DPAM L BONDS EUR CORPORATE HIGH YIELD

SUSTAINABILITY-RELATED DISCLOSURES

This page contains the information in accordance with Article 10(1) of Regulation (EU) 2019/2088.

This financial product promotes **environmental and /or social characteristics**, but will not make any sustainable investments.

SUMMARY

This financial product promotes **environmental or social characteristics**, but does not have as its objective sustainable investment.

This promotion of **environmental and social characteristics** is achieved through a rigorous methodology aimed at:

- defending fundamental rights (human rights, labour law, prevention of corruption and environmental protection).
- not funding controversial activities and behaviour that could affect the long-term reputation of the investments.
- promoting environmental, social and governance (ESG) best practices.

The Sub-fund **has not designated a benchmark** to achieve the environmental and social characteristics promoted under Article 8 of Regulation (EU) 2019/2088.

The achievement of these environmental and social characteristics is measured through the use of the following indicators (Methodologies), which also include the binding elements of the **investment strategy** used to select the investments to attain each of the characteristics. **Good governance** criteria are an integral part of DPAM's active ownership, engagement and sustainable and responsible investment policies and are included in this investment decision process. The data used (**Data sources and processing**) and their limitations depend on the methodologies used.

a. Zero exposure to issuers deemed to be non-compliant with the Global Standards, DPAM uses two data providers: Sustainalytics and MSCI ESG Research. Limitations to the methodologies and data: DPAM has a conservative approach. If a company is considered non-compliant by one of the two data provider, it is considered non-compliant with Global Standards.
b. Zero exposure to issuers involved in the excluded controversial activities, according to the definitions and thresholds stipulated by **DPAM's Controversial Activities Policy**. The Sub-fund excludes securities whose business is the manufacture, use or possession of anti-personnel mines, cluster munitions, depleted uranium ammunition and armour, chemical or biological weapons. The Sub-fund also excludes securities of companies which have material exposure to the production or distribution of tobacco or raw materials and equipment for the production of tobacco, the mining of thermal coal, or the generation of electricity from coal. DPAM uses the following data providers: MSCI ESG, ISS Ethix, Trucost and Sustainalytics. Limitations to the methodologies and data: The data from the sources may not match the most recent data publicly available from a company. In this case, DPAM will overrule the most recent data received from the data providers.
c. Zero exposure to issuers facing major controversies of maximum severity on environmental, social or governance issues, DPAM excludes companies involved in the most severe controversial activities based on data reported by Sustainalytics (rating given on the basis of approximately 55,000 daily news items scanned by Sustainalytics), which it completes with additional internal analyses. Limitations to the methodologies and data**:** This prudent approach enables to avoid any exposure to companies facing major controversies or prone to face major controversies in the future.

By applying the investment strategy described above, the Sub-fund invests **a minimum of 80% of its assets** in securities that meet the **environmental and social characteristics** it promotes.

Concerning the **monitoring of the environmental or social characteristics**, the portfolio managers receive each semester the eligible universe of their sub-fund after carrying out the different ESG screenings. The qualitative ESG approach is part of the active security selection. The portfolio managers are not allowed to invest in non-eligible companies. Moreover, the Risk Management department of DPAM is doing daily controls of the sub-fund in order to identify potential breaches against the specific indicators applicable to the Sub-fund.

The **due diligence** of the underlying assets of the Sub-fund on environmental and social characteristics, is inherent to the methodology to promote these characteristics. More information can be found in **DPAM's Sustainable and Responsible Investments Policy**.

To defend its own values and limit the externalities of funded issuers, DPAM has adopted an **engagement policy.**

NO SUSTAINABLE INVESTMENT OBJECTIVE

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

The Sub-fund promotes environmental and social characteristics through a rigorous methodology aimed at:

- defending fundamental rights (human rights, labour rights, anti-corruption and environmental protection) and
- not funding controversial activities and behaviours that could affect the long-term reputation of the investments.
- promoting environmental, social and governance (ESG) best practices.

