SEPTEMBER 2022

SUSTAINABILITY RISK **MANAGEMENT**

FOREWORD

DNCA Finance has initiated in 2021 a large project to overhaul the ESG data sourcing and review all ESG processes deployed within the management company.

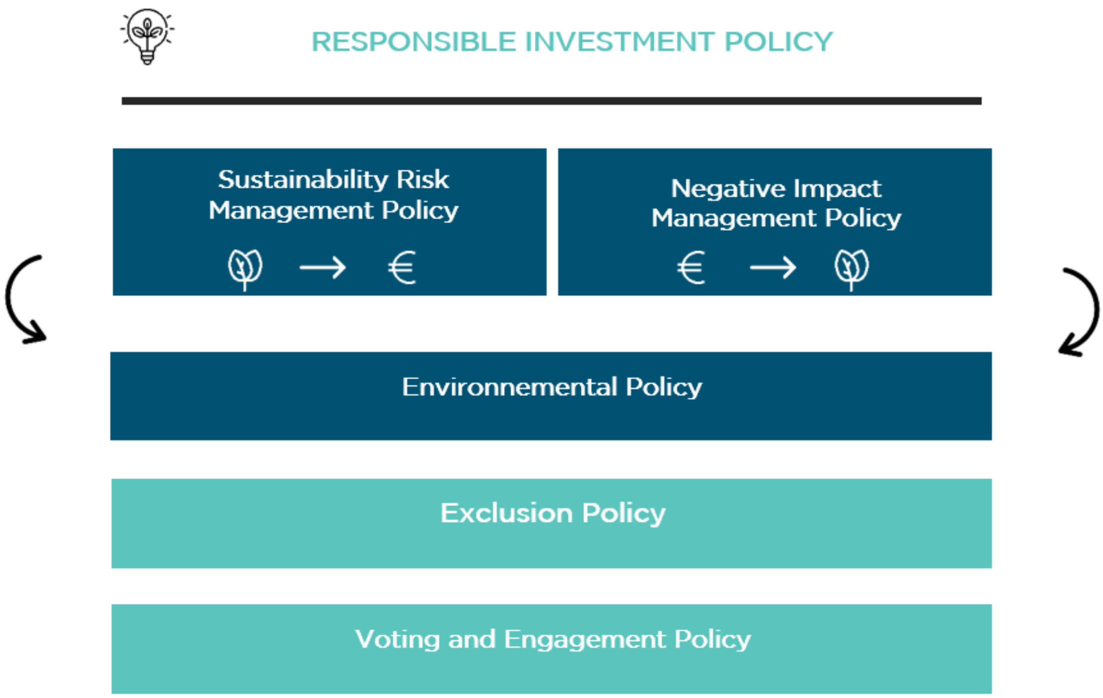
This **Policy for managing adverse impacts** will be fully operational at the end of this project (2023), and may be adjusted when the associated processes are finalised.

I. PREAMBLE

As a responsible investor, DNCA Finance believes that Environmental, Social and Governance (ESG) factors can have a significant impact on financial performance.

DNCA Finance's investments are resolutely geared towards long-term performance that takes into account all the risks and opportunities faced by issuers (companies, organizations and governments).

DNCA Finance's approach to risk management, particularly financial risks related to environmental, social or governance events ("sustainability risks"), is an integral part of its responsible investment policy, which is centred around processes for ESG analysis and integration of investments:



This "Sustainability Risk Management Policy" meets the expectations of the European SFDR Regulation (Article 3) as well as those of Article 29 of the French Energy and Climate Law[1] ("document outlining (the) policy on the inclusion of environmental, social and governance criteria in (the) investment strategy").

[1] Decree No. 2021-663 of 27 May 2021 pursuant to Article L. 533-22-1 of the Monetary and Financial Code

II. DEFINITIONS

A number of concepts are used in the "Sustainability Risk Management Policy", the main ones being defined below.

A. Sustainability risks

1. Sustainability risks / General

The European SFDR defines sustainability risk as "an environmental, social or governance event or situation which, if it occurs, could have a material adverse effect, actual or potential, on the value of the investment" (Article 2).

