



**ODDO BHF**  
ASSET MANAGEMENT

*Responsible  
Investment*  
POLICY

JUNE 2022

# INTRODUCTION



The asset management industry is a key sector able to contribute to society's transition towards a more developing sustainable model – in which the fight against global warming, climate change, fair governance, and social impact are central. This conviction has been driving ODDO BHF Asset Management's approach - ODDO BHF AM representing the single brand under which ODDO BHF Asset Management SAS (France), ODDO BHF Asset Management GmbH (Germany), ODDO BHF Asset Management Lux (Luxembourg), and METROPOLE Gestion are operating - in favor of sustainable investing since 2006. Following our first commitments to sustainability, social and environmental challenges have become increasingly important and financially relevant.

A greener, more sustainable finance, which was considered a niche several years ago, has become broadly adopted by economic action, as well as an incredible source of investment opportunities for our clients. In a few years, we have developed a consistent, strong, and ambitious sustainability approach in our investment capabilities and solutions offered to our clients through different asset classes. We have also ensured the quality and reliability of our ESG methodology through the labelling of our funds by independent labels (FNG in Germany, ISR in France, Towards Sustainability in Belgium). As an investor, we are responsible to our clients for the purpose of our investments and their impact on the economy and society as a whole.

We want to be an industry leader in sustainable finance through the integration of ESG criteria into our investment processes. Active ownership and stakeholder dialogue are also key pillars of our strategy as we consider the exercise of voting rights, dialogue, and engagement to be an integral part of our responsibility as an active investor.

### *We structure our sustainable vision around*

#### 4 DEVELOPMENT AND PRIORITY AXES:

##### **FOCUS ON HUMAN CAPITAL**

1

We strive to support investments which grant sustainable benefits to the economy, the environment and the society. The focus on human capital management is crucial to unlock innovation, ensure social fairness and drive sustainability commitments.

##### **SUSTAINABLE DUTY TO CLIENTS**

2

As a responsible asset manager, we have a duty towards our clients to make progress on sustainability-related issues. We are passionate about providing our clients with a clear picture of sustainable opportunities as well as challenges. Our independence allows our teams to be reactive, flexible, and innovative in order to constantly come up with specific investment solutions that empower our clients to better meet their financial and sustainability objectives.

##### **LONG-TERM VISION**

3

We constantly strengthen the integration of sustainability into our investment processes to better manage systemic risk and to create value through the selection of companies that will be able to play a role in tomorrow's world. The relevance of companies' strategy, governance structure and innovation potential are particularly important to identify sustainable opportunities.

The stability of our investment management teams allows a great proximity with the companies in which we invest and guarantees solid and regular dialogue to make progress on sustainability-related issues.

We are convinced that there is strength in unity. Our membership of Finance for Tomorrow or Finance for Biodiversity Foundation among others allows us to take actions collectively on key challenges to favor the positive transition towards a more sustainable future.

##### **CORPORATE GOVERNANCE**

4

The reliability and consistency of our practices and engagements are key to secure a sustainable approach. Thus, we defined a dedicated governance structure with 3 ESG committees directly reporting to the ODDO BHF AM's Global Management Committee, which gathers representatives of the main departments.

Guided by these values, ODDO BHF AM defines its sustainable approach on three fundamental pillars:

###### 1. EXCLUSIONS

In 2021, we updated our Exclusion Policy in order to emphasize our active engagement on environmental issues by excluding sectors whose economic development model is contrary to our sustainable investing goals. Thus, we defined a common base of exclusions introducing evolving thresholds to follow a transition approach.

###### 2. ESG INTEGRATION

We have adopted a hybrid approach based on an internally developed methodology for ESG ratings of companies and sovereigns and on the research of external data providers such as MSCI. This approach impacts the portfolio construction of a main part of our strategies across all asset classes: Equities, Fixed Income, Asset Allocation, Private Equity and Private Debt.

###### 3. ACTIVE OWNERSHIP

The ESG team meets more than 100 companies each year to discuss their sustainable development efforts. The investment and ESG teams collaborate on engagement processes ensure the integration of Environmental, Social, and Governance challenges into our voting policy.



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# 01

## *Our sustainability approach*

At ODDO BHF AM, we define sustainable investing as the combination of traditional investment approaches and ESG characteristics with the objective to mitigate risks and enhance long-term return. We believe sustainability-related issues, ranging from board governance to human capital management to climate risks and opportunities, have real and substantial financial impacts.

Across ODDO BHF AM, we provide all our investment teams with data and insights to keep them well informed of sustainability considerations. Our dedicated portfolio managers are able to integrate sustainability-related information into their investment processes by discounting or emphasizing this information as any other financial input. We have built dedicated governance models, systems, and processes to support our approach.

# Approach to SUSTAINABLE INVESTING

We rely on three fundamental pillars

- Exclusions
- ESG integration
- Active ownership

## 1 EXCLUSIONS

- ODDO BHF AM **Exclusion Policy:**
  - Common base of exclusion
  - Specific sector exclusions
  - Relevant European labels requirements
  - Exclusions specific to green bonds

## 2 ESG INTEGRATION

- **Proprietary methodology** for ESG ratings (rating range from 1 to 5) used to construct equity and bond portfolios
- **Internal ESG model for corporates** based on **inhouse research** and multiple **ESG data inputs**
- **Internal ESG model for sovereigns** covering 65 countries and the European Union

## 3 ACTIVE OWNERSHIP

- **Regular dialogue** with companies within the investment universe on ESG topics
- **Individual engagement** with companies on specific ESG topics
- **Collaborative engagement** on positive change related to the climate, ecological and just transition
- ODDO BHF AM **Voting Policy** including a climate scorecard module
- **Escalation process** if engagement is unsuccessful after 18 to 24 months (collaborative engagement, opposing vote at the AGM, exclusion of the issuer from the investment universe, or divestment).



Based on these three pillars, we are committed to strengthening our ESG coverage in the management of our portfolios as described in the following table:

SCOPE OF ODDO BHF AM ESG POLICIES AND PROCESSES

		Open-ended funds Art. 6 SFDR	Open-ended funds Art. 8-9 SFDR	Dedicated funds and mandates Art. 6 SFDR	Dedicated funds and mandates Art. 8-9 SFDR
Exclusion Policy	Common base	✓	✓	~	✗
	Specific sector exclusions	~	~	~	~
ESG integration	Proprietary ESG model <i>European investment universe</i>	✗	✓	✗	✓
	MSCI ESG Research <i>Global investment universe</i>	✗	✓	✗	✓
Active ownership	Dialogue	~	✓	~	✓
	Individual engagement	✗	✓	✗	✓
	Collaborative engagement	~	✓	~	✓
	Voting <i>Minimum threshold</i>	✓	✓	~	~

Yes   
 Partially   
 No

## EU SUSTAINABLE FINANCE DISCLOSURE (SFDR) CLASSIFICATION

The EU Sustainable Finance Disclosure Regulation (SFDR) is a set of EU rules which aim to render the sustainability profile of funds transparent, more comparable, and better understood by end investors.

### ARTICLE 6

The management team does not integrate sustainability-related criteria into the investment process.

### ARTICLE 8

The management team promotes ESG characteristics (Environment and/or Social and/or Governance) into its investment decision making process. In addition, portfolio managers can choose to consider in their sustainability-related criteria some factors linked to the principal adverse impacts ("PAI").

### ARTICLE 9

The management team follows a strict sustainable investment objective that significantly contributes to social or environmental challenges (e.g., carbon emissions reductions, gender diversity).



## EXCLUSIONS FRAMEWORK

The ODDO BHF AM Exclusion Policy was updated in September 2021 introducing more restrictive thresholds and new excluded activities and sectors in order to consider long-term risks and exchanges with our stakeholders: clients, NGOs, ODDO BHF Group's employees. This policy takes also into account sustainability label requirements and specific exclusions to green bonds.

### COMMON BASE OF OUR EXCLUSIONS

The common base of exclusions applies to all open-ended funds regardless of their EU SFDR classification. For dedicated funds and mandates, the common base of exclusions is systematically applied for new clients from the 1<sup>st</sup> of January 2022, and for existing clients from 2030. However, it is presented to existing clients and is applied unless they advise us otherwise.

### SPECIFIC SECTOR-BASED EXCLUSIONS

The specific sector-based exclusions apply only to certain EU SFDR Art. 8-9 open-ended funds, dedicated funds and mandates, in order to comply with the rules governing the sustainability labelling of some of our strategies.

## ESG INTEGRATION FRAMEWORK

### EUROPEAN UNIVERSE

For the coverage of our European universe, we rely on our proprietary ESG model and methodology when integrating ESG criteria in the investment process, in alignment with classifications for EU SFDR Art 8-9 products.

### GLOBAL UNIVERSE BEYOND EUROPE

For the remaining, global coverage universe we rely predominantly on the rating signals of our extra-financial data provider, MSCI ESG Research, when integrating ESG criteria into the investment process in alignment with EU SFDR classifications for Art. 8-9 products.