The Sub-fund has not designated a benchmark to achieve the environmental and social characteristics promoted under Article 8 of the Regulation.
The sustainability indicators used to measure the attainment of all of the environmental and social characteristics promoted by the Sub-fund correspond to the binding investment restrictions in terms of exposure of the investee companies to certain controversial activities and behaviours:

a. Zero exposure to companies deemed to be non-compliant with Global Standards;
b. Zero exposure to companies involved in controversial activities as defined by the Manager's **Controversial Activities Policy**;
c. Zero exposure to companies facing ESG controversies of maximum severity;

for more details, see the section below "Methodologies?"
The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.
The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.
Any other sustainable investments must also not significantly harm any environmental or social objectives.

INVESTMENT STRATEGY

The sub-fund mainly invests in euro-denominated corporate bonds with a low rating from around the world. In the active management of the sub-fund, the Manager selects securities with the potential for an advantageous return in relation to the risk incurred on the basis of a macro-economic and financial analysis.
The Sub-fund is actively managed. The Sub-fund may use derivatives to exploit or hedge against market fluctuations, or for efficient portfolio management.

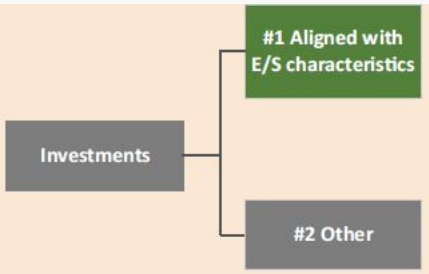
Good governance criteria are an integral part of the Manager's active ownership, engagement and sustainable and responsible investment policies and are included in the investment decision process through the different steps described above in the section "What are the binding elements of the investment strategy used to select investments to achieve each of the environmental or social characteristics promoted by this financial product?"
The Manager takes these criteria into account in the following way:

i. Portfolio compliance with Global Standards: Prevention of corruption is one of the four main themes of the 10 principles of the United Nations Global Compact.
ii. The portfolio's exposure to extremely serious ESG controversies: good governance criteria (business ethics, political lobbying, corporate governance, corruption and accountability of governance bodies with regard to ESG aspects) are analysed for controversies, their severity and corrective measures.
iii. Qualitative ESG approach: Much of the fundamental research of the Manager is devoted to governance and corporate governance issues.
iv. The Manager's voting policy helps to promote good corporate governance practices (separation of powers, independence and adequacy of the board of directors, respect for the rights of minority shareholders, quality of internal and external audit, etc.). The Manager's engagement policy is linked to this voting policy and applies its principles.

Governance issues are also an integral part of the monitoring of investments, notably through the Manager's **voting policy** and **engagement policy**.

PROPORTION OF INVESTMENTS

By applying the investment strategy described above, the Sub-fund invests a minimum of 80% of its assets in securities that meet the environmental and social characteristics it promotes (in the table referred to as "#1 Aligned with E/S characteristics").
Derivative products, if any, used to achieve the investment objectives will not be used to promote the environmental and/or social aspects.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS'

The portfolio manager receives the eligible universe of their Sub-fund, after carrying out the different ESG screenings. This eligible universe, or so-called whitelist, is loaded in the electronic trading platform. The three steps of the screening include a norms-based screening, controversial activities-based screening and a negative screening based on the controversial behaviour of companies. The qualitative ESG approach is part of the active stock selection.
Each quarter a blacklist is generated for the Sub-fund. This blacklist encompasses companies in which the Sub-fund cannot invest due to non-compliance with the Global Standards, failing to pass the activity thresholds detailed in **DPAM's Controversial Activities Policy** or facing a major controversy of maximum severity on environmental, social or governance issues. This signifies that any company presented on the blacklist cannot be invested in.
In terms of control, the portfolio manager is not able to invest in names of its Sub-fund's blacklist. Moreover, as a second line of defense, DPAM's risk department runs a daily check on the different Sub-funds to identify potential breaches with specific indicators.
Through the electronic trading platform, all portfolio managers have access to the performance of their Sub-funds on their relevant ESG indicators. This serves two purposes. First, the portfolio manager can calculate the impact of a trade on the different indicators. Second, the manager can determine the performance of its Sub-fund on the different indicators in real time.