Examples of sustainability risks include

SUSTAINABILITY RISKS

Environmental	Social	Governance
• Environmental impact controversies (pollution, poor waste management, biodiversity damage: legal consequences for the company (risk of fines, lawsuits) • Inadaptation to the fight against climate change and the Energy and Ecological Transition (TEE) and economic models made obsolete (thermal engines, coal production...) • Production equipment or buildings, in the company or at one of its suppliers, exposed to extreme weather events, which can lead to damage or disruption of the production chain	• Deficient employment and skills management and inadequate human resources (lack of training, demotivation of employees, lack of suitable resources) leading to difficulties in ensuring the company's production and meeting customers' needs • Serious human rights abuses (forced labor, child labor) with legal consequences (lawsuits, fines) and commercial consequences (consumer boycott, image risk) • Unhealthy atmosphere in the company leading to a wave of suicides: legal consequences (lawsuit) and commercial consequences (image, consumer boycott)	• Lack of checks and balances (excessive concentration of power, lack of competence or involvement of directors) in the management of the company leading to bad decisions that penalizes the economic performance of the company • Corruption, lack of integrity, tax evasion, conflicts of interest... with legal consequences (fines) for the company, financial penalties, closure of access to certain markets... • Absence or inadequacy of a risk management system within the company, including environmental and social risks, which may lead to excessive and unmeasured risk-taking and poor economic performance

2. Sustainability risks specific to climate change

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

Physical risks: risks associated with the physical impacts of climate change on the activities of emitters resulting for example from extreme temperatures, floods, storms, or forest fires

Transition risks: risks associated with the transition to a low carbon economy, for example: changes in policy, technology or supply and demand in certain sectors

As an example, here are the climate risks defined by the TCFD (Task-force on Climate-related Financial Disclosure):

Climate risk categories[2]		Subcategories	Illustrations: risks from...
Physical risks	Risks related to the physical impacts of global warming	Acute risks	• Extreme weather events, such as storms, hurricanes, floods
		Chronic risks	• Changing precipitation and extreme volatility in weather patterns • Rising temperatures and chronic heat waves • Sea level rise
Transition risks	Risks related to the transition to a low-carbon economy	Political and legal risks	• Increasing the price of carbon emissions (through the introduction of carbon pricing mechanisms) • Strengthened GHG reporting obligations • Regulations on existing products and services • Litigation
		Technological risks	• Substitution of existing products and services with less GHG-intensive alternatives • Insufficient investment in new technologies • Costs of the transition to low-carbon technologies
		Market risks	• Changing consumer behaviour • Market uncertainties • High cost of raw materials
		Reputational risks	• Changes in consumer preferences • Stigmatisation of an industry • Increased concern or negative reaction from stakeholders

3. Sustainability risks specific to biodiversity loss

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

In the case of biodiversity loss, a distinction is made, as in the case of climate change, between two types of risk: physical risks and transition risks. These risks are described by the TNFD (Task-force on Nature-related Financial Disclosure) as "all financial risks and opportunities for the organization resulting from impacts on nature and/or dependency on nature"3 .

- Physical risks and opportunities related to nature: "Physical risks resulting from the loss of natural environments can be classified as being caused by (acute) events or related to longer-term (chronic) changes in the way natural ecosystems function, or cease to function. Physical risks can have financial consequences for organizations, such as direct damage to assets, loss of ecosystem services (local and regional) essential for production processes or employee well-being, and indirect impacts resulting from supply chain disruption. (...) Examples include financial losses to the agricultural sector, at local and regional scales, resulting from the decline of pollinating insects, and financial losses to the pharmaceutical and technology sectors at global scales due to reduced genetic biodiversity hampering research and development."

- Transition risks and opportunities: "the transition to a nature-positive economy may lead to significant political, legal, technological and business changes. (...) These risks include reputational, compliance and corporate liability or litigation. In some cases, an asset may become uneconomic or overvalued. Transitional opportunities may arise where companies benefit financially from changes in market preferences/demands that reward their positive impact on nature.

[2] Source: Final Recommendations Report, TCFD (Task-force on Climate-related Financial Disclosure)
[3] Source: "Proposed Technical Scope - Recommendations for the TNFD", TNFD

Sustainability risks specific to climate change and biodiversity loss are detailed in DNCA Finance "Environmental Policy".

