Ostrum
ASSET MANAGEMENT

Enhancing your power to act

# RESPONSIBLE INVESTMENT REPORT

## ARTICLE 29 FRENCH ENERGY-CLIMATE LAW, TCFD AND SUSTAINABILITY RISKS

2023

An affiliate of: NATIXIS INVESTMENT MANAGERS

# CONTENTS

This report is designed to address three regulatory requirements: the implementing decree for Article 29 of the French Energy-Climate Law, the Rixain Law and the Sustainable Finance Disclosure Regulation (SFDR), which covers sustainability risks. It also meets the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). To make this report easier to understand, below are four cross-reference tables to help you find what you are looking for.

# Cross-reference table

## Article 29 of the Energy-Climate Law (ECL)



## SFDR



## Rixain Law

## TCFD

# Ostrum AM in a nutshell

| A RESPONSIBLE AND ENGAGED COMPANY | A LEADING PLAYER IN EUROPE[1] | A COMPREHENSIVE OFFERING: ASSET MANAGEMENT AND INVESTMENT SERVICES | THE GO-TO PARTNER FOR EUROPEAN INVESTORS |
|---|---|---|---|
| 100% of our analyses incorporate material ESG factors<br>98% of assets managed in open-ended funds are SRI-accredited<br>€25 billion in sustainability bonds[3]<br>Signatory of the PRI since 2008* | €377 billion in AuM[2], including €279 billion for insurance-related management[2]<br>€515 billion of assets administered on the services platform[2] | Extensive range of insurance management solutions and fixed-income strategies<br>64% of our funds rated 4 or 5 stars by Morningstar[4]<br>Modular services platform | + 35 years of trusted relationships with our clients[5]<br>+ 30 clients insurers or insurance type (pension fund, retirement funds, ...)<br>Services platform tried and tested by our clients, asset managers and asset owners for over 10 years[5] |

## EXTENSIVE RANGE OF FIXED-INCOME STRATEGIES AND INSURANCE INVESTMENT SOLUTIONS

- **Research & SRI**: Macro & strategy, Quantitative research, Credit research, ESG strategy
- Emerging debt
- Sovereign bonds
- Insurance solutions
- + €279bn under insurance investment management
- Insurance-related equity
- Money market
- Inflation-linked bonds
- Aggregate
- Fixed-income insurance
- Multi-Asset insurance
- ABS
- Total Return
- Hold to maturity
- Investment grade credit
- Crossover credit
- High yield credit

1. IPE Top 500 Asset Managers 2022 ranked Ostrum AM 11th in its listing of the top asset managers at 31/12/2021. References to a ranking are not a guide to the asset manager's future results. 2. Source: Ostrum Asset Management, consolidated data at 31/12/2022. Administered assets include Ostrum AM's assets. The services provided for a given client may concern certain services only. Excluding money-market funds not included in the scope for this Morningstar rating. References to a ranking, price and/or rating are no guarantee of the future results of the funds or of the management company. 3. Source: Ostrum Asset Management at 31 December 2022. Administered assets include Ostrum AM's assets. The services provided for a given client may concern certain services only. 4. Source Morningstar, 31/12/2022. As a % of open-ended fund assets, excluding money market funds and funds not included in the scope for the Morningstar rating. References to a ranking, price, accreditation or rating are no guarantee of the future results of the management company. 5. Through the capitalistic combination that led to the creation of Ostrum AM on 1 October 2018.

* Ostrum AM was one of the first French asset management companies to sign the PRI in 2008. Learn more at www.unipri.org.

# EXPERIENCED INVESTMENT TEAMS

- Over 100 investment professionals
- + 55 PM and 23 insurance-related asset management analysts[1]
- Longstanding market experience and over 35-year track record in insurance-related asset management

