

**DSM** CAPITAL  
PARTNERS

2024  
STEWARDSHIP  
REPORT

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# Who We Are



## Our Background

**DSM** was founded in 2001 by **D**aniel **S**trickberger and **S**tephen **M**emishian. Today the firm remains 100% owned by current employees and founding partners. The portfolio management, research, client service and business management teams are staffed with seasoned and capable professionals solely focused on the achievement of our clients' financial objectives. From our headquarters in Palm Beach Gardens, Florida, DSM offers the following strategies:

**US Large Cap Growth**

**Global Growth**

**Global Focus Growth**

**Dividend Growth**

## Our Purpose

DSM Capital Partners actively manages growth stock investment portfolios for a wide range of clients, including pension plans, foundations and endowments, other institutions, and individual investors. The firm follows a disciplined investment process designed to identify quality companies presenting compelling long-term revenue and earnings growth and selling at prices that offer the potential for attractive returns. We aim to invest to ensure sustainable long-term profitability for our clients. Our power comes in our ability to aid our clients in fulfilling their missions.

# HIGHLIGHTS OF DSM'S ESG EVOLUTION



# ESG INTEGRATION

## Process

We utilize MSCI's ESG Controversies and Ratings reports as a starting point to assign proprietary ESG scores. Each Portfolio Manager/Analyst at DSM completes thorough research on ESG issues impacting a company and assigns scores using a consistent in-house methodology. We store all ESG communications and developments in a centralized research portal (Bloomberg) so that companies' ESG histories and DSM's ESG activities are available to all Portfolio Managers/Analysts. ESG scores are included in DSM's internal summaries and have an impact on DSM's investment decisions. ESG considerations and the implementation of ESG scores and in-house research have both kept DSM from investing in certain companies and have led to DSM selling portfolio holdings.

## Impact

At DSM, we believe that ESG considerations and engagement play a critical role in active management and responsible investing. Superior ESG outcomes are an important priority for the firm, our employees, our clients and our community. DSM is committed to maintaining an investment approach that fully integrates ESG in order to potentially reduce risk and adverse outcomes while also identifying opportunities to enhance our client's long-term returns. Our ESG framework incorporates ethics and sustainability into our investment decision making process. DSM has a proprietary scoring system for all investments in our portfolios. This system has quantitative and qualitative elements to reflect the severity, duration and remedy of ESG issues affecting the companies in which we invest.



# MSCI RESEARCH

DSM leverages its fundamental bottom-up research alongside MSCI's research to create a proprietary score that better captures the risk and return associated with each stock. We use MSCI's Controversies and Ratings Reports system as a starting point and adjust ESG scores across five key categories: environment, customer, human rights & community, labor rights & supply chain, and governance. These five categories are then broken further into over 20 subcategories:



Biodiversity & Land Use, Energy & Climate Change, Operational Waste (Non-hazardous), Supply Chain Management, Toxic Emissions & Waste, Water Stress and Other



Anticompetitive Practices, Customer Relations, Marketing & Advertising, Privacy & Data Security, Product Safety & Quality and Other



Civil Liberties, Human Rights Concerns, Impact on Local Communities and Other



Child Labor, Collective Bargaining & Union, Discrimination & Workforce Diversity, Health & Safety, Labor Management Relations, Supply Chain Labor Standards and Other



Bribery & Fraud, Controversial Investments, Governance Structures and Other

DSM ESG 5 key scoring basis categories

Source: MSCI

# ACTIVE OWNERSHIP - ENGAGEMENT

DSM's investment team is responsible for proactively engaging with companies to understand a company's approach to ESG and potentially influence ESG related corporate practices. DSM communicates with management and investor relations teams of current and potential portfolio companies, and engagements may take the form of direct in-person meetings, calls, emails, or letters. In determining the prioritization of engagements, DSM considers, among other things: (1) the materiality of the issue; (2) the significance of the portfolio position; (3) the ability to effect change in company practices; and (4) the ability to escalate if necessary. The length of each engagement will vary based on the materiality of the issue, a company's response, and how the information gathered is integrated into DSM's investment process.