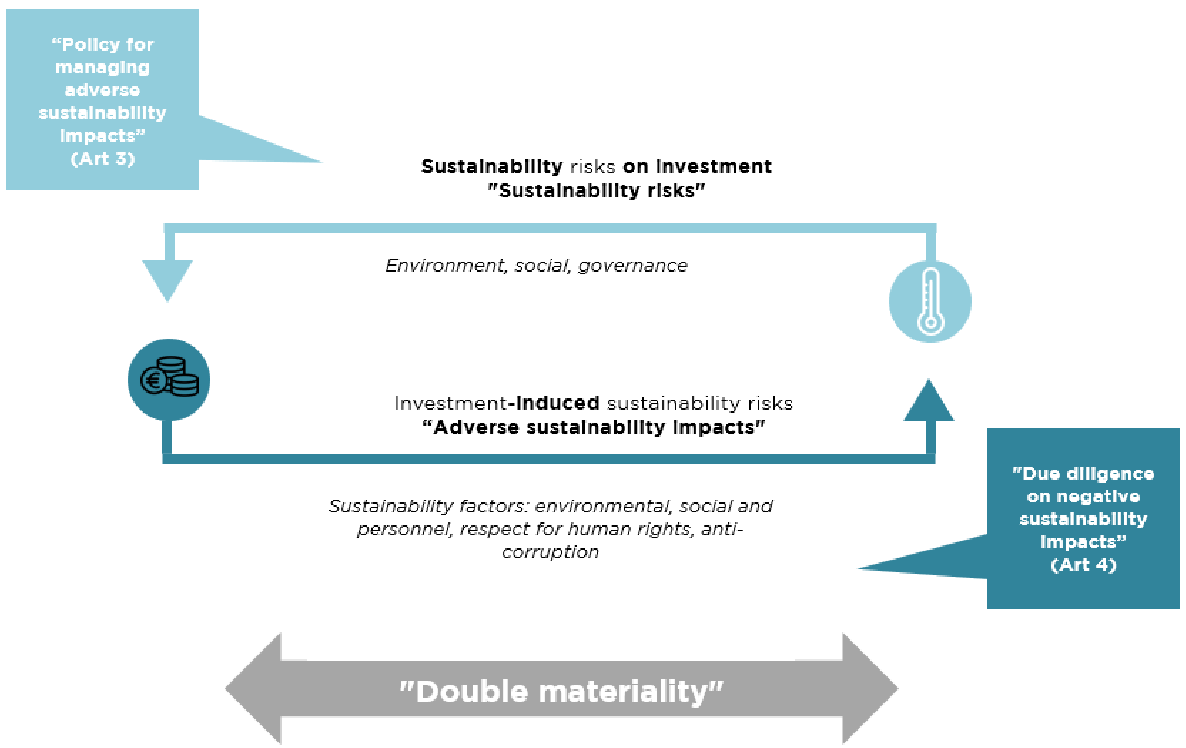
B. Negative sustainability impacts

Sustainability risks" (extra-financial events that may affect the value of the portfolios managed by DNCA Finance) are to be differentiated from "negative sustainability impacts" (consequences of DNCA Finance's investment decisions on sustainability factors) on "sustainability factors". According to the SFDR Regulation, sustainability factors are "environmental, social and labor issues, respect for human rights and the fight against corruption and bribery" (Article 2 of the Regulation).

These "negative impacts" are subject to additional transparency requirements, as set out in Article 4 of the same regulation. DNCA Finance's "negative sustainability impact management policy" is the subject of a specific document.

C. Interactions between "sustainability risks" and "negative sustainability impacts

The management of 'sustainability risks' should not be separated from the management of 'negative sustainability impacts', which are intrinsically linked (see 'double materiality').



There are transmission belts between the two dimensions of "double materiality" as mentioned when the SFDR regulation was published. Issuers (companies, organizations, states) are increasingly made responsible for the impacts ("negative impacts") they generate on the environment, society, and all stakeholders (pollution, human rights violations, failure to respect business ethics, etc.).). These can lead to legal action, financial penalties, reduced consumer confidence, image degradation, etc., which translate into lower economic and financial performance, and therefore into a "proven sustainability risk".

Sustainability risk management" of financial asset portfolios must be conducted in parallel with the search for ways to limit the negative impacts generated by these portfolios.

III. GUIDING PRINCIPLES, SCOPE OF THE POLICY AND CONDITIONS OF APPLICATION

A. Guiding principles of the Policy

DNCA Finance Finance's responsible investment policy is based on the conviction that long-term management must encompass all the risks and opportunities faced by issuers.

DNCA Finance's analysis of risks and opportunities is based on two levers: "risk management" ("Liability Risk") and "identifying opportunities related to sustainable transition" ("Sustainable Economic Transition").

DNCA Finance's sustainability risk management is based on the analysis of the different sustainability risks listed on p.4 (environmental, social and governance) "Responsibility Risk", plus the analysis of climate risk (physical and transition risks related to climate change) and the analysis of risks related to biodiversity loss.

