



2018 DIALOGUE & ENGAGEMENT POLICY REPORT

FEBRUARY 2019



Contents

Approach and objectives	3
ESG dialogue & engagement: 2018 assessment and statistics	4
Engagement to promote progress	7
<i>Our approach</i>	
<i>Individual engagements</i>	
<i>Collective engagement</i>	
<u>Appendix</u> : Internal rating scale and monitoring of controversies	13

Completed to be written on February 8, 2019.

ODDO BHF Asset Management's commitment to sustainable investment is based on its long-term track-record as an investment management firm held by an independent financial group that traces its history back to 1849 and that has stable ownership. This is why corporate social responsibility is part of the group's DNA.

Dialogue, both financial and extra-financial, endows all the management teams with in-depth knowledge of the companies and is a hallmark of our ESG integration approach to all asset classes.



Approach and objectives

Generally speaking, our approach to dialogue and engagement with companies has the following objectives:

- To use ESG analysis for better understanding of the risks and opportunities arising from the growth models in sectors and companies in which ODDO BHF Asset Management has invested or is likely to invest;
- To help us validate or invalidate our views on the quality of management, based on its track-record in managing ESG challenges;
- To possess information on ESG issues, in addition to the financial statements,

In addition to fund managers' regular meetings with companies, **ODDO BHF Asset Management conducted 53 ESG interviews in 2018**. We also undertook individual and collective engagement initiatives with companies that we believe pose significant ESG risks and challenges.

Our engagement policy is implemented by our ESG Integration Committee, which meets quarterly. Its members include the head of ESG research, the chief investment officer (CIO), heads of portfolios management expertise, and the chief risk and compliance officer.

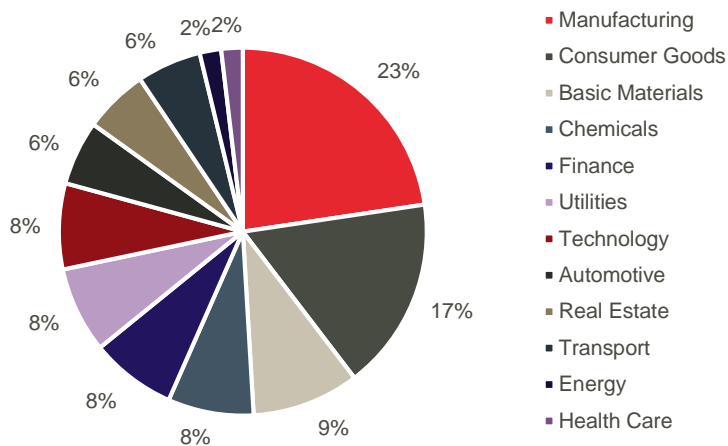
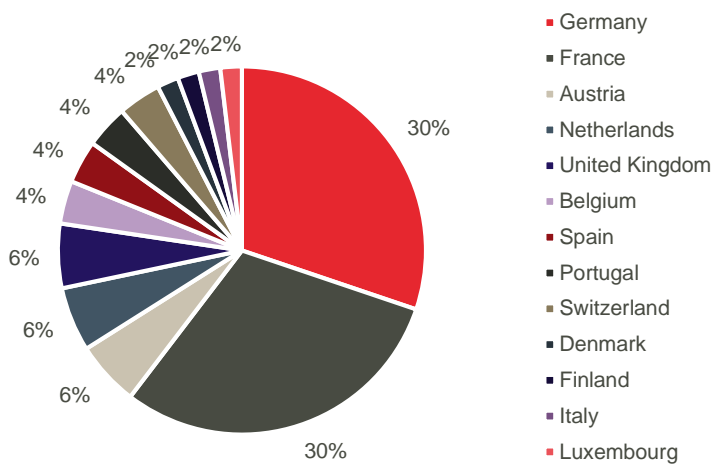
ESG dialogue & engagement: 2018 assessment and statistics

ODDO BHF Asset Management conducted ESG interviews with 53 European companies in 2018. Most of these were one-to-one meetings with the heads of sustainable development, board members, and heads of investor relations.