DSM monitors the progress and outcome of its engagements on an ongoing basis to evaluate the actions, if any, taken by a company as well as what further actions may be necessary. If there are ESG violations by a company that are severe and not being adequately addressed, DSM may escalate the matter through (1) letter writing to the board of directors, (2) relevant proxy voting, (3) or selling the position. However, DSM believes that we are in the best position to improve ESG outcomes when we as shareholders are interacting with management and will first seek to engage with them to influence a positive resolution of the issues in question.

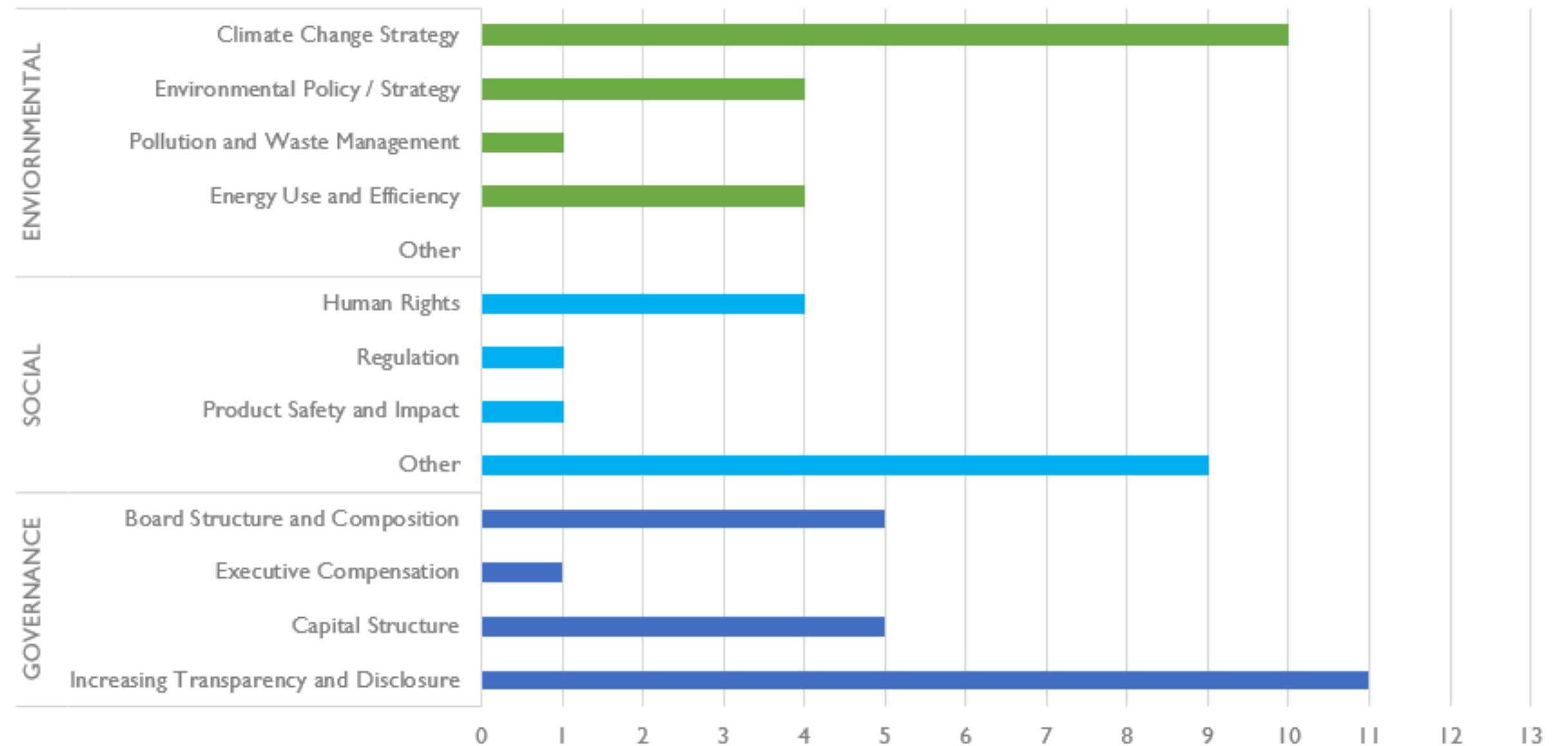


Photo Credit: Paul Burroughs

# DSM ENGAGEMENTS FROM JANUARY 2023 TO JULY 2024

## Reach

Portfolio Managers/Analysts engage with company management teams on ESG issues, and those interactions help formulate DSM's ESG assessment. All active engagements are documented. Of the 87 positions held from January 2023 to July 2024, we engaged with 41 of those companies. This comes out to roughly 47% of our total holdings. The goal of this high rate of engagement is to lead to positive changes within the companies we invest in.





