2019 DIALOGUE & ENGAGEMENT POLICY REPORT

MAY 2020

Contents

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;
- To propose areas of improvement in the extra-financial themes that have been identified, in order to assist companies in their sustainable development strategies.

In addition to fund managers' regular meetings with companies, **ODDO BHF Asset Management conducted 66 ESG interviews in 2019**. We also undertook individual and collective engagement initiatives with companies that we believe pose significant ESG risks and challenges.

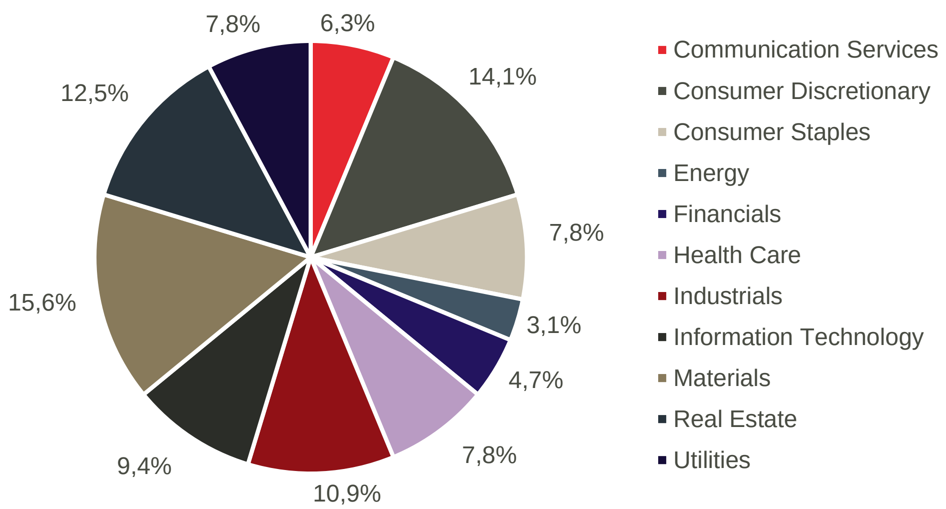
Our engagement policy is implemented by our ESG Integration Committee, which meets quarterly. Its members include the head of ESG research, the chief investment officer (CIO), heads of portfolio management expertise, and the chief risk and compliance officer.

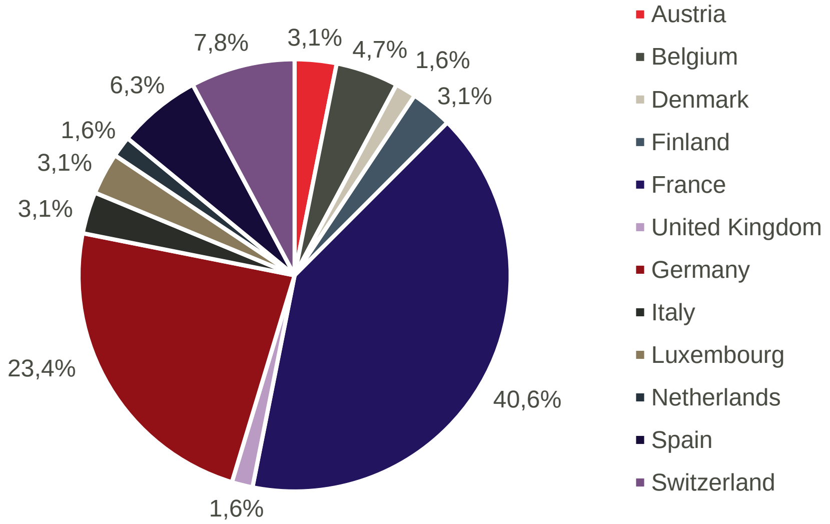
ESG dialogue & engagement: 2019 assessment and statistics

ODDO BHF Asset Management conducted ESG interviews with 66 European companies in 2019. 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 11 sectors and 13 different countries. Most of the interviews took place with French (41%) and German (23%) companies. The most highly represented sectors were basic materials (16%), consumer goods (14%) and real estate (12%).