ESG dialogue was carried out with companies in 12 sectors and 13 different countries. Most of the interviews took place with German (30%) and French (30%) companies.

The most highly represented sectors were manufacturing (23%), consumer goods (17%) and basic materials (9%).

Geographical and sector breakdown

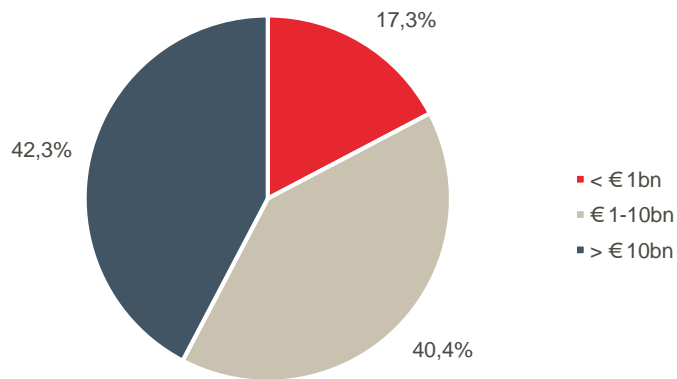


Source: ODDO BHF Asset Management SAS



42% of the companies that we met for ESG dialogue were large caps, 41% mid-caps, and 17% small caps. This breakdown fully reflects our bottom-up approach and our structural exposure to small and mid-caps within our fundamental management strategies.

Breakdown by size



Source: ODDO BHF Asset Management SAS

As part of its ESG dialogue process, ODDO BHF Asset Management conducted eight individual engagements and took part in two collective engagement initiatives.

List of 53 companies met for ESG dialogue in 2018

A.P. Moller - Maersk	EDP-Energias de Portugal	Novartis	ThyssenKrupp
Adidas	Evonik Industries	Palfinger	Unibail-Rodamco-Westfield
Air France KLM	Fluidra	Rational	Voestalpine
Andritz	Glencore	Remy Cointreau	Volkswagen
ArcelorMittal	GTT	Renault	Voltaia
Atos	ID Logistics	Rolls Royce	Vonovia
Baywa	ING Groep	Saint-Gobain	Wacker Chemie
Bekeart	Innogy	Sixt SE	X-FAB
BMW Group	JOST Werke	Sligro Food	
Boskalis	KingFisher	SLM Solutions	
Brisa	Lanxess	Societe BIC	
Cargotec	Marie Brizard	Societe Generale	
CHR Hansen	Mercialys	Sodexo	
Credit Suisse	Mersen	Software AG	
De' Longhi	Naturgy	Sopra Steria	

Source: ODDO BHF Asset Management SAS



Engagement to promote progress

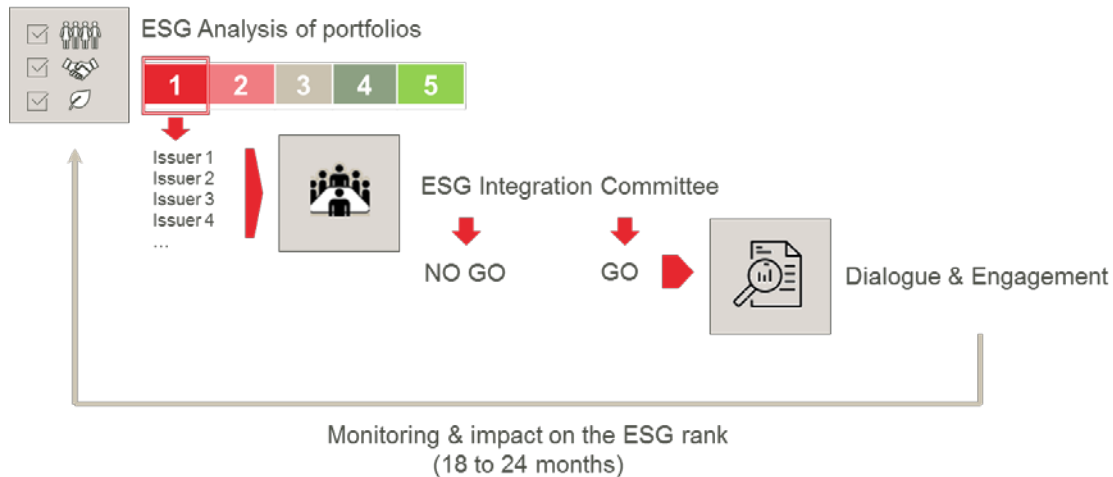
ODDO BHF Asset Management considers engagement to be an important component in its investor responsibility to its clients. Our approach aims above all at improving practices and enhanced transparency in environmental, social and governance challenges at companies in which we are invested. This is not shareholder activism, but, rather, one-off initiatives handled on a case-by-case basis. We are confident that seeking progress on extra-financial issues creates value over the long term for all stakeholders.