# EXAMPLES OF ACTIVE ENGAGEMENT



DSM initially spoke with Neurocrine Biosciences on the day that Investor Relations was set to present to the annual board meeting. We noted the paucity of stock ownership among board directors, including several board members with 0 direct holdings in the stock. We also noted that the company had ample capacity to repurchase shares given their cash balances and strong free cash flow. We urged management and the board to show greater alignment with shareholder interests and more judicious use of capital via insiders buying stock and the board approving a share repurchase program.

DSM also composed a letter to the board highlighting a series of partnership deals where the company deployed \$715 million in shareholders capital in upfront payments alone with little to show for it and reiterated the lack of alignment of interests between the board, management, and shareholders. Following receipt of the letter, the CEO and Investor Relations director met with DSM and stated they would communicate DSM's feedback to their Board of Directors and evaluate next steps.



DSM engaged with Coca-Cola HBC regarding the substantial amount of water used to produce their products. They discussed their mission to reduce water used per liter of beverage by 20% from 2017 levels, particularly at manufacturing facilities located in water risk areas. They have committed to obtaining European Water Stewardship or Alliance for Water Stewardship certification at all of manufacturing sites. They agreed that they would be monitoring ways to do more.



DSM held discussions with Ulta regarding their progress and steps in setting and moving towards a science-based target for carbon emissions. Ulta completed setting their first science-based target (SBT) for emissions in 2023. Ulta is taking several steps to achieve their goals, including:

- Opening a new fulfillment center on the East Coast to shorten delivery miles.
- Working with brand partners to consolidate shipments to reduce the number of deliveries each week.
- Shifting to lower carbon rail transport for long distance shipments.
- Introducing new fulfillment technology to increase efficiency in servicing e-commerce orders.

# EXAMPLES OF ACTIVE ENGAGEMENT



DSM engaged with Epam to inquire as to the company's scope 1-2-3 greenhouse gas emissions, plans on setting a net zero target date, and plans for gender and ethnicity diversity targets. The company provided their scope 1 and 2 emissions, although they are not published on the company's website or in their filings. They indicated they are working on scope 3 data and that they did not have a net zero target in place yet but were discussing it currently. As for gender diversity, they noted their employee gender statistics are as follows: 30% female at the company level (40% in junior roles, 28% at the management level, and 16% among senior leadership). The company expressed that while they are aware of benefits of diversity, they do not have any current hard targets or goals. Investor relations also indicated they hope to have their first sustainability report out in the near-term future.



DSM engaged with Grifols to express four separate issues. First, our opposition to a potential equity raise. Second, emphasizing the importance of hosting a live call alongside earnings releases to clarify and convey the company's perspective and manage the narrative better. Third, we requested consideration of specific performance targets to provide visibility to and confidence on the path of debt & leverage ratio reduction. Finally, we emphasized that debt pay down and the reduction of the leverage ratio should remain the top priority.



DSM engaged with Visa to discuss the company's process and rules for identifying merchants involved in illegal activities, in relation to the company's association with the advertising arm of MindGeek and the alleged processing of payments relating to child pornography. DSM suggested Visa suspend organizations that are facilitating damages to others and/or connected to illegal activities. Visa assured they have processes and rules in place to permit only legal transactions to be processed through merchant acquirers and Visa's network. Additionally, Visa shutdown transaction processing on the illegal content site and announced that they will suspend MindGeek's advertising arm, TrafficJunky, from using its network to receive payments in the afternoon of our engagement.

# ACTIVE OWNERSHIP - PROXY VOTING

It is DSM's policy that all proxies be voted solely in the best interests of the beneficial owners of the securities. Proxies are an asset of a client that must be treated with the same care, diligence and loyalty as any asset belonging to a client. Towards that end, DSM is responsible for reviewing proxy proposals for all securities held in its investment strategies and for making proxy voting decisions for its clients.