METHODOLOGIES

The binding investment restrictions apply to (a) companies which do not comply with the principles of the Global Standards described below, (b) companies involved in controversial activities, and (c) companies involved in extremely serious controversies:

a. Compliance of the portfolio with the Global Standards described below: The Sub-fund does not invest in companies that do not comply with the 10 principles of the Global Compact and the Guiding Principles of the United Nations, the ILO instruments, the OECD Multinational Enterprises (MNE) Guidelines and the underlying conventions and treaties.
b. Exclusion of companies involved in controversial activities: The Sub-fund excludes securities whose activity consists of the manufacture, use or possession of anti-personnel mines, cluster munitions, depleted uranium munitions and armour, chemical or biological weapons. The Sub-fund also excludes securities of companies that have material exposure to the production or distribution of tobacco or raw materials and equipment necessary for the production of tobacco, the extraction of thermal coal, or the generation of electricity from coal. These exclusions are detailed in the Manager's **controversial activities policy** (section on "conventional" strategies).
c. The portfolio's exposure to extremely serious ESG controversies: Issuers facing extremely serious controversies are not eligible for investment.

Exclusion lists of individual companies excluded under criteria (a), (b) and (c) above are regularly updated and are fed into the portfolio investment monitoring systems.
Security exclusions based on the binding criteria of the investment strategy apply both at the time of purchase of a position and during the holding of the position in the portfolio. Each time a data series is collected, the Manager draws up exclusion lists which are updated at least quarterly and on an ad hoc basis in the event of a deterioration in the position. There is an exclusion list for each binding element and strategy group, and the Manager applies a similar exclusion/restriction threshold for investment. The Manager's risk management department is responsible for applying the necessary prevention (ex-ante risk) and control (ex-post risk) mechanisms to effectively enforce the exclusion lists in the investment portfolios of the Manager's strategies.
The Manager uses ESG research of non-financial rating agencies to assess the seriousness of the controversies to which companies are exposed and excludes the most severe controversies. The Manager also produces internal analyses of the ESG controversies to which companies are exposed. The Manager reserves the right to also exclude companies that it considers to be involved in sufficiently serious controversies.

In the event that a company's ESG profile deteriorates and it is downgraded to Global Standards non-compliant status or an extremely serious controversy regarding the company emerges, the Manager will sell the relevant investment in the interest of the Sub-fund's shareholders within three months.

DATA SOURCES AND PROCESSING

The data from the different data sources described below are all fed in the electronic trading platform for the first line of control. Moreover, all data is also used by the RISK department to spot potential breaches. Finally, the data is also provided to our reporting teams for reporting purposes, albeit quarterly or yearly.
In order to ensure data quality two key checks are conducted. A first continuous quantitative check takes place when importing the data from the different data sources. Second, an ad hoc qualitative check is carried out to ensure the coherence between the data used in our internal control systems and the original data from the different data providers.
Below we first describe all the different data sources used and the portion of estimated data for each source, before detailing the specific data sources used to attain each of the environmental and social characteristics promoted by the Sub-fund.

- Sustainalytics: Global Standards compliance (0% estimated), the ESG profile (0% estimated), and major controversies (0% estimated)
- MSCI ESG Research: Global Standards compliance (0% estimated), Exclusion of companies involved in controversial activities (0% estimated)
- ISS Ethix: Exclusion of companies involved in controversial activities (0% estimated)
- Trucost: GHG intensity calculation (69% estimated), taxonomy alignment (0% estimated)
- Public data sources, such as SBTi, (0% estimated)

Zero exposure to companies deemed non-compliant with the Global Standards.
The data is derived from two data providers, Sustainalytics and MSCI ESG Research. Both data providers identify companies, which face incidents and controversies resulting in the violation of these fundamental rights principles. DPAM takes a conservative approach to this KPI, as an issuer failing one Global Standards' test for either provider, will lead to excluding this issuer.
Zero exposure to companies involved in the excluded controversial activities
The blacklist is created each quarter and uses different activity thresholds to exclude specific companies. **DPAM's Controversial Activity Policy** depicts these activities and subsequent thresholds. The data sources to gauge the eligibility of a company are also provided in this controversial activity. The main data sources used in this context are MSCI ESG, ISS Ethix, Trucost and Sustainalytics. The selection of the data provider per activity is dependent on the scope, and assessment frequency of the data provider. Sometimes some publicly available information is used for the exclusions, such as information derived from the Science Based Targets initiative (SBTi).