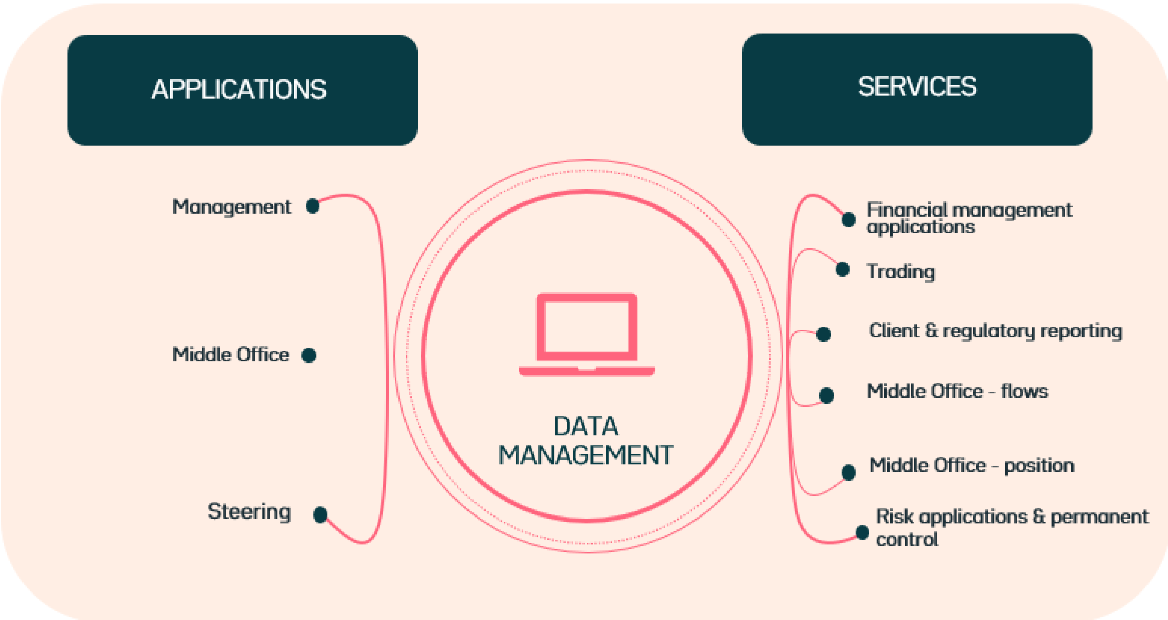
✓ ESG[2] criteria integrated into each asset class

✓ Funds certified with the French "Label ISR"[3] in all strategies

# DEDICATED INVESTMENT PLATEFORM

Combining cutting-edge technology with business expertise

MODULARITY | CLIENT EXPERIENCE | SECURITY | QUALITY & TRANSPARENCY




1. Source: Ostrum AM at 31/12/2022. – 2. The integration of ESG factors refers to the inclusion of ESG issues into investment analysis and decisions. The approach to ESG integration varies depending on the funds. The integration of ESG factors does not necessarily mean that investment vehicles also seek to generate a positive ESG impact. 3. The SRI accreditation is designed to help select responsible and sustainable investments. It was created and supported by the French Finance Ministry to increase the visibility of SRI products among savers in France and Europe. For more information please refer to https://www.leaccreditationisr.fr/.

Ostrum Asset Management was created by the separation of Ostrum Asset Management's fixed-income and equity investment management operations into a separate subsidiary on 1 October 2018 (registered on the Paris Trade and Companies Register under number 329 450 738, previously Natixis Asset Management). Natixis Asset Management was created by the merger of two leading French asset managers in June 2007, Natexis Asset Management and Ixis Asset Management. Natexis Asset Management was the Banque Populaire Group's asset management firm and was set up in 1998. Ixis Asset Management was the Caisse d'Epargne Group's asset management company and was founded in 1984.

Ostrum ASSET MANAGEMENT

Enhancing your power to act

**1984** — CREATION OF CDC GESTION
80% owned by Caisse des Dépôts and 20% owned by CNP

**1985** — FIRST SOLIDARITY FUND
Creation of the Natixis Nord-Sud Développement fund

**1994** — LAUNCH OF THE POSITIVE IMPACT FUND
Integration
Jobs
Dynamic

**1998** — VOTING POLICY

**2007** — CREATION OF NATIXIS AM
IXIS AM absorbs Natexis AM and becomes Natixis AM, wholly-owned by Natixis Global Asset Management (formerly IXIS AM Groupe), and becomes a wholly-owned subsidiary of Natixis as of that same date

**2008** — SIGNATURE OF THE UN-PRI

**2009 - 2010** — LAUNCH OF THE CSR POLICY

**2017** — FIRST GREENFIN LABEL

**2018** — CREATION OF OSTRUM AM
Natixis AM changes its name to Ostrum AM

**2019** — OSTRUM AM RANKS AMONG THE TOP 5 RESPONSIBLE ASSET MANAGEMENT COMPANIES
(2019 Responsible Investment Brand Index™ report)