# Our sustainability approach

## TIMELINE OF OUR ENGAGEMENTS (2006-2021)

*Supporting diversity, inclusion & climate since 2006*



*Climate, ecological and just transition & ESG data transparency*

ODDO BHF AM joins and supports the **Finance for Biodiversity Pledge**

ODDO BHF AM joins and supports the **WBA/PRI** groups on the just transition

ODDO BHF AM becomes a member of **Finance For Tomorrow**

ODDO BHF AM joins and supports the **EDM** council for transparency in ESG ratings



# *Active Ownership*

## PRINCIPLES AND COMMITMENTS

ODDO BHF AM takes its role and commitment as an active and fiduciary asset manager very seriously. Thus, we seek to raise internal and external awareness of global environmental, social and governance issues across the firm and the investment value chain.

We engage in market dialogue with a variety of membership organizations and coalitions on this mission. ODDO BHF AM fully aligns with the EFAMA's stewardship code principles. More than 10 years ago, we started this journey by becoming a member of the FIR (Forum de l'Investissement Responsable).

In 2010, we signed up to the Principles for Responsible Investment (PRI), strengthening the integration of ESG criteria available to ODDO BHF AM's management teams. Since then, we have joined many coalitions, initiatives or working groups to harmonize sustainability practices, incite companies and/or financial institutions to improve their policies and practices, to promote and educate on sustainable investing, and to access and improve specific data, tools, and frameworks.

### **CORPORATE DIALOGUE**

We undertake a dialogue with investee companies, with a particular focus on our open-ended funds, and dedicated funds and mandates, aligned with EU SFDR Art. 8-9. We meet all types of company profiles and try to focus on the most material sustainable-related subjects in our discussions.

### **INDIVIDUAL ENGAGEMENT**

We undertake individual engagement with investee companies, with a particular focus on our open-ended funds, and dedicated funds and mandates, aligned with EU SFDR Art. 8-9. Engagement goes further than dialogue as we support companies in their sustainable development and transition strategies.

### **COLLABORATIVE ENGAGEMENT**

We undertake collaborative engagement with investee companies with a particular focus on our open-ended funds, dedicated funds and mandates, aligned with EU SFDR Art. 8-9. By being an active contributor to sustainability-focused membership organization and coalitions such as Climate Action 100+, the Non-Disclosure Campaign of CDP, the Just Transition coalitions led by Finance for Tomorrow and the World Benchmarking Alliance, and the Finance for Biodiversity platform, we can follow collaborative investor engagement efforts with companies in which we invest.

For example, we have been engaged since 2019 through Climate Action 100+ with Arcelor Mittal. We have obtained - among other things - their commitment to become carbon neutral by 2050, the publication of a Climate Action Report with defined targets in line with the Paris Agreement, and the investment in projects on steel production via green hydrogen.

We have also led an engagement action with the support of other investors with the biotech group Grifols on the issue of plasma donor protection. We have asked for more information on the study and monitoring of the health status of donors, the right to information and the remuneration policies of them. We also want to have more insights on the transparency of the information collected on patients and the psychological monitoring of those considered at high risk because living in more precarious situations. We will follow the efforts of Grifols on the topics discussed, the publication of missing data and research studies on the effects of regular and prolonged plasma donation.

### **VOTING**

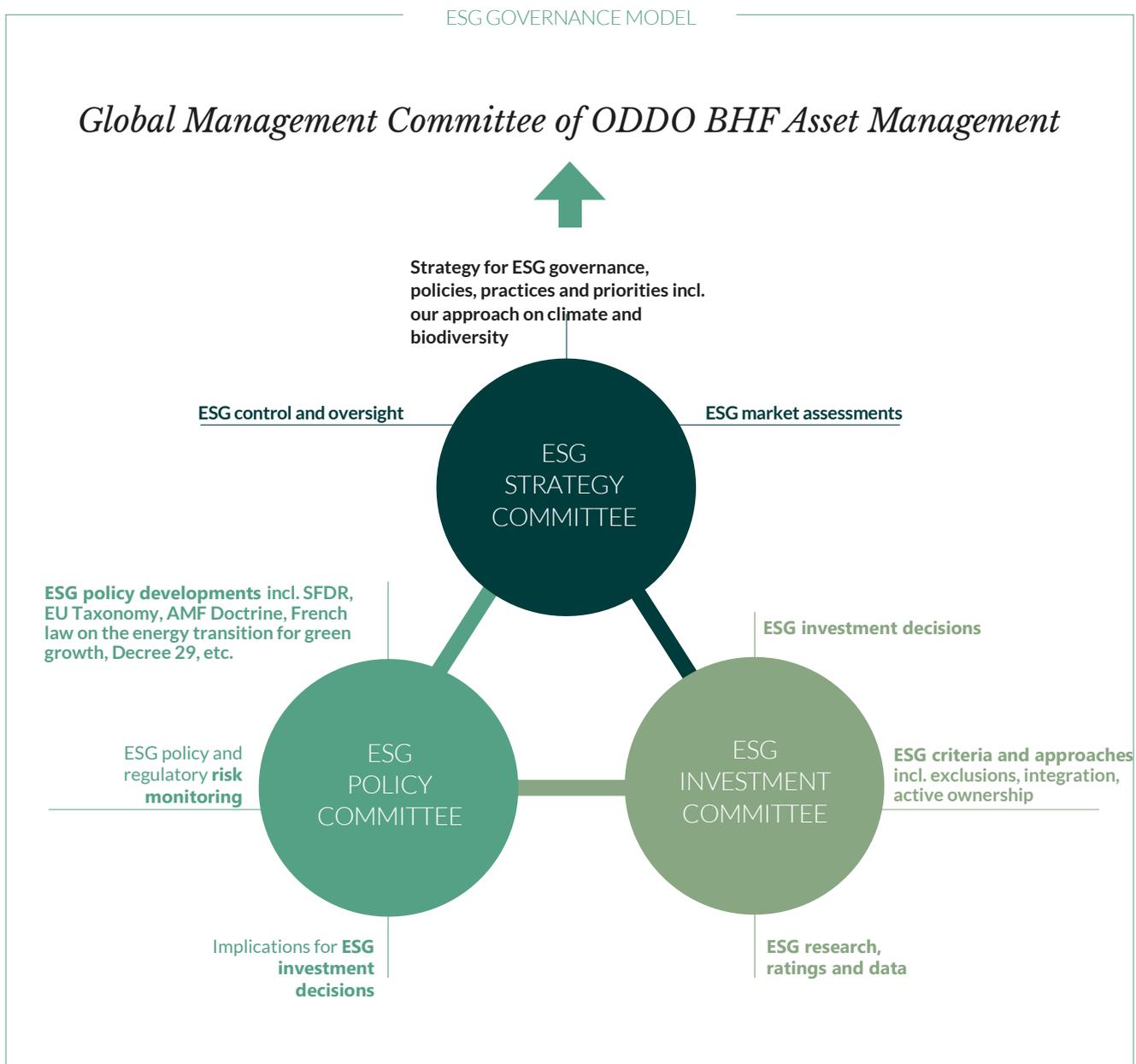
As described in section 4, we vote with the help of our proxy services provider ISS. For funds with a sustainable finance label, we vote at all General Meetings (AGM). For all the others, we vote from a minimum holding threshold of ownership of the companies' capital. All details on our voting approach are available in our Shareholder Engagement policy.

We publish our active ownership policy and an annual reporting on our dialogue, engagement, and voting activities and statistics.

# Investment organization IN RELATION TO SUSTAINABILITY

To ensure the efficient deployment of our sustainable investment approach, ODDO BHF AM has defined a dedicated governance structure, which was strengthened in 2021 due to the increasing integration of sustainability across our activities and processes.

We have created three interdependent ESG committees for sustainable “Strategy”, “Policy” and “Investment” to supervise key ESG-related decisions and processes. All strategic decisions related to sustainability are shared with the Global Management Committee of ODDO BHF Asset Management.





### ODDO BHF AM'S ESG STRATEGY COMMITTEE

has been established to refine and engage on ESG governance and the operating framework, to highlight and address market developments and challenges linked to sustainability, as well as to ensure alignment with ODDO BHF AM's ESG policy, processes, and practices. This Committee has a key function to coordinate inputs and outcomes from the other two ESG Committees, to define our strategic sustainability roadmap aligned with our ambitions, and to deliver solutions and activities supporting the climate, ecological and just transition. The Strategy Committee meets quarterly and is composed of members from ODDO BHF AM:

- the Chief Investment Officer (CIO)
- the Global Head of ESG Research
- the Group Head of Sustainability Policy
- the Head of Marketing & Products
- the Heads of Sales
- the Head of Client Services
- the Heads of Legal
- the Head of Risk & Compliance
- the Heads of Operations

### THE ESG POLICY COMMITTEE

is responsible for the alignment with regulatory and normative requirements from the European Union, France, Luxembourg, and Germany. The Committee analyzes the impact of the evolution of the regulatory requirements on our products, and marketing efforts. For example, this Committee supervised the establishment of an internal SFDR Taskforce with members from across business divisions, and the implementation of EU SFDR in March 2021. The committee includes:

- the Global Head ESG Research
- the Group Head of Sustainability Policy
- the Heads of Legal
- the Head of Risk & Compliance
- Investment management representatives

### THE ESG INVESTMENT COMMITTEE

centers on ESG integration into the investment decision making process. It addresses specific and complex investment issues linked to sustainability by reviewing portfolio company cases from a financial and sustainability angle, discussing the impacts of ESG integration processes and the implications of sustainable finance label rules on the different investment strategies. This Committee ensures independent, credible, and consistent exclusion policies, processes and practices and aims to define exclusion criteria, thresholds, and lists for investment decision making. It meets every four to six weeks and is composed of members from ODDO BHF AM:

- the Chief Investment Officer (CIO)
- the Head of ESG Research and Policy
- the Head of Risk & Compliance
- one ESG analyst
- Fund managers

# Our ESG TEAM

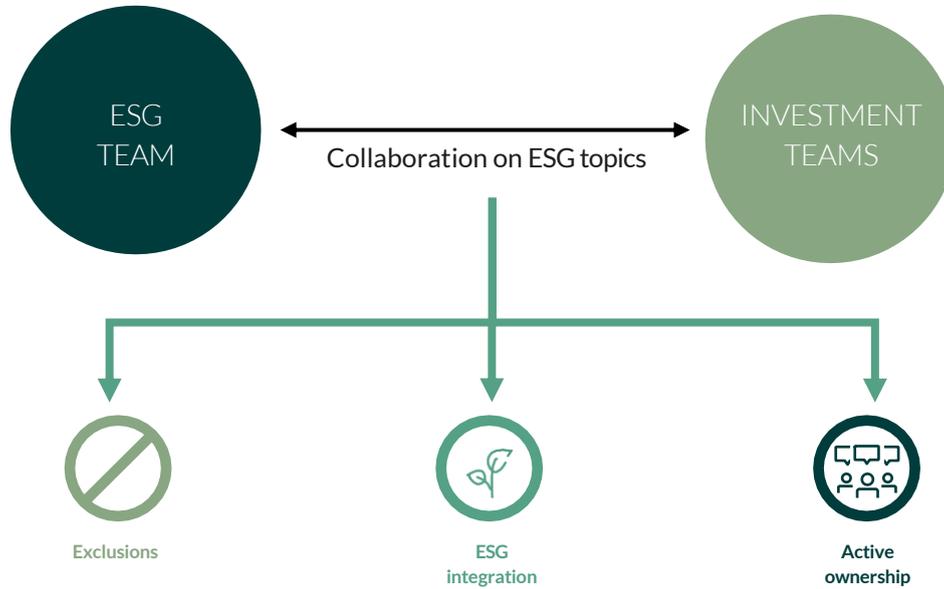
The ESG team consists of five dedicated ESG strategy, product, and investment experts with diversified and multi-disciplinary backgrounds. The Head of ESG Research reports to the CEO of ODDO BHF AM and is a member of the Global Management Committee.

All investment teams work together with the ESG team in structuring and implementing the three systematic stages of our ESG integration approach – exclusion, ESG integration and active ownership. The ESG team is supported by the Group Head of Sustainability Policy in charge of implementing a common and coherent ESG strategy at group level.

<p><i>ESG Research</i></p>  <p><b>RACHIDA MOURAHIB</b> Global Head of ESG Research, Member of the Global Management Committee ODDO BHF AM SAS &amp; ODDO BHF Private Equity 20 years of experience in ESG Research &amp; Strategy</p>		
<p><i>ESG Analyst</i></p>  <p><b>SIMONA RIZZUTO</b> Active Ownership Lead ODDO BHF AM SAS 6 years of experience in Investment Management</p>	<p><i>ESG Analyst</i></p>  <p><b>LÉA MIOMANDRE</b> Biodiversity Lead ODDO BHF AM SAS 3 years of experience in Investment Management</p>	<p><i>ESG Analyst</i></p>  <p><b>CAMILLE LANCESSEUR</b> Sustainable Debt Lead ODDO BHF AM SAS 7 years of experience in Investment Management</p>
<p><i>ESG Analyst</i></p>  <p><b>BRYAN BARRAS</b> Human Rights &amp; Supply Chain Lead ODDO BHF AM SAS 2 year of experience in Investment Management</p>	<p><i>ESG Quantitative Analyst</i></p>  <p><b>ALEXIS PRADELLES</b> ODDO BHF AM SAS 1 year of experience in Investment Management</p>	
<p><i>Sustainability Policy</i></p>  <p><b>VALENTIN PERNET</b> Group Head of Sustainability Policy ODDO BHF AM GmbH 7 years of experience in Investment Management</p>		

Source: ODDO BHF Asset Management, 2022

# Interaction between the ESG team AND THE INVESTMENT TEAMS



The ESG team conducts regular “Teach-In” sessions to bring more clarity and context on topics related to market dynamics, new regulations (SFDR, EU Taxonomy, Decree 29 in France, Zielmarkt in Germany etc.) and specific themes in relation to sustainability. This training program brings together between 50 and 100 employees.





# 02

## *Exclusions*

In 2021, ODDO BHF AM has established a new Exclusion Policy.

The common base for our exclusions applies to all open-ended funds managed by ODDO BHF AM, including delegated fund managers within the ODDO BHF Group regardless of the asset class or region. Funds integrating ESG criteria in their investment process or complying with sustainability label requirements may apply additional exclusions which are stated under “specific sector exclusions”. The Exclusion Policy also clarifies ODDO BHF AM’s position on the specific case of green bonds.

The common base of exclusion reflects our commitments to contribute to the climate, ecological and just transition. It covers governance and international norms and conventions through UN Global Compact, unconventional weapons, coal, unconventional oil & gas, fossil fuels exploration and production in the Arctic, biodiversity & palm oil, and tobacco.

Investing in any of these activities without respecting specific restrictions and controls carries increasing risks such as regulatory, financial, or reputational risks. It is also contradicting our environmental and social objectives.

# Common Base OF EXCLUSIONS

Sectors	Exclusion thresholds	Activities
<b>UN Global Compact</b>	0	Violation against the United Nations Global Compact
<b>Unconventional weapons</b>	0	Manufacture or distribution of weapons prohibited under the Chemical Weapons Convention, the Ottawa Convention, the Oslo Convention, the amended and supplemented Convention on prohibitions or restrictions on the use of certain conventional weapons (blinding laser weapons, incendiary weapons, and non-detectable fragments weapons), and nuclear weapons manufactured by a company incorporated in a country that does not form part of the Nuclear Non-Proliferation Treaty (NPT)
<b>Coal</b>	> 8m tonnes or 5% <sup>1</sup>	Coal mining – EU & OECD: 0% (2030), Rest of the world: 0% (2040)
	> 20% <sup>2</sup>	Power generation EU & OECD countries: 15% (2024) – 10% (2026) – 5% (2028) – 0% (2030)
	0	Any company developing new projects involving thermal coal, regardless of the project's size
<b>Unconventional oil &amp; gas<sup>4</sup></b>	> 5% <sup>1</sup>	Exploration-production & exploitation
<b>Arctic exploration</b>	> 10% <sup>1</sup>	Exploration-production & exploitation of (conventional & unconventional) oil & gas in the Arctic
<b>Biodiversity</b>	> 5% <sup>1</sup>	Production, processing, trade, consumer goods based on palm oil + violation of sustainability principles as defined by certification bodies (e.g., RSPO <sup>3</sup> )
	<i>Exclusion list</i>	Companies whose activities have a negative impact on biodiversity, and which do not pursue a clear and credible strategy to preserve and protect it > based on the track records of known environmental violations and controversies
<b>Tobacco</b>	> 5% <sup>1</sup>	Production

1. % of revenues- 2. % of production mix or of installed capacity- 3. Roundtable on Sustainable Palm Oil - 4. Incl. shale oil & gas, oil sands

We use MSCI ESG Research for business involvement screening. Meanwhile, the ESG Investment Committee reserves the right to review each controversy case to define a watch list. The list of excluded sectors and companies is updated monthly based on the MSCI ESG Research tools, Urgewald data for the coal industry and our internal analyses. The exclusion list for unconventional weapons is updated once a year.

Additional sector exclusions are applied to some open-ended funds, dedicated funds, or segregated accounts particularly to comply with the rules governing the labelling of some of our portfolio management strategies or because of their roles supporting our transition philosophy. These specific exclusions include conventional oil & gas, nuclear, gambling, conventional weapons, GMOs, alcohol, and adult entertainment

# *Specific sector* EXCLUSIONS

Sectors	Exclusion thresholds	Activities
<b>Conventional oil &amp; gas</b>	> 5% <sup>1</sup>	Exploration-production & exploitation
<b>Nuclear</b>	> 5% <sup>1</sup>	Production of nuclear energy, operation of nuclear power plants and uranium mining
<b>Gambling</b>	> 5% <sup>1</sup>	Activités de jeux d'argent
<b>Conventional weapons</b>	> 5% <sup>1</sup>	Production, manufacture, maintenance and sale Companies regulated by a state that has not signed and/or ratified the Arms Trade Treaty
<b>GMOs</b>	> 5% <sup>1</sup>	Production
<b>Alcohol</b>	> 5% <sup>1</sup>	Production
<b>Adult entertainment</b>	> 5% <sup>1</sup>	Production

1. % of revenues





# 03

## *ESG Research* AND RATINGS METHODOLOGY

At ODDO BHF AM, we aim to diversify our ESG data and rating sources to avoid the dependency on one single ESG data provider as ESG data, research and investing still lack harmonized standards and frameworks.

On a European investment universe, we have hence developed our own in-house ESG research and rating model for corporates using multiple ESG information, data and rating sources, including companies' publications, MSCI, ISS, CDP, Bloomberg, FactSet, specialized broker publications.

For investee companies outside of the European coverage universe we mostly rely on an MSCI ESG rating based on a "best-in-class" approach. In 2023, we aim to expand our global universe coverage through additional, alternative data inputs.