Geographical and sector breakdown

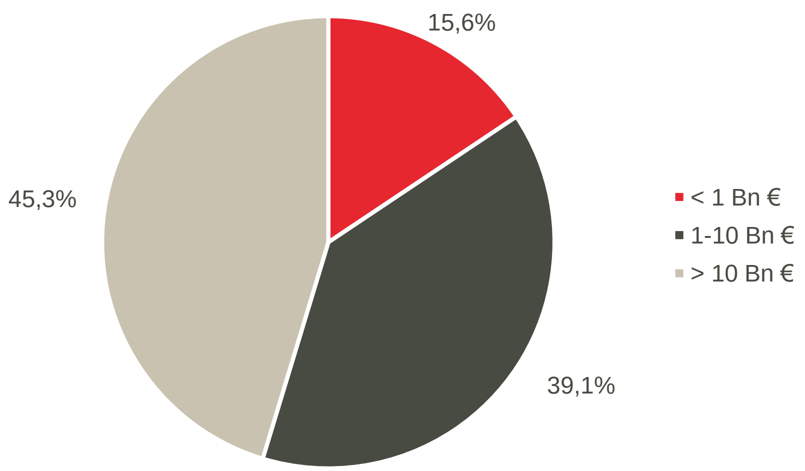




Source: ODDO BHF Asset Management SAS

45% of the companies that we met for ESG dialogue were large caps, 39% mid-caps, and 16% 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 four individual engagements and took part in two collective engagement initiatives.

List of 66 companies met for ESG dialogue in 2019

TAG Immobilien	Elringklinger	RWE	Pandox	AF-KLM
ESI Group	Lenzing	Vallourec	OMV	Kone
Kerlink	TVA TePla	Umicore	Ericsson	Aperam
Aroundtown Property	SAF Holland	ERG	Metro	Naturgy
Koening & Bauer	Air Liquide	Voltalia	Assa Abloy	Volkswagen
Deutsche Euroshop	Cap Gemini	Icade	Fnac Darty	TDC
Arkema	Intesa	TF1	Deutsche Post	
Patrizia Immobilien	Glencore	EssilorLuxottica	Ahold Delhaize	
Esker	Pernod Ricard	Sodexo	UCB	
Carmila	Hoffmann Green Cement Technology	Atresmedia	Covestro	
Nexity	Bureau Veritas	Bonduelle	GSK	
Santander	Bouygues	Sanoma	Unibail Rodamco Westfield	
Michelin	Henkel	Acciona	CHR Hansen	
Commerzbank	Imerys	Renault	Sartorius Stedim	
Continental	Merck	Telenet	Novartis	

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.

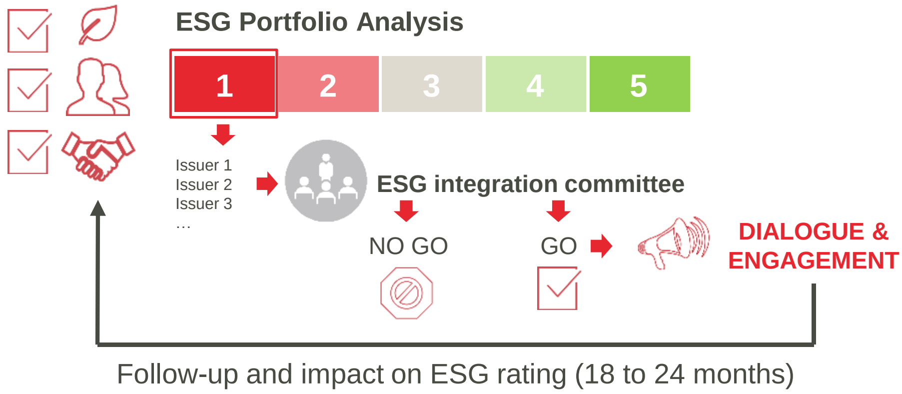
Our approach

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 portfolio 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 controversy[1].