DSM has a Proxy Voting Committee (the "Committee") comprised of senior professionals. The Committee meets quarterly and as necessary to discuss proxy issues. The Committee's role is to help administer and oversee the application of DSM's proxy voting policy. The Committee is responsible for (i) developing and implementing this policy and the procedures described herein; (ii) overseeing and administering proxy voting on behalf of clients; (iii) reviewing proxy voting activity annually and as needed; and (iv) engaging and reviewing the Third-Party Administrator (discussed below).

When reviewing a proxy proposal, DSM may consider information from any and all sources. DSM may engage with the issuer of a proxy to discuss specific items and to obtain additional information on the proxy issue. DSM may also engage with management of these securities on a range of environmental, social or governance issues throughout the year. For additional assistance in reviewing proxies, DSM has contracted with an independent third party (currently, Institutional Shareholder Services Inc.) (the "Third Party Administrator") to provide issue analysis and vote recommendations with respect to all proxy proposals.

Portfolio Managers/Analysts are responsible for assessing whether there are any material conflicts of interest with respect to a proxy issue. If no material conflicts of interests have been identified, DSM will vote proxies as directed by the Portfolio Manager/Analyst. If a material conflict of interests exists, the conflict is to be brought to the attention of the Committee for resolution.

DSM's proxy voting policy lists positions DSM would typically take on certain proxy proposals. As noted above, DSM has retained the Third-Party Administrator to analyze proxies' issues and to make vote recommendations. DSM reviews these recommendations in making its own proxy voting decisions. The Third-Party Administrator will be responsible for executing proxy votes, reporting of proxy voting and recordkeeping. The Third-Party Administrator will coordinate with each client's custodian to help ensure that proxy materials reviewed by the custodians are processed in a timely fashion. In instances in which the Third-Party Administrator is unable to make a vote recommendation, DSM, based on such advice as it deems necessary, will determine the manner in which to vote such proxy.

DSM's proxy records and complete Proxy Voting Policy can be viewed on [DSM's website under Stewardship](#).



# COLLABORATIONS

DSM builds upon its stewardship practices and policies through collaboration and active involvement in sustainability initiatives, as discussed below. DSM will become a signatory to other relevant initiatives, such as The Investor Agenda's 2018, 2021 and 2022 Global Investor Statement to Governments on Climate Change, where appropriate.



DSM became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) in April 2020. The TCFD sets out to develop effective climate related financial disclosures that consider the physical, liability and transition risks associated with climate change. These disclosures can then be used by companies to provide relevant climate related information to stakeholders. Additional information regarding the TCFD can be found on the TCFD website.



DSM became a signatory to the Principles for Responsible Investment (PRI) in October 2017. The PRI provides a set of investment principles and best practices designed to promote responsible investing. DSM utilizes the PRI's Collaboration Platform, and completes annual transparency reports which can be provided upon request and are also available for download through the PRI website on DSM's signatory profile.



# SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

The Sustainable Finance Disclosure Regulation (SFDR) framework was created by the European Union to increase transparency in the finance industry. The SFDR enables investors and consumers to make more informed investment decisions that contribute to a sustainable transition, by setting disclosure requirements covering a broad range of environmental, social & governance (ESG) metrics at both entity- and product-level. This emphasis on transparency contributes to one of the EU's big political objectives: attracting private funding to help Europe make the shift to a net-zero economy. The SFDR classifies funds based on their characteristics and level of sustainability. The three different classifications are:

- Article 6: Funds without a sustainability scope
- Article 8: Funds that promote environmental or social characteristics
- Article 9: Funds that have sustainable investment as their objective

DSM Capital Partner Funds (UCITS) offers Article 8 funds in the following strategies:

- Global Growth Sub-Fund
- US Large Cap Growth Sub-Fund



# GREEN TEAM

In 2020, DSM established the Green Team, a cross functional team of senior professionals responsible for oversight and coordination of ESG and DE&I efforts. The Green Team meets at least quarterly and is led by senior members of the firm including the COO and Deputy CIO's and has full commitment from the CIO/Managing Partner. The Green Team works directly with DSM's Board of Managers and includes 3 members of the Board of Managers. The Green Team is responsible for implementing initiatives designed to encourage diversity, equity and inclusion and to help ensure a supportive learning environment which values different experiences and perspectives. To help employees expand their knowledge and promote learning around diversity, equity, and inclusion, DSM provides firmwide training such as unconscious bias training.



