

Policy on Integrating Sustainability Risk into the Investment Decision-Making Process

1. REGULATORY CONTEXT

In accordance with the EU regulation 2019/2088 of 27 November 2019 and more particularly article 3, the management company ODDO BHF Asset Management SAS, must publish on its website its policy on the integration of sustainability risks in the investment decision-making process.

2. PERIMETER OF THE POLICY

This policy applies to all funds managed by ODDO BHF Asset Management SAS that integrate sustainability risks into their investment process for financial products falling under category 8 (financial products with environmental and social characteristics) and category 9 (financial products with a sustainable investment objective) of the regulation on advertising for sustainable financing (SFDR).

This means that the company does not fully and systematically integrate sustainability risks into the investment process for category 6 financial products.

The company does, however, apply a coal exit policy and an exclusion list of the UN Global Compact for publicly traded funds in categories 6, 8 and 9.

3. SUSTAINABILITY RISK INTEGRATION APPROACH

Introduction

The integration of sustainability risks is based on the Principles for Responsible Investment (PRI) signed by ODDO BHF Asset Management SAS in 2010. The Principles for Responsible Investment are part of our approach to asset management, which is based on fundamental analysis and a long-term investment horizon in order to effectively take into account risks and opportunities. The management company thus ensures that ESG criteria that are important to investors are taken into account in its analysis and evaluation of issuers, just like traditional financial criteria.

Despite numerous initiatives and regulations covering non-financial information, ESG/sustainability research still lacks universally recognized and shared standards. By investing in companies of all market capitalizations and in various asset classes, ODDO BHF Asset Management SAS seeks to avoid information bias. This is why the management company has chosen to develop its own ESG research model.

Indeed, the management company is convinced that, in addition to quantitative criteria, it creates long-term value for its clients based on an in-depth analysis of companies' intangible assets, such as human capital, reputation, innovation capacity, etc.

The ESG team provides its internal research model with data from:

- Corporate publications (reports and presentations)
- External ESG research providers (MSCI, ISS and CDP)
- External providers of raw financial and non-financial data (Bloomberg, FactSet)
- Brokers' specialized publications (thematic research).

This bottom-up approach involving ESG specialists, management teams and external providers of quantitative data gives us a global view of each company. On this basis, we are able to assign an ESG rating regardless of market capitalization.

Our ESG model

Our model is a key element in integrating sustainability risks into the investment management process.

The ESG research developed in-house by ODDO BHF Asset Management SAS is based on the United Nations Global Compact. The Global Compact is based on 10 principles relating to human rights, labor rights, the environment and anti-corruption, based on the main international standards (the Universal Declaration of Human Rights, ILO conventions, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption).

In 2017, in order to place its ESG research within a dynamic and forward-looking approach, ODDO BHF Asset Management SAS adopted the United Nations' Sustainable Development Goals (SDG), signed in September 2015 by 193 countries, as a framework for reflection until 2030. Concretely, this allows us to understand the degree of exposure of each economic sector (according to the BICS level 2 classification of 68 sectors) to the challenges of sustainable development around 12 long-term themes identified for their materiality on companies. These are clean energy, energy efficiency, biodiversity, the circular economy, sustainable mobility, fundamental rights, employment, health, education, inclusion, technological innovation and business ethics.

Out of the 169 objectives defined around the 17 UN SDGs, the management company has chosen 37 SDGs that it considers relevant and directly applicable to companies. We then attached one or more SDGs to each of the 12 long-term themes. This matrix enables us to position ourselves in each economic sector according to the opportunities and risks of sustainable development.

Our ESG research on companies is based on 10 themes (three environmental, four social and three governance) covering the United Nations Global Compact, the main criteria of which are presented below. Intangible assets (human resources, innovation and stakeholder relations) are a major part of our analysis model, and we use both quantitative and qualitative criteria.

Our aim is to avoid size or country bias and to focus on the most important factors from an ESG perspective when analyzing companies.

Integration of our ESG research into the investment process

Our internal ESG research platform, which is available to all management teams, aims to deploy our ESG integration policy across all asset classes to help guide the construction of investment portfolios. Our approach is based on three systematic steps throughout the investment process: exclusion, ESG ratings, dialogue and engagement.

The fund management teams have daily access to ESG sheets for all issuers in their investment universe, enabling them to obtain quick and up-to-date information on the securities in their portfolios. The fact sheet includes not only the company's overall ESG score, but also its score for each module (E, S and G), the main recent elements of the information flow and the most relevant points to consider depending on the sector in which the company operates.

ESG ratings and additional information (level of controversy, dedicated corporate governance or management quality rating) are also fully integrated into our IT and investment systems (Bloomberg). This means that investment teams are able to obtain a clear overview of the average ESG rating of their portfolios and identify the level of controversy of each issuer whenever they wish. This has a direct impact on portfolio construction as they can easily obtain our advice to make their investment decisions.

Our exclusion policy

In accordance with international agreements and treaties, ODDO BHF Asset Management SAS unconditionally excludes any company involved in the development, production or distribution of controversial weapons. This exclusion covers the following points:

- Chemical weapons, as defined in the 1993 Paris Convention on Chemical Weapons
- Anti-personnel mines as defined by the 1999 Ottawa Treaty
- Cluster bombs, as defined by the 2008 Oslo Convention on Cluster Munitions.