We also developed an internal ESG model for sovereigns gathering 75 indicators from multiple reference sources (World Bank, IMF, etc.)<sup>1</sup>.

<sup>1</sup>Amnesty International, Bündnis Entwicklung Hilft, Climate Watch, Convention on Biological Diversity, COP21, COP26, Financial Action Task Force, Food and Agriculture Organization, Freedomhouse, Garriga, International Energy Agency, International Labour Organization, International Monetary Fund, International Telecommunication Union, OECD, Population Reference Bureau, Program for International Student Assessment, Transparency International, UNESCO, UNICEF, United Nations, Vision of Humanity, WHO, World Bank, World Intellectual Property Organization

# *Our internal ESG model* FOR CORPORATES



**Our internal ESG research and rating model has been built in 2017 on the following standards and frameworks:**

- The principles of the United Nations Global Compact (UNGC), of which we have been signatory since 2015.
- Major international norms, conventions, and guidelines (Universal Declaration of Human Rights, ILO conventions, the Rio Declaration on Environment and Development, the United Nations Convention Against Corruption, OECD Guidelines for multinational enterprises).
- The United Nations' Sustainable Development Goals (SDGs) and its Agenda 2030.



The model is based on 10 themes including 3 environmental, 4 social, and 3 governance themes, for which different indicators are evaluated. This encompasses the Principal Adverse Sustainability Impacts (PAI) as described in our Principal Adverse Impact Statement.

*10 Themes of the ESG Research and Rating Model for corporates,*  
LINKED TO SUSTAINABLE DEVELOPMENT GOALS



Source : ODDO BHF Asset Management, 2022

Our proprietary ESG methodology places great emphasis on the criteria of governance and human capital as we consider these areas as essential for a company's ability to deliver on its strategy, ambitions, and targets.



## WEIGHTING OF THE THEMES

The weighting assigned to each of the “Environmental”, “Social” and “Governance” categories is determined at the sectoral level according to long-term risks and opportunities.

## SCORING

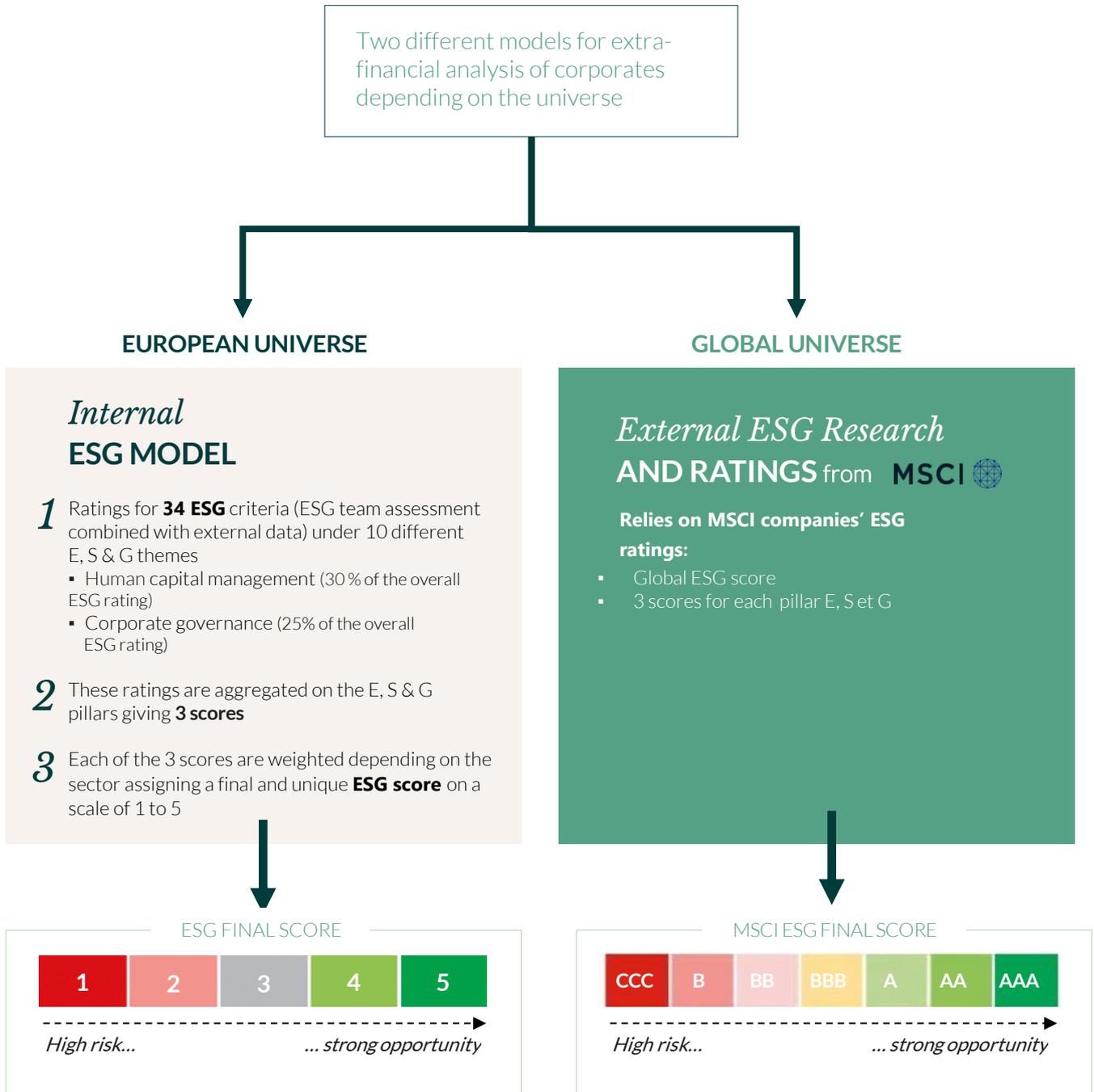
A score out of 100 points is given to each of the three pillar – E, S, and G – and an aggregate ESG score is then calculated based on the weighting of each pillar.

ESG controversies are closely monitored based on the information provided by MSCI and our own proprietary research which can affect the final ESG score assigned to each company. It allows us to rank the companies on a 5-level scale: “Strong Opportunity” (= 5), “Opportunity” (=4), “Neutral” (=3), “Moderate Risk” (=2) and “High Risk” (=1).

## UPDATES

Company analysis updates are carried out whenever the fund managers and ESG analysts meet the company in question. A positive or negative development such as an ESG controversy may also change a company’s score at any time.

## Summary of our ESG Research and Ratings Methodology FOR CORPORATES



# *Our internal ESG Model* FOR SOVEREIGNS



Our internal ESG model for sovereigns has been updated in 2022, based on the United Nations’ Sustainable Development Goals (SDGs), a framework particularly relevant for the analysis of sovereigns.

The model is based on 4 pillars (environment, social, governance, economy) divided into 15 themes. In comparison to our ESG model for corporates, an economic dimension has been added with prospective and sustainability-linked indicators.

In total, 75 indicators are assessed, of which 59 are common to all countries, 7 are specifically material to upper income countries (GNI per capita > USD 10k), and 9 to middle income countries (GNI per capita < USD 10k) as all countries do not face the same challenges depending on their level of development.

**15 Themes of the internal ESG Model for Sovereigns,**  
LINKED TO SUSTAINABLE DEVELOPMENT GOALS





## WEIGHTING OF THE THEMES

Our internal ESG model for sovereigns aims to have a systematic and statistical approach. In addition, we want to avoid as much as possible the classic pitfall of extra-financial analysis for sovereigns, namely the attribution of good ratings to high revenue countries and bad ratings to moderate revenue countries. This “Ingrained Income Bias”, described by the World Bank, is the fact that “a country’s national income permeates all sustainability-linked measures”, as for example the life expectancy depends on how much can be spent on health. The two solutions proposed by the institution to overcome this structural problem are: to run income-peers group scoring and to better account for the dynamic, which reflects recent efforts.

In this vein, our scoring methodology is meant to grasp multiple dimensions for each single indicator, which is in fact a “composite” scoring based on a differentiated appreciation of:

- the absolute performance of the country, compared to all other countries
- the relative performance of the country, compared to its income peers
- the dynamic over the past years, in intensity and direction
- the change of the dynamic itself, over the past years