# DIVERSITY, EQUITY, AND INCLUSION STATEMENT

DSM has always created an inclusive and diverse culture, which we believe drive superior returns to clients and creates a rewarding workplace and career for all employees. Our culture influences how we interact with each other, our clients, service providers and the broader community. DSM seeks to hire a diverse range of individuals with unique backgrounds and experiences who bring diversity of thought to the culture of the organization as well as to the investment process. We recognize and value differences in gender, race, age, culture, religious beliefs, sexual orientation, disabilities, veteran status, and family responsibilities. DSM is committed to encouraging a sense of inclusivity within the workplace. We seek to foster an environment that promotes a collaborative and courteous atmosphere where all employees feel respected and have a sense of belonging. Employee engagement that encourages a wide range of varied thoughts and insights. Initiatives to help ensure a supportive learning environment which values different experiences and perspectives and promotes growth within the community. DSM's DE&I policies apply to hiring and promotion decisions as well as all aspects of the workplace, extending to professional development and training, as well as company events and gatherings. DSM has taken steps to recruit women and racially/ethnically diverse candidates into various roles which include: (1) requiring recruiters to include women and racially/ethnically diverse candidates for first-round interviews, (2) advertising job vacancies through multiple channels, including those with outreach to women and racially/ethnically diverse candidates, and (3) leveraging existing employee relationships in the market. DSM tracks diversity metrics at the firm, management, investment team, and equity ownership levels, and these metrics are reported to senior management as well as the Board of Managers.



## DEI Code for the Investment Profession

DSM became an early signatory of the CFA institute's recently launched Diversity, Equity, and Inclusion Code for the Investment Profession(US) in June 2023. As the preeminent education and certification body for financial analysts, the CFA Institute's Code represents a meaningful advancement in establishing DEI standards throughout our investment industry. The comprehensive, voluntary Code focuses on six principles aiming to achieve greater inclusion of wider viewpoints from the best talent, create better working environments, drive better investment outcomes, and generate a cycle of positive change for future generations.

# FINANCIAL WOMEN'S ASSOCIATION (FWA) PARTNERSHIP

DSM partnered with and became a “Friend” of the Financial Women’s Association (“FWA”) in 2022. The FWA works to promote the advancement of women, diversity, equity and inclusion in finance and industry. FWA was established in 1956 when eight enterprising women on Wall Street met to share professional experiences and further their knowledge. Today, the non-profit organization proudly supports over 800 members worldwide and promotes the professional development and advancement of all women through education, mentorship, scholarships, networking, and alliances across the financial community. The FWA offers several valuable learning programs, such as their annual Wall Street Exchange intern series. The Wall Street Exchange Summer Program (WSE) is a career development program designed to augment the summer internship experience of select qualified rising college seniors. The program is open to all genders, and there is no cost to students to apply or participate. The program consists of a series of weekly events hosted by top financial services firms and focuses on professional and personal development. DSM interns have been able to participate in this program, allowing them to make new connections and gain a better understanding of the world of finance. DSM encourages employees of all genders to contribute to and participate in FWA events and collaborations.





# DSM IN THE COMMUNITY

DSM supports many local organizations through employee led nominations of annual giving, board leadership and community involvement.



Movember is a non-profit organization that raises awareness and funds for men's health - specifically prostate cancer, testicular cancer, mental health and suicide prevention. Many employees at DSM participated in the annual Movember event, and raised funds for the cause.



The ACCFDN is a non-profit organization that runs a program designed to support students in achieving their educational goals, focusing on mentorship, professional development, and scholarships. DSM provided funding to ACCFDN to help ensure that students can continue to benefit from the invaluable services they provide.



# DSM IN THE COMMUNITY



NAMI is the nation's largest grassroots mental health organization dedicated to building better lives for the millions of Americans affected by mental illness. Mental health affects us all, and everyone deserves the inherent right to have access to mental health support, resources, and care. Still, not everyone has equal and equitable access to these crucial services because of stigma, shame, or fear of judgment. These factors create significant barriers that prevent individuals from seeking mental health care. DSM made a contribution to NAMI so that they can continue to provide a national network of support and resources, both online and in communities across the country.