Our approach

The decision on whether to begin an engagement process is made by the ESG Integration Committee, which meets quarterly. Its members include the head of ESG research, the chief investment officer (CIO), heads of portfolios management expertise, and the chief risk and compliance officer. The target companies are those in which we are invested and that have a high-risk (category 1) ESG rating, based on our in-house methodology and/or are exposed to a serious controversy¹.

Our engagement approach is based on identifying and systematically formalising the vectors of progress that are expected. This allows us to assess the results and to follow up on them. Our approach is deemed a success if dialogue with an issuer has led to greater ESG transparency and/or an improvement in its ESG practices within 18 to 24 months. If the engagement is unsuccessful (i.e., if there is no dialogue or if the dialogue that has been carried out is unsatisfactory), the management teams may decide to exclude the issuer from the investment universe or, in the case of an active position, to sell it off.

Engagement process



Source: ODDO BHF Asset Management SAS

¹ See Appendix “Internal rating scale and monitoring of controversies”

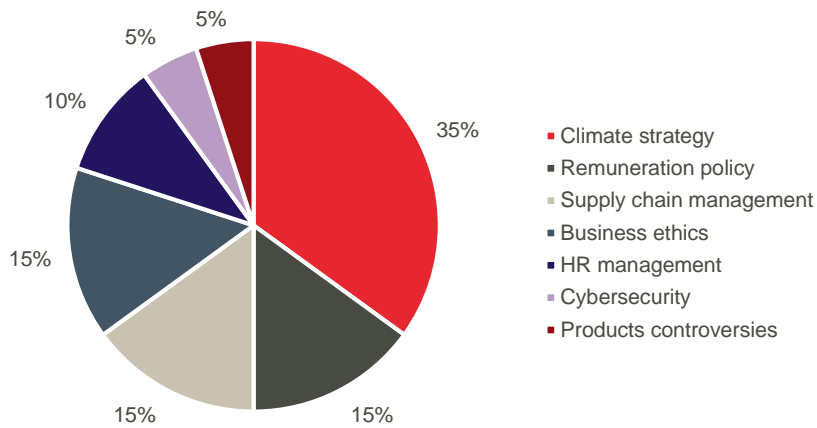


Individual engagements

In 2018, ODDO BHF Asset Management began eight engagement processes with European companies within its investment universe.

The issues discussed the most were climate strategy (35%), manager compensation policy (15%) and management of suppliers and subcontractors (15%).

2018 engagement process by theme



Source: ODDO BHF Asset Management SAS

Here are two examples of our individual engagement policy.

Crédit Suisse

We initiated a discussion in early 2018 on Crédit Suisse's manager compensation policy and the social and environmental impacts of its financing activities.

We spoke with the head of corporate governance issues, the head of sustainable development, and the head of investor relations.

Regarding manager compensation, our concerns dealt with how packages were structured and whether targets were consistent with long-term performance. The company presented details of the new compensation policy it planned to implement in 2018, including a resetting of time horizons and performance criteria. We were not fully satisfied with the outcome of our interview, in particular with regard to the deletion of a quantified targeted regulatory capital ratio as a criterion and the fact that objectives could be readjusted after the fact.

Regarding the social and environmental impacts of its financing activities, Crédit Suisse confirmed to us that, as of 2019, it would follow the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), while detailing its current risk factors and governance structures with regard to climate issues.