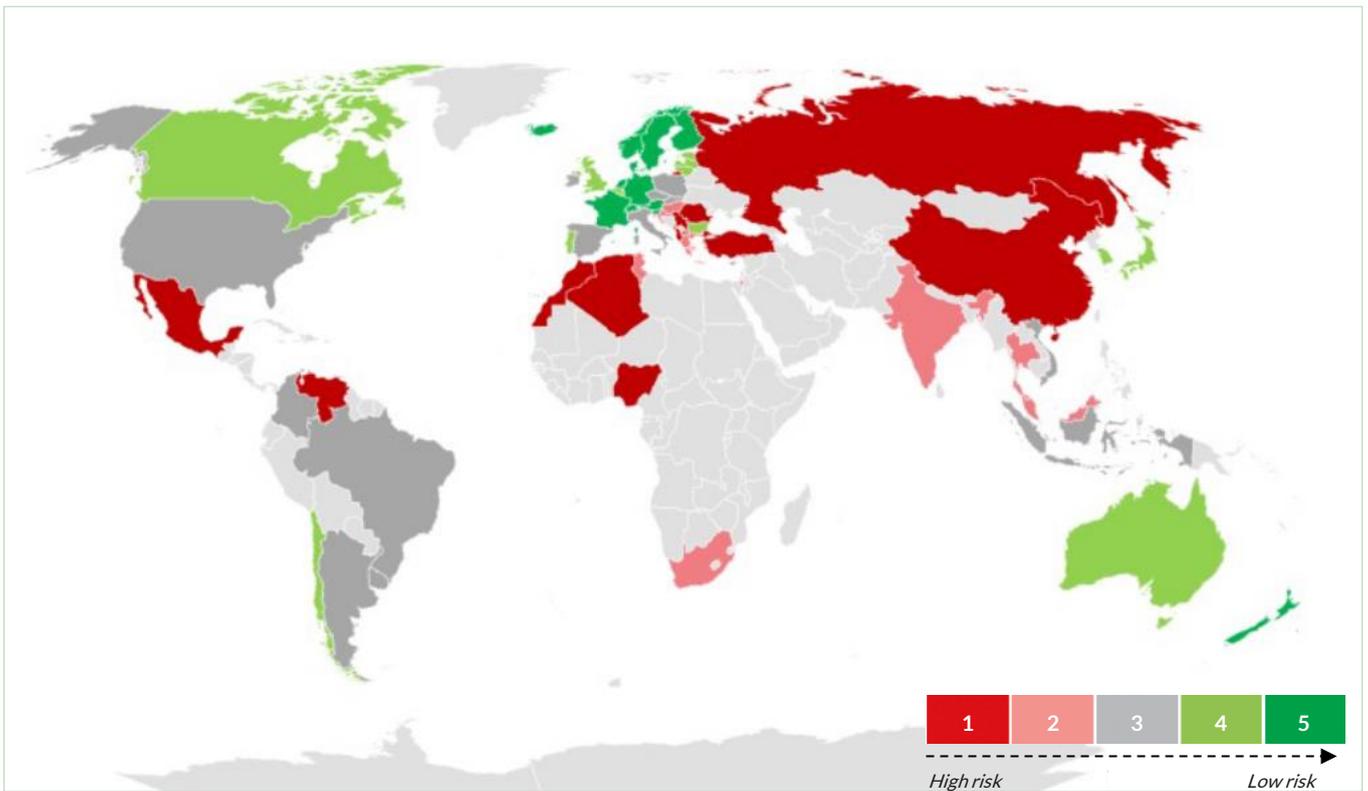
The way in which the 4 pillars are aggregated gives a perspective on different time horizons. We retain the short/medium term, where the governance pillar is fundamental, being one of the most material risks on the credit markets in the near future. Thus, the necessary, but not sufficient, condition for a country to be considered sustainable is that it has a robust governance. This focus on governance is aligned with our internal ESG model for corporates.

## SCORING

65 countries, plus the European Union are rated through this model. Each country receives a rating from 1 (= “High Risk”) to 5 (= “Low Risk”) as in our internal ESG model for corporates.



*Short/mid-term ESG risk level per country*



Source: ODDO BHF Asset Management, 2022

**UPDATES**

The ratings in our internal ESG model for Sovereigns are updated once a year.



# 04 *Active* OWNERSHIP

ODDO BHF AM considers the exercise of its voting rights, dialogue, and engagement to be an integral part of its responsibility as an active investor and fiduciary steward of its clients' assets. Thus, our approach to active ownership aims to improve investee companies' business practices, fosters transparency on environmental, social, and governance issues, and aims to ensure long-term value creation in relation to strategy, risk management and governance. Our active ownership approach is aligned with EFAMA's stewardship code principles.

*Active*  
OWNERSHIP  
APPROACH

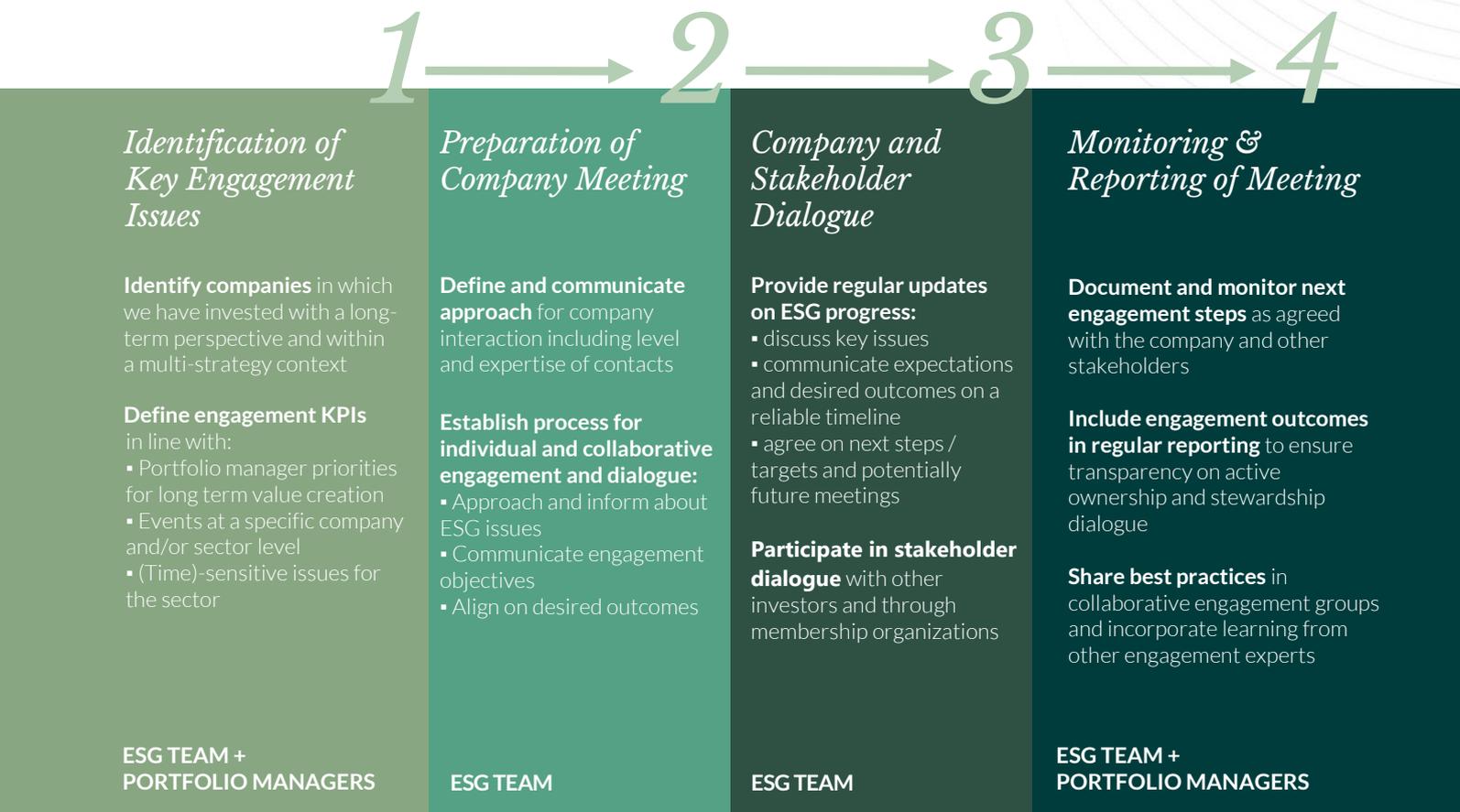




## *Engagement* SELECTION AND PRIORITIZATION

We prioritize individual engagement with investee companies, whose ESG internal ratings fall within a “high-risk” level (1 out of 5 = “laggards”) to a “neutral” risk level (3 out of 5 = “learners”) based on our internal model or whose MSCI ESG rating are poor, and/or whose activities may be subject to a serious controversy.

# Engagement PROCESS



Source: ODDO BHF Asset Management, 2021

Our engagement process follows a four-steps process starting with the identification of explicit areas of concern that we aim to address in collaboration with the investment management teams. After conducting an initial engagement meeting with a company and taking part in stakeholder dialogue, we closely track, monitor and assess any results achieved.

Our approach is deemed successful if a dialogue with an issuer leads to greater ESG transparency and/or an improvement in practices linked to sustainability within the 18 to 24 months post our initial meeting.

