as their transportation, storage and production experience might offer opportunities for the further (rapid) roll-out of the hydrogen economy. If you want to know more about the hydrogen economy and ammonia's role, please visit our DPAM Podcast website .

Nonetheless, following an ESG assessment of CF Industries and OCI, it was agreed to engage with both companies on the feasibility of Science-based Target setting for GHG reductions. Given some peers already made the commitment (e.g. Nutrien), we are keen on discussing the topic with the companies to get more insights in the state of affairs and future plans.

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SUSTAINABILITY PROCESS

The sustainability process at the heart of our strategies reflects our threefold commitment to responsible and sustainable investments, i.e.:

- To defend the fundamental rights pertaining to the respect for human rights, labor, anti-corruption and environmental protection;
- To assess the seriousness of controversies that issuers may face; to divest or avoid financing companies that are seriously and / or repeatedly involved in controversies, notably when they may affect corporate reputation, long term growth and investments;
- To promote best practices and encourage on-going efforts towards sustainability.

This commitment is reflected in a three-step procedure that defines the eligible investment universe on a quarterly basis:

- Compliance with the recognized Global Standards – strategies do not invest in companies that do not comply with them.
- Assessment of the controversy: in addition to excluding the companies involved in the usual controversial activities (tobacco, armaments, pornography and gambling), the strategies do not invest in the most controversial companies (controversy level 5 (scale from 1 to 5 being the worst) and possibly controversy level 4 and/or 3 in case of a negative assessment by our steering group).
- Qualitative assessment of the ESG profile of companies based on a proprietary model focusing on specific investment themes and subthemes

The **controversies** may refer to three major challenges: environment, social affairs and sound governance. More specifically, they relate to:

- Environment: operations, supply chain and products;
- Social: employees, clients, suppliers, society and local communities;
- Sound governance: business ethics, sound governance and public policy.

Allegations vary according to their severity. This is thoroughly and independently analyzed, based on seven acknowledged criteria:

- Impact of the incident
- Exceptional character
- Scope
- Recurrence level
- Company response
- Management responsibility
- Policies and practices of the company in general

According to these criteria, a score of 1 to 5 is attributed to the allegation the company faces, with 5 being the most severe. This score is reviewed every two weeks.

DPAM reserves the right not to invest in companies with less serious but still major allegations (level 4 or 3 on the scale of 1 to 5). In this context, we engage in a direct dialogue with the involved company and the independent ESG research providers to promote best practices and to deepen our understanding of the allegations in question.

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The Responsible Investment Steering Group (RISG) has complete discretion over the seriousness of the controversy in all circumstances and may therefore, on the basis of an in-depth analysis, make a different decision on the level of controversy severity.

Finally, the companies are ranked in accordance with the quality of their ESG profile in their sector. Given the specific nature of the investment theme, a proprietary sustainability model has been put in place, taking into account the investment themes and sub-themes with its own criteria which are aligned with the sustainable development goals relevant to the investment theme.

The final portfolio is constructed based on fundamental analyses as well as **a qualitative ESG analysis** (i.e. the analysis of material ESG criteria, controversies, etc.). This results in a qualitative ESG analysis which is part and parcel of the investment decision-taking process.