B. Scope of the Sustainability Risk Management Policy

The Sustainability Risk Management Policy is deployed across DNCA Finance's assets under management by the following teams:

- Mixed funds
- Flexible funds
- Europe and International Growth funds
- Multi-management
- Thematic equities
- European equities - All cap Quality Growth
- Absolute performance equities
- European Value equities
- Multi-strategy bonds
- Emerging markets equities
- European small cap equities
- Convertible Bonds
- Beyond range of funds

The Policy is adapted according to the type of assets under management and the strategies adopted.

C. Conditions of application

The application of the Sustainability Risk Management Policy takes place within a framework of constraints:

- ESG data quality: DNCA Finance's investment and risk management processes rely on the analysis of external data provided mainly by issuers and ESG data providers. DNCA Finance will implement a quality control process for ESG data received from its suppliers. However, DNCA Finance cannot guarantee the accuracy of the data, nor can it remedy the methodological and cultural biases introduced by the data providers

- The maturity of methodologies: DNCA Finance is aware of the technical limitations due to the emerging maturity of analytical technologies, particularly with regards to climate and biodiversity. It opts for a continuous improvement approach to ESG processes in order to overcome these shortcomings

DNCA Finance has therefore opted for the principle of progressiveness in the deployment of ESG policies, in order to allow a pragmatic application and integration of ESG issues in the links of its value chain.

D. ESG data sourcing

To meet new environmental and regulatory challenges, DNCA Finance launched a major project at the end of 2021 to overhaul the sourcing of all its ESG data in order to :

- Improve and making more reliable the data of issuers, and the indicators of impact and incidence on climate and biodiversity
- Enter information on activities aligned with the European Taxonomy
- Enriching the existing SRI analysis process (in particular through the integration of physical and climatic risks) and enabling its systematic use (through the use of an "ABA Quant" rating assessed on the entire investment universe)

- Expand the scope of other ESG processes

The application of the "Sustainability Risk Management Policy" will be implemented following this call for tenders, the integration of the data into the information system and the processes of use with a target of 2023.

IV. GOVERNANCE

A. DNCA Finance ESG Governance

DNCA Finance has adapted its governance to better implement the Responsible Investment Policy, of which the Environmental Policy is one component.

ESG governance is thus made up of several bodies:

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

1. Sustainable Development and Investment Committee

The objective of the Sustainable Development and Investment Committee is to define the strategic orientations of DNCA Finance's CSR and Sustainable Investment policies, including orientations concerning climate and biodiversity, in line with the ESG orientations of the Supervisory Board.

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

Its main tasks are to:

- Determine the strategic orientations in terms of corporate social responsibility and responsible investment
  - Translate and take into account DNCA Finance's shareholders' orientations in terms of social responsibility and sustainable investment
  - Establish the CSR commitments of DNCA Finance as a company, including commitments in the investment function
- Define and evolve SRI policies:
  - Sustainable development and its components
  - Responsible investment and its components:
  - Policy design
  - Policy development (based on proposals for the Sustainable Investment Committee, the Operational CSR Committee, other committees, and all stakeholders including shareholders)
- To assess the operational implementation of SRI policies over the past year, in particular through the production of associated reports (DPEF, engagement report, Art. 29 of the LEC, Annex 1 SFDR, etc.), and to draw lessons from this in order to revise the strategic orientations / SRI policies

2. Sustainable Investment Committee

V. The objective of the Sustainable Investment Committee is to define, deploy and monitor the Sustainable Investment processes.

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

Its main tasks are to :

- Define SRI processes, including
  - Rating process for private issuers
  - Rating process for sovereign issuers
  - Exclusion process
  - SRI selectivity process
  - Sustainability risk management process
  - Process for monitoring negative impacts
  - Fund labelling process
  - Engagement and voting process
  - Climate trajectory steering process
- Deploy and monitor SRI processes:
    - Ensure the operational deployment of the strategic guidelines for Responsible Investment of the Development and Sustainable Investment Committee (DID Committee)
    - Manage the temperature of the portfolios according to the trajectory decided by the DID Committee
    - Take stock of the deployment of SRI processes and the achievement of the objectives set by the DID Committee
    - Arbitrate proposals for changes in the SRI processes of subordinate committees
  - Submit proposals for changes in SRI policies to the DID Committee

1. Sustainable Investment Monitoring Committee

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

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

Its main tasks are to :

- Review the exclusion policy
- Validate and maintain traceability and justification of changes to the exclusion lists
- Track and monitor identified negative impacts

2. Transverse Sustainable Investment Committee

The objective of the Transverse Sustainable Investment Committee is to define, deploy and monitor the operational processes that support and frame Sustainable Investment.It is composed of the Operations Department, the Responsible Investment management and expertise division, and the risk, marketing, legal, sales, data, compliance, and middle office teams.