Zero exposure to companies facing major controversies of maximum severity on environmental, social or governance issues.
The data provider Sustainalytics scans over 55000 daily news sources to identify potential incidents linked to companies. Eventually, the provider gives a severity score to each controversy. The severity of an allegation is determined based on the impact, nature, scope, recurrence of the incident, the response of the company, the responsibility of the management and the overall Corporate Social Responsibility policies and practices that are in place within the company. All companies facing a controversy level 5 (from a scale from 0 to 5, 0 being the lowest controversy level) are excluded from the fund's eligible universe. Moreover, each month, the Responsible Investment Steering Group gathers to discuss issuers facing a controversy level 3 with a negative outlook or level 4 of a distinct industry. Based on thorough analyses of these controversies, it is possible to assimilate them to a controversy level 5 and subsequently exclude the issuer.

LIMITATIONS TO METHODOLOGIES AND DATA

Several limitations can be identified in relation to the DPAM methodology but also more broadly to the availability and quality of information on these topics. Analyses are largely based on qualitative and quantitative data provided by companies and other issuers and therefore depends on the quality of this information. Although constantly improving, ESG reporting by companies and other issuers is still limited and heterogeneous. Furthermore, it remains difficult to anticipate the emergence of ESG controversies that could lead to an alteration in the quality of the ESG profile of the issuer being held in the portfolio. Finally, the limitations of the methodology also include those related to the use of non-financial rating agencies, i.e.:

- the coverage rate of companies: following the re-balancing of certain reference universes, the rating agencies may stop covering a company;
- the bias towards large market capitalizations publishing a large amount of information and sustainability reports, as opposed to smaller market capitalizations with fewer marketing and reporting resources, the correlation between a company's extra-financial rating and its publication rate remains relatively high;
- the bias towards good ESG practices based on a western benchmark, as extra-financial rating agencies remain conditioned by a western view of environmental, social and good governance issues, to the detriment of companies from emerging economies, particularly Asian ones;
- the relevance of the criteria used for the evaluation: the use of relatively global standards does not always make it possible to capture the particularities and truly material issues of certain specific economic activities, to the disadvantage of companies that are highly specialized in one sector of activity.

The goal of DPAM's methodology is to reflect reality as accurate as possible, for its investments to properly promote environmental and social characteristics and to have an impact on the real-world economy. Working with data providers may always lead to inaccuracies, which DPAM tries to remedy through different means. Below we provide an overview of the different methodologies with additional steps taken by DPAM to manage the limitations proper to its methodologies and data sources.
An overall comment pertains to the active and research driven investor role of DPAM. Engaging or undertaking a dialogue with companies remains the best possible method to ensure the accuracy of the analyses of data providers, or the interpretation of raw data extracted from company reporting. It is also a way to convey its main expectations as ESG investor. Next to engaging, DPAM relies on different external data sources, such as CDP, World Benchmarking Alliance… or specialized broker research. These sources can also be used as input to carry out coherence checks with data derived from its data providers.
One key element of DPAM's methodology is upholding the Global Standards. These aim 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 UN 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 considers 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. To ensure that these incidents are properly monitored, DPAM uses two data providers which asses a company's compliance with the Global Standards. In case one of both data providers flags a company as being non-compliant, the company is excluded from the fund's eligible universe. This conservative approach ensures that no company with a potential breach of these standards is part of the Sub-fund.
DPAM is aware of the same limitations when it comes to the controversies review and ensuring that the Sub-fund is facing no major controversies of maximum severity on environmental or social issues. For this reason, DPAM systematically excludes companies facing the highest controversy level based on reported data by our data provider Sustainalytics. All companies facing a controversy level 5 (from a scale from 0 to 5 being the lowest controversy level) are excluded from the Sub-fund's eligible universe. Moreover, each month, the Responsible Investment Steering Group gathers to discuss the controversy level 3 with a negative outlook and level 4 of a distinct industry. Based on thorough analyses of these controversies, it is possible to either keep a name eligible, embark on an official engagement process or exclude a name due to a controversy. DPAM believes that this prudent approach enables it to have any exposure to companies facing major controversies or prone to face major controversies in the future.
Similar to the ESG controversies derived from Sustainalytics, it might happen that the data used for our controversial activity policy might not be the most recent publicly available company disclosure. In cases more recent data is available from company reporting, the data of the data provider is overruled.