Red Apple Supplies is a FREE teacher resource store to equip teachers with essential school supplies for their classrooms. Since opening in 2016, Red Apple Supplies has distributed over \$5 million in school supplies to Title I schools. The mission of Red Apple Supplies is to serve the educational and creative needs of children in Palm Beach County public schools by providing a means to transfer donated school supplies from businesses, organizations, and individuals free to teachers for use in classrooms throughout the school year. DSM employees volunteer by stocking and donating supplies to Red Apple Supplies



# DSM IN THE COMMUNITY



# DSM CORPORATE ENVIRONMENTAL INITIATIVES



DSM believes in conservation and the concept that efficiency in all facets of life leads to heightened productivity. We take a holistic approach when it comes to environmental and energy initiatives. From our bathrooms to our office spaces, we feel that there is always space to improve our workplace. Listed below are just a few different ways that DSM has become more environmentally efficient in the workplace:

- Installing water saving nozzles in the washrooms.
- Utilizing heat and sound insulation in its offices.
- Placing motion controlled lamps in its offices.
- Separating waste to recycle.
- Providing digitized client presentations



# DISCLOSURES

This material is for informational purposes only. It is not intended to reflect a current or past specific recommendation, investment, legal, tax or accounting advice of any kind, or an offer or solicitation of an offer to buy or sell any securities or investment services in any jurisdiction where or to any person to whom it would be unauthorized or unlawful to do so. Except as otherwise specified, any companies, sectors, securities and/or markets discussed are solely for illustrative purposes regarding economic trends and conditions or investment process and may or may not be held by DSM Capital Partners LLC (“DSM”) or other investment vehicles or accounts managed by DSM.

This information should not be construed as research or investment advice. Returns are historical and past performance is no guarantee of future results and individual accounts and results will vary. The value of investments and the income derived from investments can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur. Investors are urged to consult with their financial advisors before buying or selling any securities. Investing entails risks, including possible loss of principal. There are special risk considerations associated with international and global investing (especially emerging markets), small and mid-capitalization companies, or other growth and/or concentrated investment strategies. Past performance cannot guarantee future results.

DSM’s ESG policy is to integrate sustainability risks into its investment objectives and policies by identifying, evaluating and managing relevant risks. DSM measures and integrates sustainability risks based on their financial materiality using a blend of inputs including proprietary analysis and third-party information sources. Sustainability risks may be based on company disclosures or third-party information sources that are forward-looking statements of intent and not necessarily fact-based or objectively measurable. Sustainability risks may vary from investment to investment and could include, but are not limited to, risks of environmental damage, social risks (including safety and human rights violations and exploitation), governance risks (inadequate oversight and internal governance of the companies, including management and board structure, compensation and approach to anti-bribery and anti-corruption, litigation risks linked to ESG issues, as well as the risk of political and regulatory changes on investments related to each of the foregoing.

There is no guarantee that this data will be correctly assessed or that DSM’s policy will result in the optimal asset allocation or portfolio construction leading to the best risk-adjusted returns. Moreover, the companies or industries subject to negative screening may not necessarily correspond directly with investors’ own subjective views or ethical and moral standards or ESG aspirations. As noted above, ESG considerations may be based on company disclosures or third-party information sources that are forward-looking statements of intent and not necessarily fact-based or objectively measurable. This lack of uniformity and objective metrics can lead to missed opportunities or miscalculations as to the realized future impact of perceived positive and negative ESG factors on company fundamentals, leading to less than desired investment outcomes. DSM makes no express or implied representations or warranties regarding the accuracy, completeness, effectiveness, fairness, or fitness for a particular purpose with respect to ESG assessments, negative screens, integration or engagement activities.

DSM engages with companies to better understand a company’s approach to ESG and potentially influence ESG related corporate practices. Unless otherwise noted, the companies identified in this report represent a subset of current and/or past holdings in DSM portfolios and were selected on an objective basis to illustrate examples of ESG integration into our fundamental research process. They were selected to reflect holdings with varied business models and ESG considerations across multiple sectors, industries, and/or regions.

This information may not be current, and DSM has no obligation to provide any updates or changes. Although the information has been obtained from sources believed to be reliable, there are no guarantees of accuracy, completeness or fairness. DSM has relied upon and assumed without independent verification the accuracy and completeness of some of the information. Opinions expressed are current opinions as of the date written.