DPS

VERBINDEND IN PENSIOENEN

Sustainability policy

Effective date:

1 Januari 2024

1. Introduction

Sustainability is an important part of DPS's investment philosophy and is an essential part of managing and advising DPS's clients. DPS believes that investments that take sustainability metrics into account have a better risk/return profile over the long term than those that don't, both financially and socially. With sustainable investing and advising, DPS wants to ensure responsible and good investment results that are in line with the sustainability ambitions of DPS's stakeholders, such as the pension funds and the shareholder Stichting Pensioenfonds DSM Nederland (PDN). In this sustainability policy, DPS explains how this is being implemented.

2. Sustainable investing

Through its services, DPS promotes environmental and/or social characteristics and invests in companies that follow good governance practices. DPS therefore classifies its services in accordance with Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"). DPS aims to give substance to sustainable investing in various ways. These are explained below.

2.1 UNPRI

DPS has endorsed the *United Nations* Principles for Responsible Investing *(PRI*). Through these principles, PRI strives to make the financial sector more sustainable and a better future for people and the environment. The principles promote socially responsible investing among institutional investors and are as follows:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
Principle 6: We will each report on our activities and progress towards implementing the Principles.

By adhering to the principles, DPS contributes to the further development of sustainable investing in the world. In doing so, DPS also aims to promote sustainability and integrate it into the mandates it manages. By signing, DPS has access to knowledge in the field of sustainability and the possibility of collaboration with multiple stakeholders.

2.2 Application of sustainability risks in asset management

A sustainability risk is an environmental, social or governance (ESG) event or circumstance that, if it occurs, could cause an actual or potential adverse impact on the value of an investment. Ecological events include climate change, scarcity of natural resources and pollution. Incidents in the social field include labour relations and product liability. Governance can include themes such as shareholder rights, business ethics, diversity and executive remuneration.

These sustainability risks can take different forms. They can pose climate-related and environmental risks on their own, but can also be a source of normal financial and operational risks, such as liquidity and market risks. Sustainability risks can occur at different levels, namely company-specific or depending on the sector or region in which investments are made.

Climate-related and environmental risks can be divided into (i) physical climate-related risks and (ii) transition risks. Physical risks are risks that occur as a result of climate change. These risks can materialise acutely, for example due to drought, floods and storms. Physical risks can also be chronic due to developments that manifest themselves over time, such as the gradual rise of sea levels and the degradation of biodiversity. Transition risks are linked to the transition of the economy to a more climate-neutral and environmentally friendly exercise of economic activities. Transition risks are the result of policy, legal and technological developments or changing consumer and market sentiment.

Annex 1 provides a detailed overview of the various sustainability risks that DPS has identified and play a direct role in the various assets that DPS manages and addresses in the manner set out below. In addition, DPS provides an estimate of the direct impact that these sustainability risks may have on the value of investments in the portfolios. DPS distinguishes between low, medium, significant and high impact on the value of investments in the portfolio. Depending on the type of sustainability risk that occurs, the impact of sustainability risks on the return of the entire portfolio is estimated from medium to low.

In addition, the investment portfolios managed by DPS consist of different asset classes and are diversified. The impact of a specific sustainability risk on companies in the portfolio is seen as significant and the impact on government bonds is estimated to be low. Depending on the type of sustainability risk that occurs, the impact of sustainability risks on the return of the entire portfolio is estimated from medium to low.

2.3 How does DPS deal with sustainability risks?

DPS is active in the field of identifying and mitigating sustainability risks and integrates and identifies sustainability risks in a qualitative and quantitative way. For example, DPS takes ESG risks into account where possible.

DPS integrates sustainability risks in two ways. First of all, investments with irresponsible sustainability risks are excluded. After that, sustainability information is taken into account when making investment decisions. In both cases, the management of sustainability risks is carried out in coordination with DPS's customers.