ODDO BHF Asset Management SAS has also established a formal sector exclusion policy applied to funds that incorporate ESG criteria into their investment process. These exclusions concern all or part of the following sectors, depending on the fund management strategy applied: coal, tobacco, alcohol, nuclear, gambling, conventional weapons, pornography, GMOs and pesticides, shale gas and oil sands.

ODDO BHF Asset Management SAS has implemented a new exclusion policy based on violations of the United Nations Global Compact for all open-ended funds managed by ODDO BHF Asset Management as of January 1, 2021 and has also reinforced and extended its existing coal exclusion policy to all open-ended funds managed as of the same date. This new coal policy foresees a total divestment of coal in OECD countries by 2030, and 2040 for non-OECD countries. The new exclusion criteria are as follows:

Coal mining: any company whose annual production is greater than 10 million tonnes or, failing that, more than 5% of its revenues. These thresholds will be lowered to 0% by 2030 for EU and OECD countries, and by 2040 for the rest of the world.

Electricity generation: any company for which coal accounts for more than 25% of its production. These thresholds will be lowered to 20% in 2022, 15% in 2024, 10% in 2026, 5% in 2028 and 0% in 2030 for EU and OECD countries.

Development of new projects: any company involved in coal mining or coal-fired power generation that develops new projects involving thermal coal, regardless of the size of the project.

Our commitment to shareholders

As a long-term and conviction-based investor, ODDO BHF Asset Management SAS has implemented a three-pronged shareholder engagement approach available on our website.

Dialogue with companies

Our approach focuses on improving business practices and transparency on environmental, social and governance issues of the companies in which the portfolios invest. It is not about shareholder activism, but about engaging in dialogue with companies when necessary and dealing with issues on an individual basis. We are convinced that efforts to make progress on non-financial issues can create long-term value for all stakeholders. The management company publishes an annual report on its engagement and dialogue activities.

Exercise of voting rights at annual shareholders' meetings

ODDO BHF Asset Management SAS believes that the exercise of voting rights is an integral part of its responsibility as a shareholder. The management company votes at shareholders' meetings from a threshold of 0.25% of the capital of the companies in which the portfolios invest, and regardless of the level of ownership of portfolios integrating ESG criteria in their investment process. In accordance with its voting principles, ODDO BHF Asset Management SAS uses an external service provider, ISS, to review the resolutions and help it decide how to vote. ISS' recommendations are submitted to the management teams, who make the final voting decisions after consulting with the ESG research team on social and environmental resolutions.

Individual or collaborative engagement

The management company's individual engagement process focuses on companies that are rated the lowest in our internal methodology (i.e. 1 on a scale of 1 to 5) and/or are the subject of serious controversy. Our engagement process consists of systematically identifying and establishing explicit areas where we expect progress, allowing us to monitor and evaluate the results achieved. Our approach is considered successful if dialogue with an issuer leads to greater ESG transparency and/or improved ESG practices within 18 to 24 months. If the engagement is not successful (the dialogue proves to be non-existent or unsatisfactory), our fund management teams may decide to exclude the issuer from the investment universe or, if an active position is already held, to dispose of it. In terms of sustainable development, ODDO BHF Asset Management SAS considers that collaborative engagement is an effective way to achieve concrete and measurable results within a reasonable timeframe. We are therefore involved in several collaborative initiatives, both locally and internationally.

Details on our engagement approach and results are available on the management company's website.

Sustainability risk management

By giving a high weighting to governance and human capital criteria (human resources/management quality), our ESG integration approach makes a significant contribution to our knowledge of portfolio companies. This step, which is carried out collegially between managers and ESG research, identifies the extra-financial risks to which each issuer is potentially exposed (e.g. corruption, reputation, regulatory risks, talent retention, innovation, product quality and safety, etc).

Beyond the sector exclusions that apply to strategies that integrate ESG criteria into their investment process and are subject to a pre-trade ban, our ESG research platform enables managers to systematically alert managers to investments in companies that score the lowest (1/5) and are considered to present a high ESG risk.

Controls are organized at two independent levels:

-First level controls are carried out by operational teams, i.e. managers, management assistants and the middle office.

-Second-level controls are carried out by the Risk and Compliance Department, independently of "risky" activities.

In terms of organization, the Risk & Compliance department is independent of the managers and reports directly to the Chairman of ODDO BHF Asset Management SAS. Risk Management processes the alerts generated every day (in analyses, incident reports, etc). Managers are immediately informed by Risk Management of any incident or violation. Corrections are then made to the portfolios as soon as the managers are informed. An escalation procedure exists, if necessary. All proven breaches are reported by e-mail to the managers concerned and the office manager and are archived in an audit trail. The processes and participants are as follows:

-Controllers send e-mail reminders and, in some cases, verbal reminders for breaches that have already been addressed but not yet resolved by the due date of the incident.

-Weekly reports on significant violations (with initial alerts more than five days old and still outstanding) are e-mailed to the Chief Compliance Officer, the Chief Investment Officer and the President. In the event of a persistent violation, the Compliance Committee is asked to rule on the matter.

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