In light of the above, we made no change to our ESG rating on Crédit Suisse and will continue to monitor future progress during our future dialogues.

Software AG

We began an engagement process with Software AG, a German company, in March 2018, focusing on its human resources policy, which is a key point for an IT services firm.

We received satisfactory answers, as the group provided us with detailed information on the programme it set up in 2017 on training and career development.

After this phase of engagement, we upgraded the ESG rating of our in-house rating system from 1/5 to 2/5.



Collective engagement

ODDO BHF Asset Management joined the “**Climate Action 100+**” initiative in **March 2018**. We did so to participate in investors’ joint push to facilitate dialogue with the world’s 100 biggest greenhouse-gas-emitting companies. As part of this collective engagement, we committed to asking companies:

- to establish a solid governance framework that clearly outlines management bodies’ responsibilities in monitoring and managing climate change risks;
- to take measures to reduce greenhouse gas emissions throughout the value chain, in accordance with Paris Agreement targets;
- to provide a detailed report that will allow investors to assess the robustness of business plans based on various climate scenarios in order to improve their decision-making abilities.

In 2018, ODDO BHF Asset Management took part in two engagements under this initiative, with ArcelorMittal and A.P. Moeller Maersk.

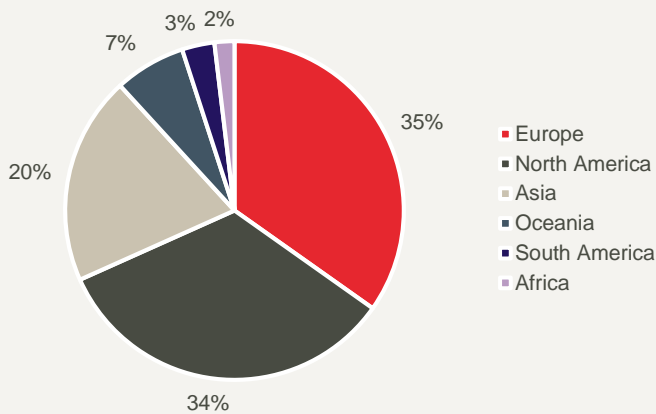
This collaborative engagement process with A.P. Moeller Maersk, a Danish company, helped get the company to announce in December 2018 its target of achieving carbon neutrality by 2050, in accordance with the Paris Agreement on climate. To do so, the group announced plans to develop carbon-neutral ships, which should be commercially viable by 2030.



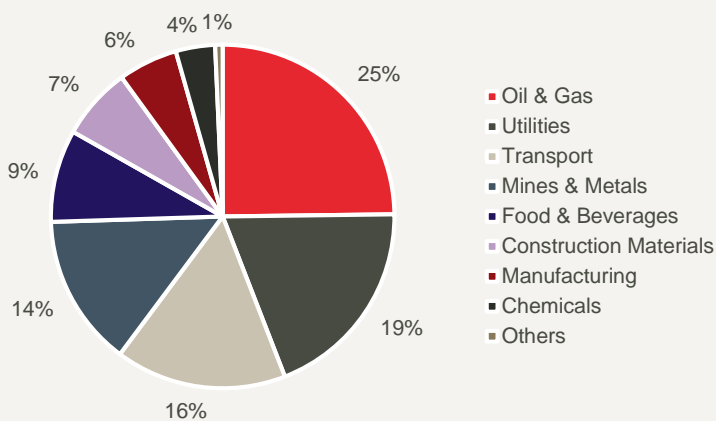
Launched in December 2017, “Climate Action 100+” is the world’s largest collective engagement initiative, with 289 investors in 29 countries and more than 30,000 billion dollars in assets under management.

Supported by the Principles for Responsible Investment (PRI), the initiative aims to encourage the 100 biggest greenhouse-gas emitting companies to take all necessary measures to commit to the energy transition and contribute to achieving the Paris Agreement targets of limiting global warming to no more than 2°C by 2100. Investors have called on these companies in particular to enhance their climate governance, to reduce their greenhouse-gas emissions, and to disclose more financial information linked to climate risks.