2.3.1 Exclusion of sustainability risks

DPS follows the exclusion policy of its commissioning pension funds. DPS excludes the following companies:

- Tobacco companies
- Companies that derive 25% or more of their turnover from coal or tar sands mining.
- Companies involved in the production of controversial weapons such as cluster munitions, landmines, chemical or biological weapons, depleted uranium munitions, white phosphorus munitions and nuclear weapons; and
- Suppliers of a product that is vital to the production of the aforementioned controversial weapons (key-suppliers).

In addition, companies that engage in conduct that is incompatible with the 10 principles of the United Nations (UN) Global Compact are excluded from investment. These principles are derived from the following four international treaties and declarations:

- The Universal Declaration of Human Rights;
- The International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work;
- The Rio de Janeiro Declaration on Environment and Development;
- The United Nations Convention against Corruption.

The 10 principles are divided into 4 main themes. These main themes are human rights, labour rights, the environment and anti-corruption. Below are the 10 principles under the 4 themes.

Human rights

1. Companies must support and respect the protection of internationally enacted human rights;
2. Ensuring that they are not complicit in human rights violations.

Labour rights

3. Companies must recognise freedom of association and uphold the right to collective bargaining;
4. The elimination of all forms of compulsory and forced labour;
5. The effective abolition of child labour;
6. Combating discrimination in employment and occupation.

Environment

7. Companies must take precautions when polluting the environment;
8. Take initiatives to promote greater environmental awareness;
9. Encourage the development and dissemination of environmentally friendly technologies.

Anti-corruption

10. Companies must combat any form of corruption, including extortion and bribery.

Countries that do not comply with international treaties or are subject to sanctions from the UN, EU or the Netherlands are also excluded from investment. This mainly concerns issues relating to human rights, arms proliferation and democratic rights.

DPS makes use of the screening and research capabilities of Sustainalytics for the exclusion. This advisory organisation is actively engaged in global research into social themes and conducts analyses in the field of sustainability with regard to investment portfolios. In doing so, a structured approach is followed that is accepted within the pension sector.

Prior to an investment, it is checked against the exclusion list of the clients. In addition, the investment portfolio is assessed on a quarterly basis to ensure that all investments meet the relevant exclusion criteria.

By not investing in specific countries or companies, DPS excludes sustainability risks. At the request of customers, the exclusion lists can be extended.

2.3.2 Consideration of sustainability information

ESG Controverses

DPS aims in its asset management mandates to have a better sustainability profile than the corresponding benchmark based on ESG Controversies. DPS has developed a scoring methodology for this purpose. ESG Controversies concern incidents at companies or their suppliers that have a negative impact on stakeholders, the environment or business operations, and provide a good indication of a company's sustainability risk profile. Data about this is provided by an external data provider. Currently, this is Sustainalytics.

DPS customers have signed the so-called IMVB agreement. With data from Sustainalytics, among other things, companies are screened to see whether they meet the requirements of this agreement. The aim is to prevent and address the negative impact of investments on society and the environment. The guidelines in the IMVB Agreement are aimed at taking into account the risks, positive and negative impact on stakeholders in the (investment) chain.

DPS does not invest in companies that classify themselves in the category with the worst ESG controversies score ('severe' impact/category 5), based on the information provided by Sustainalytics. This means an extension of the current exclusion policy mentioned above. If a company receives an ESG controversy score of 'high' impact/category 4, based on information from Sustainalytics, DPS will act in the manner set out in Appendix 2.

Allocation to designated green bonds, sustainability-related bonds and social bonds

DPS allocates at least 5% of its invested assets to *green bonds*, sustainability-related *bonds* and *social bonds* in the various DPS fixed income mandates (Nominal State, Inflation Linked Bonds, High Yield Europe and Investment Grade Credits Europe). This allocation objective is substantiated by the fact that DPS makes a direct, positive contribution to financing the sustainability of companies by investing in these impact bonds.