COAL POLICY TWICE AS STRICT[1]

**2020** — 25 SRI-ACCREDITED OPEN-ENDED FUNDS

TIGHTENING OF THE COAL POLICY DEFINED IN 2018
with 6 new exclusion criteria

100% OF EMPLOYEES MADE AWARE OF CSR AND ESG ISSUES

**2021** — 100% OF EMPLOYEES TRAINED IN BIODIVERSITY ISSUES

100% OF MONEY MARKET FUNDS SRI-ACCREDITED*

93% OF OUR OPEN-ENDED FUNDS ACCREDITED*

**2022** — IMPLEMENTATION OF OUR FIRST OIL AND GAS POLICY

€25 BILLION IN GSS BONDS**

1ST ACCREDITED INSURANCE-RELATED MANAGEMENT MANDATE

**2023** — OBJECTIVES:

MORE THAN 90% OF ASSETS CLASSIFIED UNDER ARTICLE 8

RAMP UP OUR CLIMATE AND BIODIVERSITY COMMITMENTS

[1] Exclusion of issuers that derive 26% of revenue from coal, compared to 50% previously.
*Source: Ostrum Asset Management, consolidated data at 31/12/2021.
**Source: Ostrum Asset Management, consolidated data at 31/12/2022.

# 1. GOVERNANCE & RESOURCES

## 1.1 ESG GOVERNANCE AT OSTRUM AM

*Roles and responsibilities of the various committees*


ESG governance structure at Ostrum AM. Source: Ostrum AM at 31/12/2022

### 1.1.1 ESG and climate dimensions supervised by management bodies

The Board of Directors at Ostrum Asset Management approves strategic decisions, particularly regarding our fiduciary duty to our various stakeholders in our capacity as a responsible investment manager. In 2022, each board meeting included a presentation of past and forthcoming changes in our CSR and ESG strategy.

#### COMPOSITION OF THE BOARD OF DIRECTORS (at 31/12/2022)

- Timothy Ryan, Chairman and Chief Executive Officer of Natixis Investment Managers
- Cyril Marie, Chief Financial Officer and Head of Strategy and Corporate Development at Natixis Investment Managers
- Christophe Lanne, Chief Transformation & Talent Officer at Natixis Investment Managers
- Véronique Sani, Chief Operating Officer at Natixis
- Sophie Debon, Representative of BPCE, Head of Products & Solutions Retail Banking & Insurance/Products & Solutions Groupe BPCE
- Nathalie Wallace, Global Head Sustainable Investment Natixis Investment Managers
- Alain Bruneau, Permanent representative of Natixis Investment Managers, Secretary General of Natixis Asset & Wealth Management

At this stage, Ostrum AM does not incorporate environmental, social and governance quality criteria into the board of directors' internal rules. Work is under way to consider rolling out these objectives in its supervisory body.

CSR and ESG policies are implemented at the highest level within Ostrum AM by the Executive Committee. Climate and biodiversity policies are part of Ostrum AM's ESG policy and CSR strategy.

They are set out in an action plan approved by the Executive Committee, which monitors progress towards our goals on a six-monthly basis and decides on corrective action where necessary.

New policies and changes affecting our Climate approach are approved by the Executive Committee at the proposal of the Portfolio Management department.

In addition, since June 2022 Philippe Setbon, Chief Executive Officer of Ostrum AM, has been Chairman of the French asset management association (Association Française de la Gestion Financière or AFG), which has made Sustainable Finance a key priority. The organisation is committed to looking at the main challenges facing the asset management industry, including sustainable finance and climate-related issues.

Philippe Setbon has taken part in a number of conferences on ESG and the climate.

#### COMPOSITION OF THE EXECUTIVE COMMITTEE (at 31/12/2022)

- Philippe Setbon, Chief Executive Officer
- Mathieu Cheula, Deputy Chief Executive Officer*
- Head of Development (being recruited)
- Rémi Ardaillou, Head of Risk
- Ibrahima Kobar, Head of Fixed Income and Research
- Emmanuelle Portelle, Head of Permanent Control
- Gaëlle Malléjac, Head of Insurance and ALM Solutions
- Julien Raimbault, Head of Operations & Technologies
- Sylvie Soulère Guidat, Head of Human Resources

** Mathieu Cheula resigned on 31/03/2023. In 2023, we were joined by Emmanuel Bourdeix, Head of Quantitative Management, and Vanessa Casano, Secretary General in charge of Finance, Risk and Permanent Control.*

## SURVEY OF ESG KNOWLEDGE WITH EXECUTIVE COMMITTEE MEMBERS

Ostrum AM conducts an annual survey with all members of the Executive Committee, comprising questions on their knowledge of and expertise in environmental, social, governance, climate and biodiversity themes.