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.

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

Engagement process



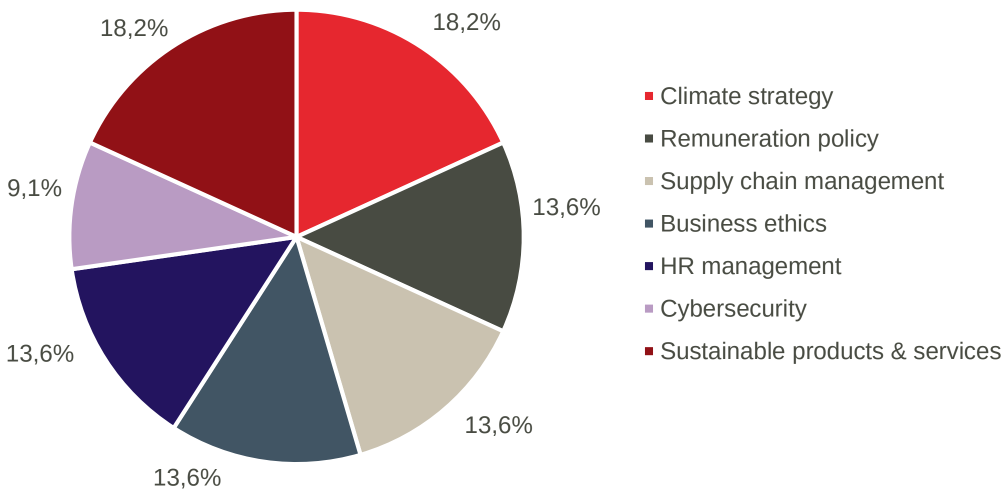
Source: ODDO BHF Asset Management SAS

Individual engagements

In 2019, ODDO BHF Asset Management began four engagement processes with European companies within its investment universe.

The issues discussed the most with these four companies were climate strategy (18%), manager compensation policy (14%) and management of suppliers and subcontractors (14%).

2019 engagement process by theme



Source: ODDO BHF Asset Management SAS

Here is a summary of individual engagements in 2019.

TDC (Denmark) - Telecommunications sector

Sustainable Development Strategy and CEO succession

After accepting a takeover bid from a consortium of several investment funds and a bank in 2018, the Danish telecoms operator was delisted. We wanted to provide an update on the progress TDC has made since its change of ownership. The telecom sector faces various extra-financial issues, including its energy footprint against a backdrop of increased data consumption and, as a result, its strategy for lowering greenhouse gas emissions, its infrastructures' resilience to physical risks, employee commitment or deployment of eco-products.

Now that TDC has been delisted, it makes few sustainable development disclosures. After speaking on the phone with the head of sustainable development, we have adjusted our opinion on TDC's extra-financial profile. Our contact person highlighted the new shareholders' commitment to sustainable development, a crucial point in ensuring TDC's involvement and the continuity of initiatives in the midst of a shareholder transition. TDC is targeting carbon neutrality by 2030. This target date contrasts with the cautious stance of other telecom companies. Although this decarbonisation strategy is needed, keep in mind that Denmark's energy mix is based mostly on renewables, something that helps TDC make progress in reducing its fossil fuel exposure. Some consumers' concerns regarding sustainable development issues are pushing TDC into developing new eco-products. Our contact person stressed TDC had made more progress in eco-design than some of its competitors.

In the area of governance, we wanted to ensure that management succession was being handled properly. TDC changed CEOs in 2018. After one year at the helm, the former CEO left to work for another carrier. We wanted to determine why exactly she left so soon. Such a quick succession is never reassuring for investors.