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LEXICON

Carbon Analysis	The carbon analysis aims to assess the carbon footprint of the portfolio, in particular its carbon intensity and its main contributors.
Carbon footprint	The carbon footprint of the portfolio is meant to assess the portfolio's carbon risk in the framework of the transition to a low-carbon economy. In order to do so, the carbon emissions of the various issuers are calculated and reported based on their total revenue. The calculation method is based on the acknowledged methodology of the Global Greenhouse Protocol and takes into account the scope 1 emissions (direct emissions resulting from sources which are the property of or are controlled by the reporting issuer) and scope 2 emissions (direct emissions relating to the energy use (electricity, heat, steam) required to be able to produce the product on offer).
Carbon intensity	The weighted average of the carbon intensity (in tCO2e/$M revenue) measures the portfolio's exposure to high-carbon issuers on the 1 and 2 scopes. These data do not take into account the total amount of emissions generated by the company, in particular those produced downstream by the use of the commercialized products and services, or upstream by suppliers (scope 3 emissions)
Carbon intensity of a country	The carbon intensity of a country differs from that of a corporate. CO2 intensity corresponds with the ratio of CO2 emissions from fuel combustion over Gross Domestic Product (GDP). It measures the CO2 emitted to generate one unit of GDP.
Compliance with the recognized Global Standards	Compliance with the recognized Global Standards i.e. UN Global Compact, ILO instruments, OECD Multinational Enterprises (MNE) Guidelines, UNGPs and Underlying Conventions and Treaties. The Global Standards aims to uphold four fundamental principles: defend human rights, defend labour rights, prevent corruption and protect the environment. Based on specific criteria stemming from the 10 principles of the Global Compact, ESG rating agencies assess the companies' compliance with these 10 principles. The analysis identifies companies which face incidents and severe controversies resulting in violations of these fundamental rights principles. The severity of the controversies and incidents is evaluated based on national and international legislation, but also taking into account international ESG standards, such as the recommendations of the OECD for multinational companies, the conventions of the International Labour organization, the Universal Declaration of Human Rights, etc. The assessment result can be compliant, watch list or non-compliant.
Countries' ESG scores	The ESG score of the portfolio is the weighted average ESG score of the countries issuing the debt in which the portfolio is invested. These are weighted according to their weight invested in the portfolio at the end of the quarter. For each country the portfolio invests in, the proprietary model developed by DPAM on country sustainability attributes a total ESG score according to the ESG commitment the country shows, the extent to which it anticipates ESG challenges as well as its quantitative and qualitative objectives in the environmental, social and governance domain. Depending on the reference universe, developed or emerging economies, the weightings and criteria are adapted. The country ESG score is composed of five sustainability dimensions: • Transparency & democratic values: the average weighted scores of a series of individual criteria with a maximum weight of 28% • Environment: the average weighted scores of a series of individual criteria with a maximum weight of 20% • Education/innovation: the average weighted scores of a series of individual criteria with a maximum weight of 20% • Population, wealth distribution and health: the average weighted scores of a series of individual criteria with a maximum weight of 20% • Economics: the average weighted scores of a series of individual criteria with a maximum weight of 12%
Democratic status	Assessment of the enforcement of democratic principles in a State following the Declaration of the Human Rights. The NGO Freedom House provides an annual survey containing 25 questions on political rights and civil liberties , and classifies countries in three categories: "free country" (fully democratic), "partially free" (incomplete democracy) or "not free" (not democratic).
DPAM sustainability profiles (proprietary classification)	The DPAM sustainability profile synthesizes into one single metric the results of the different ESG filters: compliance with the recognized Global Standards, involvement in ESG controversies and the ESG score. As a result, five company profiles are identified: laggard, subpar, follower, explorer and champion.
Laggards	Laggards are companies that are not respecting the minimum fundamental values. They refer to companies that are classified as non-compliant with recognized Global Standards or that have been found to be implicated in the most severe ESG controversies (level 5 on a scale of 1 to 5).
Subpars	Subpars are companies that have an ESG score that is situated in the fourth (worst) quartile of their industry or that are facing serious allegations of controversial behaviour (level 4 on a scale of 1 to 5). Both classifications are treated equally as severe controversies reveal information about the effectiveness of a company's potentially high ESG score and the linked policies and programs.
Followers	Followers are companies with a below average ESG score (situated in the third quartile of their industry) but that do not face serious allegations of controversial behaviour (maximum level 3 on a scale of 1 to 5).
Explorers	Explorers are either: companies with a good ESG profile (between the 50th and 75th percentile of their category) that do not face any severe allegations of controversial behaviour (level lower than 4 on a scale of 1 to 5), or companies with a superior ESG profile (between the 75th and 100th percentile of their category) but which face moderate allegations of controversial behaviour (level 3 on a scale of 1 to 5).
Champions	Champions are companies with a superior ESG profile (between the 75th and 100th percentile of their category) and which do not face any moderate or severe allegations of controversial behaviour either (below level 3 on a scale of 1 to 5).