Its main tasks are to :

- Define, frame and monitor the project(s) to be implemented:
    - Define the objectives and the roadmap
    - Define the subdivision
    - Designate those responsible for the actions
    - Estimate the consumption of necessary resources (time, expenses)
    - Define the schedule according to business objectives and constraints
    - Monitor actions and compliance with major milestones
- Monitor and support business team operational processes, including the following items deployed at the Data Committee level:
    - ESG data sourcing
    - Flow instruction
    - ESG data structuring (data dictionary / repository)
    - Quality control of ESG data
    - Dissemination of ESG data (from the repository to possible business tools)
- Provide the information necessary to define the assessment of the operational implementation of the ID functional processes over the past year, in particular to produce reporting such as the engagement report, the Art. 29 of the LEC report, Annex 1 SFDR, etc.

B. Risk Committee

Monitoring of sustainability risks, according to the indicators and technologies expressed in chapter V.B.2 - Indicators used in risk monitoring

The indicators used, as they become available, in the process of monitoring sustainability risks are mainly:

- Ratings from ABA (private issuers) or ISS (sovereign issuers)
- Discount of controversies monitored by ABA (private issuers), or controversy score from data providers
- Financial risk indicators for climate (Climate VAR) and biodiversity

These indicators are described in chapter A.1 - Risk indicators used by DNCA Finance.

Considering market developments in data availability, quality, and methodology, DNCA Finance will enrich the monitoring process with additional indicators.

DNCA Finance's ESG data sourcing system is integrated into DNCA Finance's risk control system (the monitoring of sustainability-related financial risks will be operational after the ESG data sourcing project mentioned in chapter III.D - ESG data sourcing).

This integration of sustainability risks into DNCA Finance's risk control will meet the expectations of Article 29 of the Energy and Climate Law and its implementing decree of 28 May 2021 (Article 8).

The Risk Committee, the central body of the risk management system, meets every six months. It is composed of the three senior managers (the Manager of the Partnership, the Managing Director in charge of Operations and the Director of Management or his representative), the Head of the Risk Department and the RCCI.

The purpose of the Risk Committee is to

- To present the evolution of the risk management policy, procedures, and mapping
- To report on the status of inspection and audit recommendations
- Report on significant issues related to market, concentration, credit, counterparty, foreign exchange, liquidity, valuation, and sustainability risks
- To present a follow-up of the funds in VaR, backtesting and stress tests
- Monitor management styles
- Take any decision to regularise an anomaly identified by the Risk Department and subject to an escalation procedure
- Monitor constraints and performance

VI. IMPLEMENTATION OF THE SUSTAINABILITY RISK MANAGEMENT POLICY

A. Consideration of sustainability risks in the investment process

1. Risk indicators used by DNCA Finance

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

- Ratings from ABA (private issuers) or ISS (sovereign issuers)
- Controversies monitored by ABA (private issuers), or from ISS
- Financial risk indicators for climate (Climate VAR) and biodiversity
- Raw data (fossil fuel exposure, sectoral exposure, etc.)

a) Issuer ratings

(1) Indicator based on ABA rating (private issuers)

DNCA Finance has developed a proprietary ABA "Above and Beyond Analysis" rating tool. This model is based on five independent and complementary analysis pillars applicable to any company invested in the funds:

Risk of responsibility	Sustainable transition	Controversies	Engagement	SDGs

SDGs: UN Sustainable Development Goals

In addition, a climate pillar and a positive contribution pillar have been developed for some funds.

Climate	Positive contribution

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

ABA analysis is deployed on DNCA Finance's active management universe, i.e. approximately 900 issuers (including all corporate securities in the portfolio). In order to extend the coverage of the investment universe, an ESG data tender has been launched and will allow DNCA Finance to build an "ABA Quant" rating (See III.D - ESG data sourcing) which will be implemented at the end of the project. (target 2023), which will cover issuers that have not been subject to an ABA qualitative analysis.

The 'Responsibility Risk' pillar is a central indicator in the analysis of sustainability risk.