Volkswagen (Germany) - Automotive sector

Sustainable Development Strategy and Governance

In the wake of Dieselgate, we continue to focus on Volkswagen. We took part in an ESG roadshow held by the group in Berlin in 2019, spoke by phone with it, and met with it at an ESG conference. We mainly discussed Volkswagen's governance and the consistency of its sales & marketing strategy with its sustainable development strategy. Other issues we discussed were the uncertain succession process since Dieselgate, doubts on the integrity of the chairman of the board of directors, the lack of director independence, enforcing standards in corruption and business ethics, the lack of balance of powers (particularly between the board of directors and the CEO), and compensation policy. We also took on the thorny issue of the consistency of selling SUVs (considered a major source of CO_2 emissions and other pollution) to a growing degree while, simultaneously, making a strategic focus on electric vehicles. This lack of consistency was brought out by the International Energy Agency in 2019. It pointed out that the boom in SUV production was cancelling out the environmental benefits expected of electrical vehicles. Volkswagen is not the only automaker that is guilty of this, but it does leave itself open to charges of greenwashing that we, as investors, cannot ignore. Despite our many discussions with Volkswagen and the answers it has provided on certain issues (including progress it has made in transparency on manager compensation), there are still many sticking points that are keeping us from having a positive view of its extra-financial profile.

OMV (Austria) - Oil & Gas sector

Environmental Strategy

OMV was one company deemed high-risk under our in-house methodology, owing to doubts that we shared on its strategic adjustment to climate change and its extra-financial achievements compared to its peers. An interview with representatives of the Austrian group cleared up some of our concerns and we adjusted our assessment. The increased portion of gas in OMV's hydrocarbon output illustrates its progress in its energy transition and its shift towards lower-carbon energies. The work OMV is doing on new forms of mobility (in particular in hydrogen) and renewable energies are also a sign of a greater investment in low-carbon solutions. The fact that OMV has aligned its group strategy with its sustainable development strategy with a 2025 target date seems to us to be a wise and pragmatic way of achieving concrete results. We believe that OMV's management of the climate issue is above average for the sector, but we expect even more aggressive action in addressing the climate crisis during the unstable decade to come. In reaction to this finding, we raised OMV's ESG score. However, there are still many areas for improvement, including its exposure to Arctic activities and the impact of New Zealand drilling plans on its social acceptability.

Commerzbank (Germany) – Banking Sector

Human Capital andSustainable Products

We began an engagement process with Commerzbank to get answers on its responsible investment policy, its management of human capital, promotion of diversity, management of cybersecurity and CEO compensation policy. Commerzbank's operating climate footprint has been neutral since 2015, but its environmental record must be judged through the prism of its financing and investment operations. We still see some room for improvement in some of its exclusion policies (e.g., like its policy of excluding coalmining projects), in light of the commitment that some of its competitors have made. In addition, a greater role could be carved out for sustainable finance on the group level. Regarding compensation, we regret the lack of sustainable development criteria in variable compensation and, particularly, climate issues. The promotion of diversity has improved in recent years but is being held back by the reduction in headcount. In cybersecurity, Commerzbank is unable to achieve zero risk, but the organisation set up on the group level, is a reassuring way of managing cyberattacks.

Collective engagement

Regarding structural and cross-disciplinary sustainable development issues, ODDO BHF Asset Management considers collective engagement to be a more effective tool in obtaining hands-on and measurable outcomes on a reasonable timeframe. With this in mind, we take part in two international collaborative energy transition and gender equality initiatives.

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 (161 companies as of end of September 2019). 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 September 2019, the Climate Action 100+ initiative released its first progress report, which may be viewed at: https://climateaction100.files.wordpress.com/2019/10/progressreport2019.pdf

Regarding climate governance, 77% of companies targeted by the initiative have one member of the board or executive committee with a clearly identified responsibilities in climate change strategy. However, only 8% of them have a climate policy in place that is consistent with the engagements or stances announced by their professional associations.

70% of companies have implemented quantitative measures and objectives for reducing greenhouse gas emissions, but only 3% of them have set targets that are aligned with a 2°C scenario (the IEA scenario is used as a benchmark).

Lastly, in the area of reporting, 40% of targeted companies have undertaken an analysis of their strategy with regards to long-term climate scenarios, in accordance with TCFD recommendations.