The score ranges from 1 for a low degree of insight to 4 for an extremely high degree of expertise.

These scores have improved compared with last year as a result of a program to train and raise on awareness on these dimensions.


Source: Ostrum AM, March 2022

## GENDER EQUALITY

In terms of gender equality, 39% of Ostrum AM's employees are women. It achieved its target of 30% women on the Executive Committee in 2021 and the proportion remained unchanged in 2022.

In addition, 35% of the members of the management teams responsible for investment decisions are women and 65% are men. An equal number of male and female asset managers serve on the Committee responsible for investment decisions. In response to the Rixain Law, Ostrum AM's goal is to have at least 40% of new hires for open positions be women.

## 1.1.2 Our business lines' ESG and climate organisation

### CORPORATE SOCIAL RESPONSIBILITY

The role of CSR is to identify the full range of the company's impacts on its stakeholders and tackle these aspects in coordination with the various business lines.

Ostrum AM has a responsibility to its staff, clients, issuers, the financial market and society in the broader sense of the word, and our CSR policy sets out the various priorities it pursues in this arena. This policy also includes an action plan as well as a set of targets.

Our impact on the environment and climate change is a crucial aspect for the company and is addressed on the one hand in our day-to-day running as a company and on the other hand in our business operations as an asset manager.

Our CSR strategy has been defined as follows:

Amplifying our commitment and our impact by:

- Making our employees participants in our transformation
- Keeping our clients informed for more responsible asset management
- Supporting issuers' transformation
- Contributing to change in financial markets
- Having a positive impact on our ecosystem

### SOCIALLY RESPONSIBLE INVESTMENT

Ostrum AM is actively committed to the fight against climate change, the transition to a low-carbon economy and environmental and social issues.

All these initiatives are spearheaded by the Research and SRI department (credit research with its in-depth insight into issuers, quantitative research which, for example, is involved in developing tools to calculate our portfolios' carbon intensity and align with climate scenarios, and the ESG Strategy team, which contributes its cross-business expertise on all these dimensions) and by equity portfolio management.

## SRI AT OSTRUM AM


The Research and SRI department is divided into three teams:

- **Credit research**: this team is in charge of issuer credit analysis with incorporation of ESG criteria. ESG and climate-related aspects are systematically integrated into their analysis when they are deemed to be material – i.e. with an impact on the issuer's credit risk – as part of a strict framework. This work will be discussed further in section 3. Two specialist analysts enhance our Impact bonds expertise (green bonds, social bonds, sustainability bonds, etc.).

- **Quantitative research**: this division is in charge of quantitative methodologies, portfolio calibration and construction, and incorporates strong ESG and climate dimensions, including analysis of scenarios, temperatures, scores, impact calculations, accreditations, etc.

- **ESG strategy**: it is important to note that the entire Portfolio Management department at Ostrum AM plays a crucial role in ESG integration. To reinforce our responsible investment approach, in 2020 it was decided to create a cross-business ESG strategy team that focuses specifically on overseeing these subjects and managing all cross-company ESG requirements, along with a number of other major themes.

    - The team draws on its market watch to conduct analysis and put forward proposals for ESG Sector and Exclusion Policies and Strategies. It also develops governance and sets up the related committee structures and defines procedures. The team has a role in managing these Policies, by steering working groups and specific committees, as well as supporting Portfolio Management teams on a daily basis. It is responsible for client follow-up and supports them in their own consideration of the various ESG policies and certain aspects of reporting and analysis. Lastly, the team is in charge of communication on these aspects with specific data reports – both internally and externally – and requests from regulators in particular.

## PERMANENT CONTROLS

The permanent control program is built on a set-up within the Permanent Control department involving the Compliance, Internal Control, IT Systems Security and Business Continuity and Cross-Functional Coordination departments.

Within this set-up, Internal Control is tasked with ensuring the effectiveness and consistency of the entire risk control and regulation compliance set-up. It ensures that:

- procedures are followed and first-level controls are in place and conducted effectively by Ostrum AM's business lines;
- regulatory and contractual engagements are met.