DUE DILIGENCE

The due diligence of underlying assets of the Sub-fund on environmental and social, are inherent to the methodology to promote these characteristics. These include, among other elements mentioned in the section "Methodologies": the normative screenings, the controversial activities screening, and the controversies screening (negative screenings).

ENGAGEMENT POLICIES

Given the multiple challenges and interactions companies are exposed to, a cautious and open-minded attitude is required, which is why DPAM has adopted an approach based on dialogue and collaboration with investees. This collaborative process takes place both within DPAM and externally.
DPAM adopted an engagement program in the second half of 2014. Since then, it has leveraged on experience, knowledge and sharing cooperation to adopt the latest **Engagement Policy**.
In this policy, DPAM explains how it implements its two main engagement objectives namely:

- Engaging for improving the negative externalities of financed issuers
- Engaging for defending values and convictions on E, S and G factors.

The whole process of engagement, including the escalation process, is described in the engagement policy. This policy can have implications for all portfolios managed by DPAM and the scope of the issuers with whom DPAM engages is defined in the policy, in particular by the themes identified as priorities. The issuers are selected because they either have been identified by the controversy review by the Responsible Investment Steering Group or they are in the scope of the thematic priorities DPAM has defined on E, S & G aspects to defend its values and convictions. These values and convictions are described for the different E, S and G aspects and include, among other elements, Paris Alignment and related Net Zero target setting, human rights in value chains, or board oversight of ESG topics.

As described in the data source section, each month the Responsible Investment Steering Group gathers to discuss the controversy level 3 with a negative outlook and level 4 of a distinct industry. Based on thorough analyses of these controversies, it is possible to either keep a name eligible, embark on an official engagement process or exclude a name due to a controversy.

In case of eligibility with engagement, engagement letters are written in collaboration with portfolio managers, buy-side analysts and RI specialists to better understand the sustainable profile of companies. Generally speaking, this engagement will be conducted as individual initiative led by DPAM. If collaborative initiatives regarding the issuer and the controversy are already occurring, DPAM will decide joining the collaborative initiative for a greater effectiveness.

The engagement will traditionally start with a first contact with the issuer to raise our questions and concerns and preliminary list our expectations and objectives in terms of progress. The issuer is invited to acknowledge these concerns and come back with answers and guidance on what could be the expectations and objectives.

For formal engagements, divestment remains the last resort. DPAM aims at a constructive dialogue when engaging with companies and will therefore first use all possible means to improve a non-constructive dialogue, notably: sending reminders with an increasingly assertive tone, seeking additional investor support, raising the issue to board representatives and/or Chairman, using proxy voting if relevant, (co-)submitting or supporting shareholder resolution, sharing results and engagement with peers, etc. DPAM aims at giving itself six months, counting from the date of initial engagement, to reach a conclusion on an issuer. Within this period of 6 months, DPAM will send questions to the issuer, send several reminders (in case of no answer), analyze the answers from the issuer, possibly ask complementary questions, make a holistic analysis of the situation, assess escalation steps such as the ones mentioned above and eventually decide whether to remain invested, to continue the escalation, to divest, and/or to put the issuer on the exclusion list.

Next to the formal engagement, it is useful to mention that ESG considerations are also discussed internally among the responsible investment specialists and the investment professionals to challenge financial and extra financial findings and recommendations. This discussion increases the awareness of investment professionals as regards ESG risks and opportunities and enables a better understanding of sectorial challenges at financial and non-financial levels. It also makes it possible to challenge, where applicable, the external information and assessment of ESG ratings for companies that DPAM receives from specialized agencies.

Finally, the engagement is also an efficient manner to correct backward looking ESG data & research. It enables to have dialogues focusing on the future and on the practices the issuers are adopting to be aligned with the required transition. This forward-looking perspective is essential to ensuring that future company practices are aliged with our current expectations and requirements.