Carbon footprint reduction

In addition, DPS follows a carbon reduction policy at the request of customers. DPS is committed to contributing to the fight against climate change. On the other hand, DPS is making its mandates more resilient to certain risks,

such as the climate-related transition risk. DPS is a carbon neutral contractor. The total carbon output of DPS is compensated via carbon credits.

Good governance practices

DPS invests in companies that follow good governance practices. This includes good management structures, relations with their employees, remuneration of the staff involved and compliance with tax legislation. DPS assesses companies in terms of good governance based on data sources such as the ESG risk score and controversy score taken from Sustainalytics.

Integrating sustainability risks into risk management policies

In carrying out the asset management, DPS is confronted with various risks of a financial and operational nature. This includes market and liquidity risks on clients' portfolios, as well as physical risks that affect the actual performance of DPS's activities. When identifying these risks affecting the value of the investments and determining the risk size and tolerance, DPS takes sustainability risks into account.

In the execution of the risk management process, DPS identifies the risks that may affect the value of the investments. In addition, DPS determines the degree of risk it considers acceptable and then continuously monitors whether these risks occur. In addition to identifying risks, DPS determines whether it wants to avoid, reduce, share or accept certain risks. To identify and monitor these sustainability risks, DPS uses data systems, such as Sustainalytics.

3. Sustainable investment advice and management

When providing investment advice and fiduciary management, DPS pays attention to sustainable investing and, of course, also pays attention to the wishes of its clients in the field of sustainability. Due to the increasing importance that DPS and DPS's clients attach to sustainable investing, DPS now also employs a specialist who monitors and advises on developments in the field of sustainability on a full-time basis.

During the selection and monitoring of client investments, DPS's fiduciary management department pays broad attention to 7 thematic focus areas (the so-called "7 Ps"). "Planet" is a separate area of attention. This includes monitoring asset managers in the area of socially responsible investing. Within the "P" pillar, the main focus is on the integration of ESG in the organisation and in the investment process.

Extra emphasis is placed on the identification of ESG risks within this process. At the organization, emphasis is placed on the time and attention devoted to ESG. It is important that sustainability is part of the corporate culture. In addition, attention is paid to the remuneration policy. The monitoring ensures that changes to the sustainability policy of DPS's clients are adequately implemented by the selected asset managers. Attention is also paid to whether asset managers comply with laws and regulations (such as SFDR) and generally accepted sustainability/ESG principles (UN Global Compact, OECD, etc.).

A lot of value is attached to this part. This is evident from the scoring theme that is linked to the "7 P's" whereby "Planet" is assigned a relatively high score. As early as drawing up a *longlist* in a selection process, new asset managers and/or fund investments are examined in broad terms in various areas, including 'Planet'. In the event of a persistent alarming score for this component, clients are advised to say goodbye to the investment in question.

4. Remuneration policy and training

Sustainability and the integration of sustainability risks is an important part of DPS's investment philosophy and an integral part of the investment principles of DPS's clients. DPS puts the interests of the customer first. This is evidenced by the fact that DPS asks every employee to take the so-called 'oath or vow'. In doing so, the employee declares that, among other things, he will perform his job carefully and with integrity and will put the customer's interests first. When determining qualitative criteria for assessing the level of variable remuneration, DPS also requires employees to act in the interests of customers. In this context, a recurring criterion for DPS's investors is the integration of sustainability and sustainability risks into the asset classes. When investing, DPS's investors should take into account the sustainability needs of clients. Several DPS employees are required to become proficient in sustainable investing and sustainability risk identification through training courses.

5. Evaluation

The sustainability policy is evaluated once a year. It will be adjusted when DPS deems it necessary.

6. Entry into force

This sustainability policy is effective as of the date mentioned on the first page of this document.