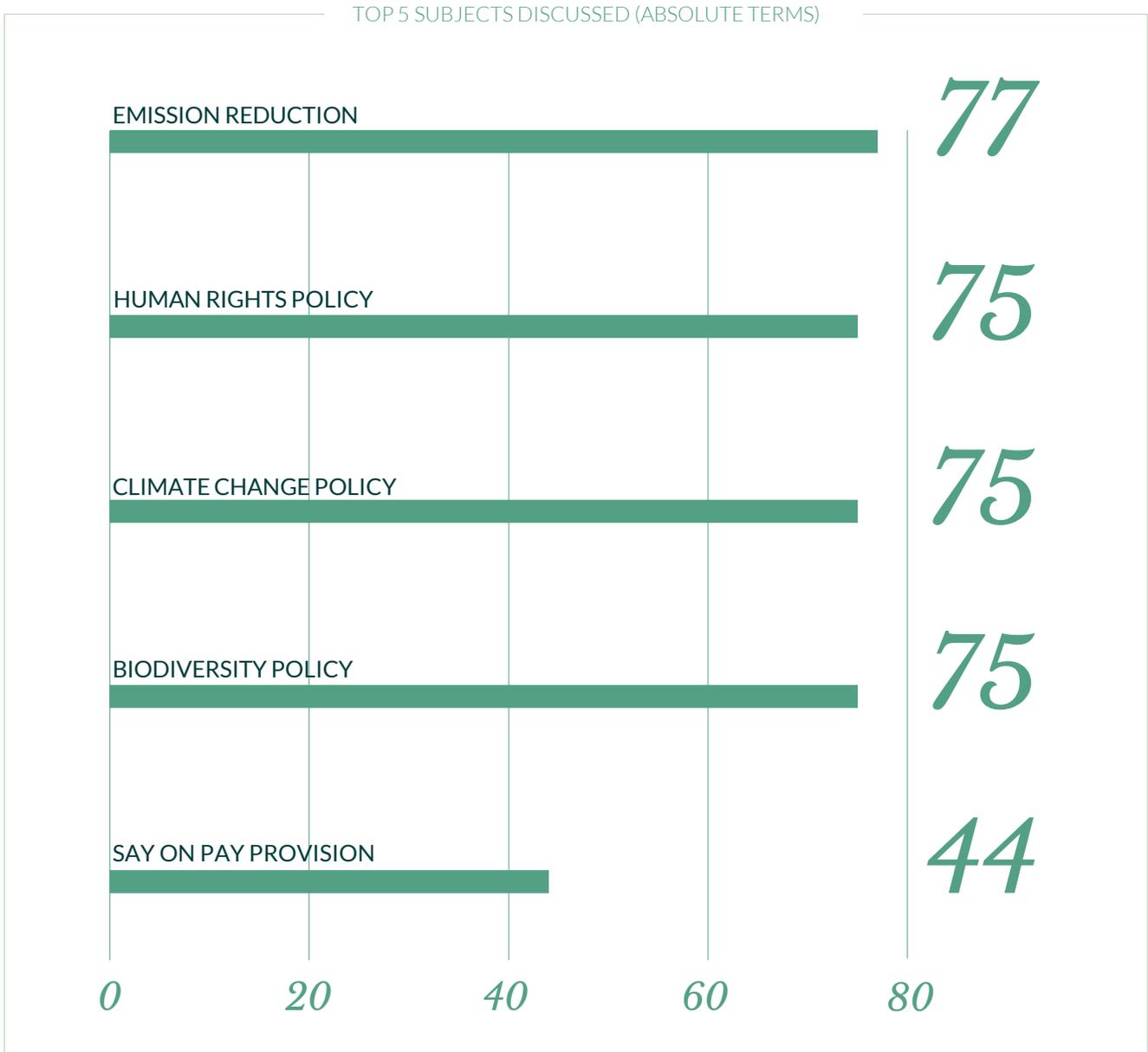
If an engagement outcome is deemed unsuccessful our fund management and ESG teams may establish an escalation process. The escalation process can lead to the initiation of a collaborative engagement effort with other investors, and/or to an opposing vote at the next Annual General Meeting of the company, and/or to the exclusion of the issuer from the investment universe or, if an active position is already held, to divestment.

Exercising voting rights and other rights attached to shares is fundamental to ODDO BHF AM as an active shareholder. In 2021, we have established a new and harmonized voting approach and process across ODDO BHF AM. From 2022, a new climate voting policy supported by ISS' analysis will enable us to better form voting decisions with a clear view on an investee company's climate-related risks and opportunities (ISS Custom Climate Model). For funds with a sustainable finance label, we vote at all General Meeting (AGM). For all the others, we vote from a minimum 0.05% holding threshold of ownership of the companies' capital.



# Statistics

## DIALOGUE



2019: **66** COMPANIES

2020: **128** COMPANIES

2021: **104** COMPANIES



# 05

## *Climate change* AND BIODIVERSITY

As a responsible investor, ODDO BHF AM estimates that climate and biodiversity risks disclosures and reporting have to be fully integrated in a sustainability-related investment strategy, also to meet regulatory requirements in the EU. This integration also allows our portfolio managers to invest more effectively by avoiding investment flows towards companies that fail to respect and protect biodiversity, and, consequently, threatening the fight against global warming and the ecological transition.



# Climate RISK

Our climate strategy follows the three fundamental pillars described in section 1 “Approach to sustainable investing”.

Since 2017, we have developed our own “Energy Transition Analysis” (ETA) in order to measure each company’s contribution to a low-carbon energy transition trajectory. This indicator is calculated based on two components: the ranking of the sector in which the company operates, and the company-specific environment score assigned by using our ESG model.

Our in-house model integrates the recommendations of TCFD using CDP’s recommendations to obtain a better understanding of climate-related risks. It implies the review of four climate risk dimensions including risk governance, evaluation of climate strategy, operational management of climate risk, and quantifiable objectives. On this basis, we review for each company key climate risk-related issues such as leadership on climate issues, the degree of awareness amongst leadership teams and boards of transition risks and physical risks, the use of the 1.5-2°C scenario in strategic planning, and whether the company has set absolute scientifically certified targets for greenhouse gas reductions.

# Our Energy Transition Analysis INDICATOR (ETA)

## Sector RANKING

- Clean energy (SDG 7, 13)
- Energy efficiency (SDG 7, 9, 11)
- Biodiversity (SDG 6, 12, 14, 15)
- Circular economy (SDG 11, 12)
- Sustainable mobility (SDG 9, 11, 13)



## Environment MODULE

- Environmental Management System
- Environmental opportunities (products & services)
- Environmental risks (aligned with TCFD)
  - > Governance
  - > Evaluation of climate strategy
  - > Risk management
  - > Targets



30%

70%

ETA SCORE /5

\* Internal rating scale from 1 (high risk) to 5 (strong opportunity)  
Source: ODDO BHF Asset Management, 2022

# Transition RISKS



## CARBON INTENSITY

Carbon intensity (in tons of CO<sub>2</sub> equivalent per million euros of revenues) including Scope 1 and Scope 2 emissions



## THE BROWN PART

Portion of portfolio companies' revenues exposed to fossil fuel extractive industries (thermal coal, oil, natural gas, oil sands, shale gas, and deep offshore production)



## THE GREEN PART

Portion of portfolio companies' revenues exposed to carbon solutions (renewable energies, green mobility, green buildings, and energy efficiency)

*Data provided by MSCI*

Since 2019, ODDO BHF Asset Management supplements its key indicators with measuring transition risks of portfolio positions exposed to fossil fuels, the so-called "brown part", and exposed to carbon solutions, the "green part", in addition to carbon intensity indicators.

ODDO BHF Asset Management has not yet fully developed a methodology for analyzing physical risks, either in-house or via external collaboration. Our external data providers are starting to provide some initial data, but the measurement of the risks remains closely dependent on information provided by the companies, including information on physical locations of production capacities, supplier-related risk, and distribution chains. We expect that the implementation of the EU's Corporate Sustainability Reporting Directive (EU CSRD) will lead to better transparency on physical risks by companies in the EU.

In order to conduct comparison tests on long-term climate scenarios, ODDO BHF AM supports the collaborative assistance provided to investors by open-source platforms, and in particular the analytical tools provided by think tanks, NGOs, and academics in this domain. We hence use the "Paris Agreement Capital Transition Assessment" (PACTA) model as well as the "Inevitable Policy Response" (IPR) model on selected funds to evaluate their position on a 2°C-trajectory and to anticipate future adjustments needed to respect this trajectory.

To mandate further climate-related risks disclosures of the 100 largest corporate emitters of greenhouse gases, ODDO BHF AM joined the Climate Action 100+ initiative in March 2018. We also are committed to the CDC's "Non-Disclosure Campaign" to further strengthen companies' transparency on climate risks.



# *Biodiversity* RISK

Biological diversity is key to ensure the preservation of ecosystem services that are essential for our human well-being, development, and economic growth. Biodiversity loss represents a systemic risk to investors across many sectors as well as a threat for the achievement of the UN Sustainable Development Goals.

We have defined two exclusion lists to better manage our exposure to increasing biodiversity risks:

**1** The first exclusion list relates to the palm oil industry, where our ESG team reviews the veracity and materiality of controversies. It includes companies which do not have reliable procedures and tools for monitoring palm oil production, contribute to large-scale deforestation without providing environmental compensation, illegally appropriate land from local communities, and violate fundamental workers' rights.

**2** The second list concerns companies which have a track record of strong and known negative impacts and controversies on the environment, and which did not put in place a clear and credible strategy to preserve and protect the biodiversity such as companies whose chemical products could have a significant impact on the pollution and degradation of ecosystems: waterways, forests, soils and living species.

Our internal rating model already includes some criteria to better assess biodiversity risks including natural capital, pollution & waste, land use, water stress, and toxic waste. However, there is still room for improvement in terms of more in depth data and disclosures in this area. We hence recently became Signatory to the Finance for Biodiversity Pledge, a member of the Foundation Finance for Biodiversity and an observer of the Taskforce on Nature-related Financial Disclosures (TNFD). These enable us to contribute to and to follow the development of methodological biodiversity risk management frameworks, to encourage companies in reducing their negative ecological footprint and in contributing positively to biodiversity protection, preservation and regeneration. We expect that the update of the Corporate Sustainability Reporting Directive (EU CSRD) will allow companies within the European Union to lay more emphasis on their biodiversity footprint and the actions they take to protect the environment.