This pillar offers a score out of 10 and is broken down into 4 themes: shareholder responsibility, environmental responsibility, social responsibility, and societal responsibility. Each theme is constructed considering the most material issues for issuers (correlation between the criteria and the company's economic performance) and the number of criteria is deliberately limited to 24 and is based on around one hundred raw KPIs.

SHAREHOLDER RESPONSIBILITY

- Respect for minority shareholders
- Independence of the Board and Committees
- Accounting risks
- Remuneration of the CEO
- Quality of financial communication

ENVIRONMENTAL RESPONSIBILITY

- Environmental management
- Regulation and certification
- Climate policy and efficiency
- Biodiversity impact and externalities

SOCIAL RESPONSIBILITY

- Corporate culture and HR management
- Social climate and working conditions
- Attractiveness and recruitment
- Training and career management
- Promoting diversity

SOCIAL RESPONSIBILITY

- Supply chain management
- Respect for communities and human rights
- Innovation capacity
- Customer satisfaction
- Protection of personal data
- Corruption and business ethics
- Fiscal coherence

The analysis of each theme is based on a combination of qualitative and quantitative criteria.

The "Responsibility Risk" rating thus reflects the quality of a company's overall approach as an economic player, regardless of its sector of activity.

The "Responsibility Risk" rating is carried out by DNCA Finance analysts on an ongoing basis. The analysis of the "Controversy" pillar, below, makes it possible to complete this "Responsibility Risk" rating according to alerts and current events.

(2) Indicator based on ESG scores of sovereign issuers

To improve the ESG risk of sovereign issuers, DNCA Finance will rely on the rating agency ISS from 2022.

The ISS ESG Country Rating complements the financial analysis with extra-financial information that may have an impact on the creditworthiness of sovereign issuers and measures the ESG performance of investments in these issuers.

ISS uses several types of data before determining ESG scores:

- Quantitative data: World Bank, Food and Agriculture Organization (FAO), International Energy Agency (IEA), international research institutes such as the Stockholm International Peace Research Institute (SIPRI)
- Scores, quantitative results of analyses by international NGOs like Germanwatch, International Trade Union Confederation (ITUC), Tax Justice Network or Transparency International
- Qualitative data based on reports: "World Social Protection Report" (ILO), "Finding on the Worst Forms of Child Labor" (US Department of Labor), "Country Reports on Human Rights Practices" (US Department of State), "Report on Death Sentences and Executions" (Amnesty International)

DNCA Finance plans to enhance the existing ABA model for public issuers by using raw data and ESG sub-scores provided by ISS.

b) Controversy Analysis

The ABA Controversy pillar tracks issuers' level of controversy using the typology used in the "Liability Risk" analysis: shareholder controversies, environmental controversies, social controversies and societal controversies.

Controversies are derived from DNCA Finance's analysis of information using its proprietary model. A daily screening of targeted information is carried out (list of keywords) using an algorithm and a dedicated human resource. In addition, this analysis is supplemented by external data (rating agencies and broker research).

The aim is to match the principles laid down by issuers with the reality observed, and to provide a basis of alerts for managers. Each controversy, classified according to theme (shareholder, social, environmental, and societal), is the subject of a complete analysis and a report. At the end of this work, the controversies are distinguished according to their level of seriousness to obtain a score from 1 to 4 (4 being the worst score).

DNCA Finance uses this analysis as a leading indicator when it is tangible and not as a systematic sanctioning tool. Indeed, the international dimension of issuers and the profusion of information mean that isolated cases must be distinguished from major alerts in each situation. However, a succession of isolated cases may, for example, be evidence of a widespread violation throughout the company.

The score of each controversy applies a more or less significant discount (from 10 to 50%) to the rating of each pillar (shareholder, social, environmental and societal) and to the ABA "Responsibility Risk".

c) Exposure to physical and transitional risks related to climate and biodiversity

(1) Climate risk exposure and Climate VAR

Climate change may have direct or indirect consequences on the economic and financial performance of companies, states or organizations, as discussed in the chapter II.A.2 - Sustainability risks specific to climate change.

There are several methods for calculating the financial risk of portfolios related to climate change. DNCA Finance will integrate in 2023 the Climate VaR indicators provided by MSCI. MSCI's Climate VaR model measures the potential impact of different climate scenarios on the valuation of individual securities. Climate VaR indicates, in percentage points, what the potential impact of the effects of climate change could be on the market value of a security, over the 2100 time horizon. It incorporates 3 types of climate change impacts:

- Political risks
- Technological opportunities
- Physical risks and opportunities

These risks are described in more detail in DNCA Finance's "Environmental Policy".