Appendix 1: Sustainability risks that play a role in the various mandates managed by DPS

Sustainability risks in government bonds

Ecological factors relate to the influence of governments on the environment and their ability to mitigate various risks that can harm the environment. Climate change can affect a country's economic resilience. A country's exposure to climate risks can directly affect its economy. For example, increasing weather volatility and extremes could disrupt infrastructure, agriculture, tourism and water supply, with potential material economic consequences for national economies and public accounts.

The governance factor is also relevant for countries. A country's political stability, government and regulatory effectiveness, institutional strength, levels of corruption, and rule of law can affect their economic attractiveness and are often linked to a country's long-term economic success.

Social factors may also be relevant because of the importance of human capital for economic growth. Social factors such as workforce composition, education, health, and economic well-being are important for economic growth and government revenue.

The expected impact of sustainability risks on the performance of a sovereign bond portfolio depends on the type of sustainability risk that materialises. For developed country sovereign bonds, DPS generally sees this risk as low, whereas for emerging market sovereign bonds it is significant.

Sustainability risks in equities and corporate bonds

Ecological factors are related to climate change, among other things. This risk can be divided into physical risks and transition risks. Physical risks are risks caused by climate- and weather-related events, such as drought and rising sea levels. The physical impacts of climate change can damage parts of a company's operations and subsequently limit a company's operational capacity.

In addition, there are also companies that experience transition risks. These are risks resulting from the transition to a low-carbon economy. Governments around the world are increasingly enacting environmental legislation, and a company's inability to comply with these standards can result in significant fines. Revaluations of assets due to changes in policy, technology, and sentiment can worsen companies' financial conditions.

Social factors relate to a company's relationships with other businesses and communities and its attitudes toward diversity, human rights, and consumer protection. Social factors can affect a company's operational success by attracting new customers and maintaining their loyalty, as well as maintaining relationships with business partners and communities that are impacted by a company's operations.

Corporate governance concerns the internal affairs of the company and its relationships with the company's key stakeholders, including its employees and shareholders. Good and transparent corporate governance can help prevent conflicts of interest between a company's stakeholders and potentially high litigation costs. Additionally, corporate governance is directly linked to a company's long-term success, as good governance policies can help attract and retain talented employees.

The expected impact of sustainability risks on returns depends on the type of sustainability risk that materialises. For the corporate bond portfolio, DPS expects the impact to be significant. For the equity portfolio, DPS expects the impact to be significant.

Sustainability risks for listed real estate shares

Sustainability risks can arise in many forms in listed real estate. For example, the climate plays a major role in investments in real estate. Consider, for example, extreme weather conditions as a result of climate change. Flooding caused by large amounts of precipitation, as well as drought, heat and flooding, can cause damage to buildings and their users. In that case, the cost of maintaining or insuring these buildings will increase and the value of the buildings may decrease. Transition risks may also arise, such as increasing legal requirements regarding the reduction of CO2 emissions from real estate.

Social factors can also have a negative and positive impact on investments in real estate. For example, tenant satisfaction is important when it comes to rented real estate and the attractiveness of the living and working environment has an impact on the demand for rental properties on offer. If such aspects are not handled properly, this can cause reputational damage.

The expected impact of sustainability risks on returns depends on the type of sustainability risk that materialises. For the listed real estate equity portfolio, DPS expects the impact to be significant.

Sustainability risks when investing in other instruments

Investments in other instruments such as derivatives may also be affected by ESG factors. Derivatives may have exposure to stocks or bonds issued by companies or governments and may therefore be affected in a similar way to that described in the paragraph above. DPS believes that the impact of sustainability risks on returns depends on the type of financial instrument and the specific sustainability risk that materialises.

Materiality sustainability risks

Sustainability risks can have negative effects on the value of the aforementioned instruments. DPS does not currently differentiate between asset classes in the materiality of sustainability risks. Sustainability risks can arise with any of the instruments mentioned above. Due to insufficient data availability, it is currently not possible to indicate for which type of instruments these risks are highest.