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ESG Impact	The ESG impact is the assessment of the contribution of the portfolio invested positions to ESG challenges. Based on the 17 Sustainable Development Goals (SDGs), adopted in 2015 by the United Nations, DPAM classifies investments into companies which objectively offer solutions to sustainability challenges by means of their products and/or services in four major impact themes, namely climate change and stability, natural capital, fundamental needs and empowerment.
ESG risk exposure score	The ESG risk exposure score of the portfolio is the weighted average ESG risk exposure score of the companies in portfolio. It is calculated by taking into account all positions in the portfolio that are covered by ESG research from Sustainalytics and their respective weights. The ESG risk exposure score reflects the company's sensitivity or vulnerability to ESG risks in an absolute manner. The risk exposure is considered to be low for figures between 0 and 35, medium for figures between 35 and 55 and high for figures above 55. The calculation model takes into account the specific risks of the industry in which a company is operating as well as the company's specific situation, i.e. any elevated exposures due to specific activities or past events. The attributed ESG risk exposure of a company can be split into manageable ESG risk and unmanageable ESG risk.
ESG risk management score	The ESG risk management score of the portfolio is the weighted average ESG risk management score of the companies in the portfolio. It is calculated by taking into account all positions in the portfolio that are covered by ESG research from Sustainalytics and their respective weights. The ESG risk management score reflects the percentage of manageable ESG Risk that a company is effectively managing through suitable policies, programs, quantitative performance and involvement in controversies, as well as its management of corporate governance. It shows how well a company is positioned to mitigate the present ESG risks. The management of ESG risks is considered to be weak for scores below 25, medium for scores between 25 and 50, and strong for scores above 50.
ESG risk percentile	The ESG risk percentile of the portfolio is the weighted average ESG risk percentile of the companies in the portfolio. It is calculated by taking into account all positions in the portfolio that are covered by ESG research from Sustainalytics and their respective weights. The ESG risk percentile reflects the relative positioning of a company within its subindustry in terms of its ESG risk rating. To calculate the ESG risk percentiles, all ESG risk ratings from companies in a subindustry are ranked after which their positions are normalized between 0 and 100. The lower the ESG risk percentile, the better a company is positioned within its subindustry in terms of ESG Risk Rating. For example, if a company has an ESG risk percentile of 1, it means that it belongs to the top 1% companies in its subindustry with the lowest ESG risk rating.
ESG risk score of the portfolio	The ESG risk score of the portfolio is the weighted average ESG risk score of the companies in the portfolio. It is calculated by taking into account all positions in the portfolio that are covered by ESG research from Sustainalytics and their respective weights. The ESG risk score reflects the remaining material ESG risk that has not been managed by the company in an absolute manner (unmanaged risk). It includes two types of risk: • management gap risks, i.e. risks that could be managed by the company through suitable initiatives but which are not yet managed by the company; • unmanageable risks, i.e. risks that are inherent to a company's activities which cannot be addressed by suitable initiatives. The ESG risk scores can be classified in 5 categories: negligible risk (0-10), low risk (10-20), medium risk (20-30), high risk (30-40) and severe risk (above 40).
ESG score momentum	The ESG score momentum analyzes how the ESG profile of an issuer is evolving over time. At portfolio level, the percentage of companies is analyzed that have been downgraded or upgraded by the ESG rating agencies since the last review of their ESG score.
ESG scores coverage rate	The coverage rate of the portfolio measures the proportion of the portfolio (in % of the portfolio's AUM) which is covered by ESG analysis from our ESG rating agencies.
LUXFLAG ESG Label	Sustainability label awarded by the Luxembourg Finance Labelling Agency, an independent non-profit whose objective is to support sustainable investments by providing clarity to investors on the actual sustainability of investment vehicles. The Environmental, Social and Governance (ESG) label is awarded to funds that screen 100% of their investments on ESG criteria and follow strategies based on best-in-class ranking and/or multiple exclusions. The label is valid for one year. Additional information is available on: www.luxflag.org.
Severity of controversy exposure	A controversy is defined as incidents or scandals to which a company is exposed. These may be pertaining to environmental, social or governance issues. The impact and risks of these controversies are assessed based on various criteria, such as the gravity, responsibility and exceptional character of the impact, as well as the reputational and image risk. The assessment results in a categorization that groups a company into 5 different controversy categories, according to their gravity, on a scale from 1 (not very serious) to 5 (extremely serious). The gravity is assessed by ESG rating agencies, based on their impact and frequency, the transparency of the information provided by the company and its preventive and corrective measures.
Sustainability process	Description of the sustainability methodology applied to the fund.
Sustainability ranking	Ranking of the countries according to their degree of sustainability based on the DPAM proprietary country model. The sustainability analysis focuses on five key drivers (Transparency & Democratic Values, Environment, Education/Innovation, Healthcare & Wealth Distribution and Economics) which contribute to the total score according to their relative weight. Each criterion gets an assigned weight and each country receives a score ranging from 0 (worst) to 100 (best) based on its relative position compared to other countries (comparison to the difference between the maximum and the minimum). For binary criterion (death penalty, signing Kyoto protocol, for instance) a score of either 0 or 100 will apply. The final and overall score of a country is equal to the weighted average Sustainability of the scores on each criterion, using the weights which are decided by the Fixed Income Sustainability Advisory Board. Progress and improvement are taken into consideration through a trend indicator, which provides insights into the robustness of a country's commitment to sustainability.

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Top 5 companies with the highest carbon intensity	List of the 5 companies with the highest amount of emissions (scopes 1 and 2) in proportion of their revenues (companies' weights in the portfolio have no impact here).
Top 5 contributors to the fund carbon intensity	List of the 5 largest contributors to the fund carbon intensity (also results from their weight in the portfolio).
Towards Sustainability label	Quality standard for sustainable and socially responsible financial products awarded by the Central Labelling Agency (CLA), a not-for-profit association incorporated under Belgian law. The goal of the CLA is to enlarge the impact and substance of sustainable saving and investing, and to substantially strengthen the qualitative approach to sustainable saving and investing. The Towards Sustainability label was developed at the initiative of Febelfin (Federation of the Belgian financial sector), in consultation with a diverse group of financial and civil society stakeholders and is valid for 1 year. Additional information is available on https://www.towardssustainability.be/

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