For all three types of impacts, the model calculates estimates of future costs and revenues based on the scenario and the company, and then applies financial modelling to deduce the impacts on stock valuation.

(2) Exposure to risks related to biodiversity loss

Financial risks specifically related to biodiversity loss are still very difficult to measure given the current state of knowledge, technology, data and analytical tools available. For this reason, pending progress on methods for measuring and managing biodiversity-related financial risks, DNCA Finance has chosen not to use specific indicators in the short term.

However, DNCA Finance :

- Integrates as much as possible the impact of issuers on biodiversity and externalities into its ABA "Responsibility Risk" analysis.

d) Other Indicators risk monitoring

DNCA Finance uses many other ESG indicators provided by different data providers, such as :

- Sectoral exposures of issuers (energy, fossil fuels, etc.…)
- Other raw data (CO2 emissions, fossil fuel reserves…)

2. Use of indicators and alerts

a) Monitoring of all exposures

Management charts showing portfolio exposures to the selected indicators will be updated regularly and used by all managers.

b) Warning system

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

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

c) Integration into the management process

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

- Review the assumptions of the investment case
- Initiate or accelerate an engagement process (see V.D - Link to DNCA Finance's engagement policy)
- Lighten, divest completely, or strengthen the position
- Putting under surveillance if necessary

d) Creation of a "worst offenders" list

DNCA Finance has set up a "worst offenders" list, consisting of the issuers most at risk from a societal responsibility point of view. This list is drawn up on the basis of **major controversies**, after analysis by members of the SRI team, and with validation by the Sustainable Investment Monitoring Committee.

An issuer on this "worst offenders" list can no longer be held in the portfolios managed by DNCA Finance: investment is impossible (blocking pre-trade constraint in the order-passing tool), and the security is, if necessary, disinvested as quickly as possible, depending on market conditions and in the interest of the holders

B. Sustainability risk control process

1. Integration into the risk control system

DNCA Finance incorporates the main sustainability risks into its financial risk control framework, including (as data becomes available) the following:

- Description of environmental, social and governance risks
- Risk characterization
- Risk segmentation :
  - Environmental risks, including
- Physical risks: exposure to the physical consequences of environmental factors, such as climate change or biodiversity loss
- Transition risks: exposure to developments induced by the ecological transition, including litigation and liability risks
- For more details on these risks, see II.A.2 - Sustainability risks specific to climate change
  - Societal risks
  - Governance risks
- Indicators of the economic sectors and geographical areas affected by these risks, where relevant and available

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

2. Indicators used in risk control

The indicators used, as they become available, in the sustainability risk monitoring process are mainly:

- Ratings from ABA (private issuers) or ISS (sovereign issuers)
- Discount of controversies monitored by ABA (private issuers), or controversy score from data providers
- Financial risk indicators for climate (Climate VAR) and biodiversity

These indicators are described in chapter A.1 - Risk indicators used by DNCA Finance.

Considering market developments in data availability, quality and methodology, DNCA Finance will enrich the monitoring process with additional indicators.

3. Determination of exposure limits and monitoring of alerts

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

- Minimum score "Responsibility risk" (already effective)
- Maximum exposure to certain sectors (already effective)
- VAR Climate limit (to be announced)

In accordance with DNCA Finance's internal procedures governing the monitoring of constraints (regulatory and statutory) and the monitoring of internal limits, an alert threshold may be defined in order to anticipate the risk of exceeding the limit, so as to enable the manager to adjust and anticipate the evolution of the portfolio

In addition, the Risk Control Department ensures, at the second level, that the "worst offenders" list described in point A.2.d). The Middle Office carrying out the first level of control - Creation of a "worst offenders" list .

C. Link to DNCA Finance's exclusion policy

DNCA Finance's exclusion policy contributes directly to the sustainability risk management policy by protecting the relevant portfolios from financial risks related to certain ESG themes (e.g. exposure to the thermal coal production sector, etc.).

The "DNCA Finance Exclusion Policy" document, available on the website, details:

- Exclusions from controversial weaponry (for all DNCA Finance funds)
- Sector exclusions (or maximum sector exposures), depending on the management strategy. These sectors may include
  - Tobacco production
  - Fossil fuel based electricity generation
  - Unconventional oil and gas production
- Exclusions related to violations of the UN Global Compact

The application of sustainability risk management principles can lead to an enriched exclusion policy.