Engaged companies by country of origin



Engaged companies by sectors



Sources: CA 100+, ODDO BHF Asset Management SAS



Appendix: Internal rating scale and monitoring of controversies

Based on 10 themes (presented above) and 42 criteria, our ESG research model distinguishes companies by sector (level two GICS classification with 24 economic sectors) and by ownership structures (non-controlled, controlled, family-owned).

The weightings of the Environment, Social, and Governance blocks are determined at the sector level using a materiality threshold matrix, based on long-term opportunities and risks. To take one example, the media sector's Environment block will have a 10% weighting and its Social block, a 50% weighting, vs. 30% and 40%, respectively, for the energy sector.

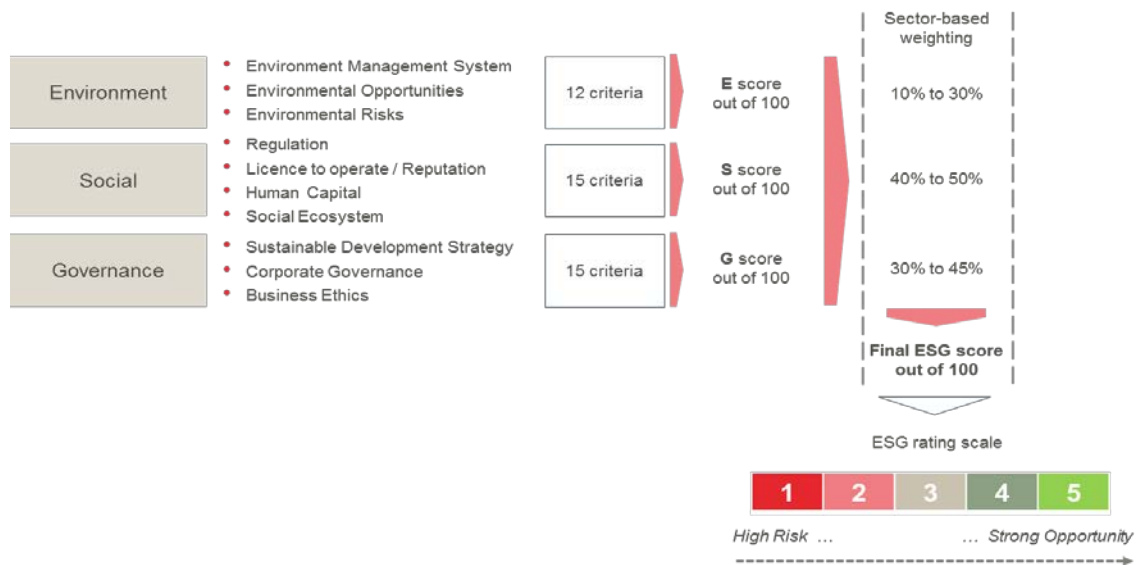
Corporate governance (Governance block) and human capital (Social block), which are priority themes in our methodology, account for, respectively, 25% and 30% of the research model, regardless of sector and size. However, the weighting of other themes, such as regulation, the social ecosystem and business ethics will vary as a function of the materiality threshold of each sector.

An analysis of controversies (industrial accidents, pollutions, corruption convictions, anti-competitive practices, product safety, supply chain management, etc.), based on data provided by Sustainalytics, is integrated into the research model and, accordingly has a direct impact on each company's final ESG score.

Each researched company is thus assigned an absolute score out of 100 points in each of the three blocks (E, S, and G), and an aggregate ESG score after weighting each block. Scores are updated on an ongoing basis as managers and ESG analysts meet with the companies and, failing that, on average every 18 to 24 months. The positive or negative shift in a controversy is also likely to modify a company's score at any time.

In order to put our "best-in-universe" and "best efforts" approaches in concrete terms at the level of the funds, the coverage universe is classified into five ESG categories: Strong Opportunity (5), Opportunity (4), Neutral (3), Moderate Risk (2), and High Risk (1). ESG rating scale

Structure of the ESG research model and internal rating scale



Source: ODDO BHF Asset Management SAS

ODDO BHF Asset Management SAS

12 boulevard de la Madeleine
75440 Paris Cedex 09 France
am.oddo-bhf.com