# 06

## *Reporting and* TRANSPARENCY

### Summary of ODDO BHF AM's Documents published related to Topics linked to sustainability.

Documents	Scope	Description
<b>Annual PRI report</b>	ODDO BHF AM	The Responsible Investment Transparency Report enables signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries, and other stakeholders
<b>Article 173 (§ VI) of the French Law on the Energy Transition for Green Growth</b>	ODDO BHF AM SAS	Definition of the information obligations of institutional investors concerning their transparency in relation to the integration of environmental, social, and governance (ESG) criteria in their investment operations.
<b>Basic of Sustainable Investing</b>	ODDO BHF AM	General description of sustainable investing including sustainable development, sustainable investing, main approaches to sustainable investment, climate emergency, labels, sustainability and financial performance, and ODDO BHF's CSR approach and our investment solutions.
<b>Exclusion Policy</b>	ODDO BHF AM	Investment rules covering a range of controversial activities across sectors and practices that are contrary to major international norms and conventions.
<b>ODDO BHF AM's approach to climate change</b>	ODDO BHF AM	Description of our approach and commitments regarding climate change.
<b>Our Sustainable Investment Solutions</b>	ODDO BHF AM	Description of our sustainable funds and how we place our proprietary ESG methodology at the service of sustainable asset management.
<b>Principal Adverse Impact Statement</b>	ODDO BHF AM	Description of the consideration of the Principal Adverse Impacts (PAI) at the product-level.
<b>Shareholder engagement policy</b>	ODDO BHF AM	Definition of our approach in terms of dialogue with companies held in our portfolios, the exercise of voting rights and other rights attached to shares, our voting policy principles, the cooperation with other shareholders, the communication with stakeholders, and the prevention and management of actual or potential conflicts of interest.

Documents	Scope	Description
<b>Shareholder engagement report</b>	ODDO BHF AM	Report on dialogues, engagements, and voting annual statistics.
<b>Sustainable Finance Disclosure Regulation (SFDR)</b>	ODDO BHF AM	Regulatory documents required by the EU regulation (SFDR classification, SFDR sustainability risk policy (art. 3), transparency of adverse sustainability impacts (art. 4)).
<b>Sustainable Investing - The approach of ODDO BHF Asset Management</b>	ODDO BHF AM	Description of our approach and commitments regarding sustainable investing.
<b>Sustainability Report</b>	Fund	Monthly fund's report for which we integrate ESG criteria into their investment process to summarize all ESG aspects considered.
<b>Transparency Codes</b>	Fund	Regulatory document required for each fund applying for the French SRI label and the French Greenfin label to have a complete review of the sustainable strategy of the asset manager and of the fund. At ODDO BHF AM, we decided for homogeneity reasons to prepare a transparency code for each fund applying for any labels.
<b>Whitepapers</b>	ODDO BHF AM	Different publications on main and relevant topics in relation to sustainability such as climate, human capital, the ecological transition, biodiversity, in line with our sustainable strategy.

Source: ODDO BHF Asset Management,

- All documents with a scope of "ODDO BHF AM" or "ODDO BHF AM SAS" can be found on our Sustainable Investment webpage: [https://am.oddo-bhf.com/france/fr/investisseur\\_professionnel/ad/investissement\\_durable/1339/publication/1380](https://am.oddo-bhf.com/france/fr/investisseur_professionnel/ad/investissement_durable/1339/publication/1380)
- The Shareholder & Engagement Policies and Reports can be found on our Regulatory Information webpage: [https://am.oddo-bhf.com/france/fr/investisseur\\_professionnel/infos\\_reglementaire](https://am.oddo-bhf.com/france/fr/investisseur_professionnel/infos_reglementaire)
- All documents with a scope of "Fund" can be found on our Funds webpage by selecting the desired fund: [https://am.oddo-bhf.com/france/en/professional\\_investor/fundspage](https://am.oddo-bhf.com/france/en/professional_investor/fundspage)





## *Good Governance* POLICY

Drawing on our long-standing expertise in corporate governance research, we have defined a policy for good governance practices of companies we invest in. It is our conviction that a poor governance poses a major risk to the proper execution of the strategy of the company, which represents a potential source of value destruction over the medium to long-term.

The following principles, ensuring an appropriate governance, need be pursued by each company. It allows to strengthen companies' value and guarantee a better alignment with shareholders' interests.

# *Basic Governance* PRINCIPLES

At ODDO BHF Asset Management, we expect from the investee companies to show the subsequent characteristics:

## **RESPONSABILITY**

Companies act in a manner that demonstrates their responsibility for their actions and their impact on employees, stakeholders, and broader communities. It verifies whether the duties are being fulfilled properly and whether the responsibilities have been used appropriately. We strongly believe that responsibility is key to achieve constant progress enacting positive change.

## **FAIRNESS**

Companies give the right to employees, stakeholders including shareholders, and broader communities to benefit from an equal treatment so that they can express and address any issue that need to be considered by governance bodies, but also because it creates an inclusive environment where everyone is estimated at its fair value. Thus, it reduces the risk of various adverse and potential conflicts of interest that may arise.

## **TRACEABILITY AND TRANSPARENT DISCLOSURE**

Companies exhibit strong commitment to provide clear, factual information, and disclosure of material matters. Beyond being compliant with the regulation, it safeguards stakeholders' confidence in the decision-making and management of a company, an essential part to finance further growth.

## **OPENNESS TO DIALOGUE AND IMPROVEMENT**

Companies are inclined to leave the door open to exchange and to question their practices. Receiving external feedbacks can help them correct their missteps and avoid pitfalls while at the same time create an internal dynamic to take up challenges.

# *Good governance*

## ASSESSMENT

In our investment decision process, we put the accent on governance as we estimate this criterion to be an imperative to ensure strong financial fundamentals. The following key performance indicators are retained in our analyses:

### **SUSTAINABLE DEVELOPMENT STRATEGY**

A good indicator for the degree of alignment of companies' strategies with sustainable aspects is their positioning regarding the UN Global Compact. By committing to the ten principles on human rights, labor, environment, and anti-corruption, the company sends a positive signal of strong ambitions towards a long-term oriented financial ecosystem.

We also verify if companies have implemented a policy on sustainability or have defined related objectives. If it is the case, we further analyze the means put in place to achieve them, where the responsibility is held and if there is an alignment with the remuneration of the top management.

### **QUALITY OF MANAGEMENT**

The quality of management is essential to ensure business efficiency allowing constant improvements. The higher the quality, the more integrity and reliability the company has in achieving its objectives. To determine the quality of management, the different layers of the governance structure are analyzed including the profile, reliability, vision of the CEO, as well as the composition and functioning of the executive committee. We aim to better understand the organization and ascertain the degree of cognitive diversity of the management, which fosters creativity and innovation, while evaluating the way it handles challenging situations and controversies.

### **CORPORATE GOVERNANCE**

As a starting point for appraising the corporate governance, we look into the ownership structure as it gives indications on the alignment of shareholders' interests with the ones of the company and analyze the voting rights to understand the power given to them to cast their vote on important decisions within a company.

We emphasize the independence within the various management bodies and committees to avoid conflict of interests and to ensure a more objective and successful execution of the strategy. In order to have a better picture of this strategy, top management accessibility is essential so that we can enter in a dialogue and tackle issues that may arise.

The structure of remuneration is also studied to verify its consistency, which is part of companies' fairness. The wage ratio gives a first insight of the distribution of wages but needs to be cautiously interpreted taking into account other factors such as companies' size, geographical presence, sector of activity, etc. In our view, employees and executive members need to be compensated appropriately according to their performance, experience, and job requirements.

The level of transparency is therefore decisive as it allows external stakeholders to access to a greater level of details in order to judge the quality of the corporate governance.



## BUSINESS ETHICS

Investee companies should act responsibly having good business ethics, which include an analysis of their track record of incidents, their safeguards, controlling bodies, and corrective measures. The following themes are considered in this analysis: anticompetitive practices management, fraud management, tax transparency, or exposure to the risk of corruption. It is expected that companies have taken a position on these issues and propose clear and verified solutions to reduce these risks.

The ESG research team works closely with fund management teams and/or analysts to assess the governance structure of assessed companies. This approach makes it possible to capitalize on the regular meetings that are held between fund managers and issuers.

It is therefore a bottom-up approach involving the ESG experts, the fund management team and the external providers that supply the quantitative data, giving us a holistic overview of each company, where governance needs to be positively assessed.

The following external sources of data are used for the internal analyses:

- Company publications (reports, presentations)
- External providers of ESG research (MSCI<sup>2</sup>, ISS<sup>3</sup>, CDP<sup>4</sup>)
- External providers of raw financial and non-financial data (Bloomberg, FactSet)
- Specialist reports by brokers (theme-based research)
- Other sources (NGOs reports, academic publications)

When conducting ESG analyses of small and medium caps, it is more important to collect data internally as external data providers do not offer exhaustive coverage of this investment universe.

Updates are carried out whenever the fund managers and ESG analysts meet the company in question.

Controversies are central to our internal or external ESG analysis model. The occurrence of a “High” or “Serious” controversy regarding a portfolio company will not systematically result in an exclusion of the company, but it will trigger active dialogue between the fund management team, the ESG research team and the company in question. Controversies are reviewed during our quarterly ESG Committee meetings which are responsible for organizing dialogue and engagement with companies on matters linked to sustainability.