In 2019, ODDO BHF Asset Management took part in continuing engagement with two companies: ArcelorMittal and A.P. Moeller Maersk.

ArcelorMittal

ArcelorMittal released its first climate action report in May 2019, in which it emphasised its 2050 carbon-neutral target for Europe. (https://corporate.arcelormittal.com/~/media/Files/A/ArcelorMittal/investors/corporate/AM_ClimateActionReport_1.pdf).

Following its general meeting of shareholders on 7 May 2019, ArcelorMittal pledged to implement an analysis of climate scenarios, to reconsider its participation in professional associations that do not take up Paris Agreement objectives in their lobbying activities, and to help implement a methodology that is suited to the metals and mining sector in setting Science-Based Targets.

In December 2019, ArcelorMittal reached another milestone in announcing a 30% targeted reduction of greenhouse gas emissions by 2030 in its European business perimeter. This is consistent with its 2050 carbon-neutrality trajectory. The European objective will be pursued through three levers: expanded sourcing of green energies, the use of circular production processes, and the expansion of carbon capture and sequestration.

A.P. Moeller

This collaborative process with the Danish company A.P. Moeller Maersk helped bring it to announce in December 2018 its target of achieving carbon neutrality by 2050, in accordance with the Paris Agreement climate objectives. To do so, A.P. Moeller Maersk announced plans to develop carbon-neutral ships that should be commercially viable by 2030. This will likely require technological breakthroughs in biofuels and hydrogen and in ship electrification, along with the rejuvenation of the fleet to achieve energy efficiency gains. Dialogue is now focusing on implementing these objectives, as the maritime transport sector is crucial for global manufacturing and accounts for about 3% of global greenhouse gases.

For 2020, the coalition of investors within the Climate Action 100+ initiative has set the following objectives:

- To achieve greater transparency in climate change lobbying practices and ask companies for clear support for setting greenhouse gas reduction targets;
- To ask companies to align their strategies with Paris Agreement goals on a low-carbon future, by setting short-, medium-, and long-term goals for a fair transition to carbon neutrality;

- To effectively implement TCFD recommendations in reporting, including analyses of stress-test scenarios of business models.

WOMEN'S EMPOWERMENT PRINCIPLES

Established by UN Women and the UN Global Compact Office

ODDO BHF Asset Management has joined a coalition of investors that promote gender equality within companies. With 66 co-signees accounting for 4,000 billion euros in assets under management, the declaration also has the support of UN Women and the UN Global Compact. Gender equality is on the UN's Agenda 2030, but progress is still necessary and imperative to achieve this goal. The declaration asks companies to sign the Women's Empowerment Principles. These are seven principles that guide companies in achieving gender equality:

- Principle 1: Establish high-level corporate leadership for gender equality;
- Principle 2: Treat all women and men fairly at work and support non-discrimination;
- Principle 3: Ensure the health, safety and well-being of all women and men workers;
- Principle 4: Promote education, training and professional development for women;
- Principle 5: Implement enterprise development, supply chain and marketing practices that empower women at all levels;
- Principle 6: Promote equality through community initiatives and advocacy;
- Principle 7: Measure and publicly report on progress to achieve gender equality.

This theme is important in our investment strategies and is also a recurring issue in our discussions with companies. Our participation in this declaration reaffirms the importance we attribute to gender equality and promoting women in companies.

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).

Structure of the ESG research model and internal rating scale

SUSTAINALYTICS · CDP · Bloomberg · FACTSET

ENVIRONMENT	SOCIAL	GOVERNANCE
• Environment Management System • Environmental opportunities • Environmental risks	• Regulation • License to operate / reputation • **Human capital (30%)** • Social ecosystem	• Sustainable development strategy • **Corporate governance (25%)** • Business ethics
10 to 30%	40 to 50%	30 to 45%

Final score out of 100

Internal ESG rating scale measuring the “**execution risk**”

1	2	3	4	5

High risk… … strong opportunity

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