D. Link to DNCA Finance's engagement policy

As a responsible investor, DNCA Finance attaches great importance to maintaining a constant dialogue with the issuers in which it invests. DNCA Finance's shareholder engagement is detailed in the "Engagement Policy" document. This engagement approach allows DNCA Finance to:

- Encourage issuers to adopt best practice
- Benefit from a detailed understanding of the company's strategy and its integration of sustainability risks

The engagement policy thus contributes directly to DNCA Finance's sustainability risk management. The level of engagement and dialogue depends on the level of sustainability risk.

DNCA Finance distinguishes two ways of interacting with companies:

- Dialogue with issuers
- Shareholder or investor engagement

1. Dialogue with issuers

As a conviction-based manager, DNCA Finance considers it essential to meet very regularly with the issuers in which it invests or plans to invest. This is the case for both financial and SRI analysis. These meetings allow us to question the company's management on its strategy and the extent to which its implementation integrates the interests of all stakeholders. These discussions provide a very relevant picture of the degree of real integration of SRI issues and corporate culture.

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

The number of contacts with issuers is described in https://www.dnca-investments.com/isr/Rapport%20d%27engagement%20et%20Rapport%20de%20vote%202021.pdf

2. Shareholder or investor engagement

DNCA Finance believes that improving the practices of the issuers in which we invest helps to protect the value of portfolios, and has put in place an engagement process to encourage issuers to take better account of ESG issues. More generally, DNCA Finance believes that it is our fiduciary responsibility not only to select the best investments, but also to encourage better practices and transparency from issuers.

DNCA Finance distinguishes between two types of shareholder engagement:

- Reactive engagement, following a controversy or a particular incident
- Proactive engagement, to encourage issuers to develop better transparency and management of their ESG issues

These two cases are subject to a formalized engagement process, detailed in the Engagement Policy document. This process is structured as follows:

- Identification of engagement targets
    - Reactive engagement: detailed analysis of controversies; systematic solicitation of issuers facing controversies deemed "severe".
    - Proactive engagement: a combination of factors
- DNCA Finance's investment weighting in the company
- Presence of the company in "SRI" funds (increased focus on ESG risks)
- Unfavorable "Responsibility Risk" rating, indicating insufficient ESG risk management
- Implementation of the engagement process:
    - Establishment of an engagement plan (objectives, indicators for monitoring the progress and success of the engagement, designated interlocutors, estimated duration of the engagement process)
    - Discussions with the company based on the engagement plan
    - Monitoring of the engagement process in the ABA tool (status "in progress" or "achieved"), positive or negative evolution.
    - Reporting: the results of the engagement process are communicated to the managers concerned and are the subject of a dedicated report to clients (annual engagement report)

Escalation procedures may be triggered, should the target company refuse to respond or fail to put in place appropriate means to address the identified problems or weaknesses. These escalation procedures are determined on a case-by-case basis in collaboration with the management teams.

3. Collaborative engagement

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

DNCA Finance drives its collaborative engagement activity through direct contact with investors and participation in engagement initiatives involving many international investors.

4. Integration of the engagement approach into the analysis model and investment decisions

a) Integration with ABA ESG analysis

Dialogue with issuers is an invaluable source of added value in analyses, whether financial or specifically ESG. All dialogue and engagement actions are thus integrated into two complementary tools:

- The proprietary ABA tool, in order to adjust, if necessary, the "Risk of Responsibility" or "Transition" rating of the company, and in order to keep track of exchanges with the management of invested issuers
- The Research Pool (RMS) tool in which managers fill in all information relating to discussions with issuers

b) Integration into investment decisions

The results of the engagement actions are integrated into the ESG analysis and can notably impact the "Responsibility Risk" rating. This rating, which is distributed to all management teams, gives an indication of the level of ESG risk, and has a direct impact on whether or not ESG funds are included in the eligible universe.

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

The application of sustainability risk management principles can lead to an enhanced engagement policy.

E. Operating principles : continuous improvement

For the Sustainability Risk Management Policy as for all its ESG policies, DNCA Finance adopts a principle of continuous improvement based on the following steps:

- Objective setting
- Definition of indicators
- Establishment of the result of these indicators, and comparison with the objectives
- Revision of the strategy according to the results

In addition, DNCA Finance participates in several initiatives related to Sustainable Finance and working groups and is actively monitoring market practices, new technologies, analyses, new indicators, etc. in order to improve its Responsible Investment Policy and better respond to ESG issues, particularly with regard to climate and biodiversity risks.

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