<sup>2</sup> <https://www.msci.com/>

<sup>3</sup> *Institutional Shareholder Service*, [www.issgovernance.com](http://www.issgovernance.com)

<sup>4</sup> *Carbon Disclosure Project*, [www.cdp.net](http://www.cdp.net).





*Glossary*

## *Active* OWNERSHIP

### CONCEPT

#### Active ownership

Defined as the use of the rights and position of ownership to influence the activities or behavior of investee companies. The two tools to achieve that objective are voting (for listed equities) and engagement. Voting refers to the exercise of voting rights on management and/or shareholder resolutions to explicitly express its position at the Annual General Meeting (AGM) of investee companies. Engagement can be pursued individually or collaboratively. Individual engagement aims to maintain a regular dialogue with the investee companies on sustainable topics and monitor their progress to improve their practices and transparency in this area. Collaborative engagement includes groups of investors working together, with or without the involvement of a formal investor network or other membership organizations, to exercise more pressure on sustainability-related issues within corporations.

### DATA PROVIDER

#### ISS

A voting proxy provider that enables to manage the entire voting process.

## *Climate* TRANSITION

### COLLABORATIVE INITIATIVES

#### CDP

Not-for-profit charity operating a global environmental disclosure system for investors, companies, cities, state & regions.

#### Climate Action 100+

Investor-led initiative targeting 167 companies accounting for 80% of corporate industrial GHG emissions; the goal of the initiative is to coordinate engagement efforts among investors to ensure that the targeted companies amend their strategies to align with a 1.5° pathway.

#### Taskforce for Climate-Related Financial Disclosure (TCFD)

The Taskforce on Climate-related Financial Disclosures aims at providing companies & investors with a harmonized and comprehensive framework for their reporting on climate risks.

### INTERNATIONAL CONVENTIONS

#### 1,5-2°C trajectory

The IPCC scientists estimate that global warming exceeding +1.5°C of the Earth's average temperature by 2100 (compared to preindustrial levels) would trigger deadly heatwaves, a surge in the frequency and strength of natural disasters, an explosion of poverty and irreversible damages to ecosystems. According to the IPCC it is necessary to cut global fossil fuel emission in half by 2030 in order to avoid this turning point.

#### COP26

Held in November 2021 in Glasgow, the objective of this COP is to reinforce countries' commitments towards a low carbon economy.

#### Paris Agreement / COP21

The Paris Agreement (2015) is a declaration of intent adopted by almost all countries, which committed to regularly submit GHG emission reduction targets in order to limit global warming well below 2°C compared to pre-industrial levels.

## Ecological TRANSITION

### COLLABORATIVE INITIATIVES

#### Finance for Biodiversity Foundation

The foundation is comprised of signatories of the Finance for Biodiversity Pledge and seeks to coordinate engagement efforts on biodiversity, help build a framework for biodiversity-financial disclosure and increase cooperation and transparency on the topic.

#### Finance for Biodiversity Pledge

Launched in September 2020, the pledge has been signed so far by 84 financial institutions calling on global leaders to restore & protect biodiversity ahead of COP15 and committing to increase engagement with companies and reporting efforts on the topic.

#### Taskforce for Nature-Related Financial Disclosures (TNFD)

The Taskforce on Nature-related Financial Disclosure, launched in 2021, aims at providing companies & investors with a harmonized and comprehensive framework for their reporting on biodiversity-related risks (// TCFD on climate).

### LABELS

#### FNG label

German sustainability label (exclusions on environmental & ethics grounds). <https://fng-siegel.org/>

#### Greenfin label

French green/environmental focused label (exclusions on environmental grounds, communication on "green share", transparency regarding ESG integration and positive impacts). [www.ecologie.gouv.fr/label-greenfin](http://www.ecologie.gouv.fr/label-greenfin)

#### ISR label

French sustainability label (focus on transparency and exclusion of 20% of investment universe). [www.lelabelisr.fr/](http://www.lelabelisr.fr/)

#### « Towards Sustainability » label (Febelfin)

Belgian sustainability label (exclusions on environmental & ethics grounds). <https://towardsustainability.be/>

## Sustainability APPROACHES

### CONCEPTS

#### Best-in-class

The best-in-class approach is to conduct a thorough analysis of the ESG factors of a company that is compared to its sector.

#### Best-effort

The best-effort approach consists of investing in companies demonstrating visible progress in terms of sustainable development strategy, regardless of their rank ESG.

#### Best-in-universe

The best-in-universe approach is to conduct a thorough analysis of the ESG factors of a company that is compared to the entire investment universe.

#### Exclusion

This approach is to exclude an issuer based on the results of the internal ESG analysis and/or the exclusion policy of the management company.

## Exclusions

### CONCEPTS

#### Conventional oil & gas

Crude oil and gas that are obtained through traditional methods, i.e., vertical well extraction.

#### Conventional weapons

Weapons of war that comply with international conventions governing warfare.

#### GMOs

Organisms (animal, plant, fungus, microorganism) whose genetic material has been modified in a way that does not occur naturally, to give it one or more desired characteristics.

#### Unconventional oil & gas

Crude oil and gas that are obtained through methods other than traditional vertical well extraction including shale oil and gas, oil sands, directional drilling, and fracking.

#### Unconventional weapons

Specific weapons that can cause widespread destruction, which have been defined by international conventions such as the Convention ratified in Paris in 1993, the Ottawa Treaty in 1999, the 2008 Oslo Convention.

### INTERNATIONAL CONVENTION

#### UN Global Compact (UNGC)

The United Nations Global Compact is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labor, the environment and anti-corruption. The initiative brings the 13000 corporate participants and other stakeholders over 170 countries with two objectives: "Mainstream the ten principles in business activities around the world" and "Catalyze actions in support of broader UN goals, such as the Sustainable Development Goals (SDGs)".

#### Sustainable Development Goals (SDGs)

The United Nations Sustainable Development Goals are a collection of 17 interrelated global goals set out by the United Nations. The SDGs cover a broad range of social development issues, such as poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, environment, and social justice. On 25 September 2015, the 193 countries of the United Nations General Assembly adopted the 2030 Development Agenda titled "Transforming our world: the 2030 Agenda for Sustainable Development".

## Just TRANSITION

### CONCEPT

#### Just transition

The concept of "just transition" aims at ensuring that the transition to a low carbon/climate neutral economy take place in a socially acceptable way, by providing assistance and funding to vulnerable populations.

### COLLABORATIVE INITIATIVES

#### F4T Just Transition Coalition

Launched in June 2021, the Just Transition Coalition is the first global investor engagement coalition on the just transition.

#### Finance for Tomorrow (F4T)

Sustainable arm of Paris Euro place, F4T seeks to establish the Parisian marketplace as a leader of sustainable finance by strengthening public-private synergies.

#### World Benchmarking Alliance

The alliance provides policymakers, investors and companies with benchmarks and indicators assessing corporate performance on the SDGs.

## Regulatory FRAMEWORK

### REPORTING REQUIREMENTS

#### SFDR regulation

Entering into force on March 10, 2021, Regulation 2019/2088 on "Sustainability Disclosure in the Financial Services Sector" (also called the "Disclosure" or "SFDR") aims to provide more transparency in terms of environmental and social responsibility within the financial markets through the publication of sustainability information on financial products (integration of sustainability risks and negative impacts). Its objectives are to ensure an alignment between commercial documents and the reality of practices, to ensure the comparability of products and to lead private investments towards more sustainable investments. This regulation is applied at the entity level (management companies, investment companies, financial advisors), and at the product level by classifying all products based on their features.

#### Art. 6 Fund

SFDR classification: financial products which do not integrate any kind of sustainability into the investment process and could include stocks currently excluded by ESG funds.

#### Art. 8 Fund

SFDR classification: financial products that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

#### Art. 9 Fund

SFDR classification: financial products that have a clear sustainable investment objective (environmental or social), refer to an index as a reference benchmark and take into account the "Do Not Significant Harm" principle on the impacts of investment decisions and advice that result in negative effects on sustainability factors.

### TRANSLATION OF EU REGULATION & CLIMATE NEUTRALITY IMPERATIVES IN STATE LAWS

#### Art. 173

Part of the French TECV law ("Transition Énergétique pour la Croissance Verte") adopted in 2015, it makes it mandatory for institutional investors (incl. asset managers) to disclose & report on the way they take climate risks into account and integrate ESG in their investment processes; they also have to communicate on the "green share" in their portfolios and the way they contribute to the ecological transition.

#### Art. 29

Part of the French "Energie-Climat" law adopted in May 2021, it is the translation of the EU regulation on reporting requirements regarding ESG & climate risks for institutional investors (incl. Asset managers), while also integrating a few criteria on biodiversity. Art. 29 also called Décret 29 is meant to replace art. 173.

#### Loi Climat & Résilience

French law adopted in July 2021 with a focus on renewable energy, energy efficiency, sustainable transportation, sustainable food production & healthy diets, limitation of land conversion...

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## **ODDO BHF ASSET MANAGEMENT SAS (FRANCE)**

Portfolio management company approved by the Autorité des Marchés Financiers sous le n° d'agrément GP 99011.  
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## **ODDO BHF ASSET MANAGEMENT GMBH (GERMANY)**

Commercial Register: HRB 11971 local court of Düsseldorf  
Regulated and supervised by: Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin")  
Value added tax identification number (Ust-Id-Nr.): DE 153 144878  
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