Along these lines, Internal Control drafts the company's annual control plan, which specifies the frequency and objectives of controls. The following controls, among others, can be conducted on:

- compliance with SRI investment rules as part of the SRI accreditation criteria and their transparency vis-à-vis investors;
- compliance with changes in SRI accreditations;
- compliance with European regulation – SFDR and Taxonomy – designed to promote the energy and ecological transition, and ward off environmental damage;
- compliance with restrictions and contractual commitments on sustainable finance set out in regulatory documents;
- risk management set-up, including non-financial risks and related indicators;
- management framework for reference data, including ESG indicators;
- availability and traceability of ESG indicators in IT systems;
- application of the voting policy, i.e. sector exclusion policies, coal policy, oil & gas policy [currently being rolled out];
- compliance and extensiveness of information required by Article 173 of the Energy Transition for Green Growth Act and Article 29 of the French Energy-Climate Law.

The results of each control are set out in control reports and approved by the Head of Internal Control. Observations and recommendations are presented to the business lines involved. Internal Control carries out regular checks on these recommendations and ensures that corrective measures are implemented to help curb risks.

As part of its assistance and advisory role, the Compliance department supports staff at Ostrum AM in understanding applicable regulation and approves documents designed for clients or third parties as regards Ostrum AM's products, solutions and expertise on ESG and the climate.

IT Systems Security and Business Continuity is tasked with rolling out a business continuity program to prepare for various scenarios where the building, IT systems and/or skills are unavailable, regardless of the causes. Climate risks – floods, weather events, heatwaves – are included in the disaster scenarios assessed. In addition, a backup system is in place for applications containing ESG data to ensure data availability and security.
As part of our constant improvement efforts, this program is consistently maintained in operational order to ensure that it remains robust, by reviewing risk scenarios and the business and IT continuity strategy, and by organising yearly tests.

Cross-Functional Coordination maintains the list of regulatory reports, including SFDR reports. It periodically performs level two control on these reports.
Cross-Functional Coordination also maintains the list of Ostrum AM vendors, which includes ESG data providers. It coordinates the updating of each supplier's tracking sheet showing contractually compliant use cases.

## RISK DEPARTMENT

The Risk department comprises Operational risk, Market risk, Credit risk and Investment risk.

### 1) Operational risks

The Risk department updates senior management on our operational risk management program for the company as a whole.
Operational risk mapping is presented and approved once a year. The aim of this mapping is to present and qualify areas of risk. Climate/social and environmental aspects are also incorporated into these various risks mapped.

In the current mapping, climate risks are taken into account in a cross-dimensional way and affect various sectors. They are naturally included in the "Business interruption (information system, building, staff)" category in the event of a flood or storm. They are included in more than on a third of the risks identified in the mapping that includes ESG-related risk. They are therefore included in risks such as:

- failure in the process for developing/publishing marketing documents or prospectuses;
- failure in implementing a portfolio's investment strategy;
- failure in the process for managing contractual or regulatory constraints in our portfolios;
- failure in defining or implementing the voting policy;
- failure in the process for developing and/or publishing client reporting;
- failure in the process for developing or publishing regulatory reporting.

Any incidents reported by business lines are analysed and monitored through to resolution and may lead to recommendations by the Operational Risk department for implementation by the business lines with a view to reducing the impacts and/or frequency of occurrence of these risks.

### 2) Role of the Risk department in ESG and SRI management processes

The Risk department ensures that non-financial criteria are met in our portfolio management processes.

For example, its teams are involved in drawing up lists of sectors whose securities and issuers are to be excluded or monitored. Once validated, these lists are updated in the control systems and controls are performed on investments and divestments in accordance with Ostrum AM's policies and those of our clients. The teams are also responsible for validating the ESG criteria integrated into the management processes, confirming the formulas used to calculate indicators and their proper integration into the information system, and implementing and monitoring level two controls. Lastly, the Risk department takes part in due diligence on the selection of data providers and helps define and roll out our ESG risk framework. Since the first quarter of 2022, non-financial risks have been included in the work of the Financial Risk and Performance committee, which is now known as the Financial Risk, ESG and Performance committee, whose members include a representative of the ESG Strategy team.

### 1.1.3 Committees and working groups on ESG

Here at Ostrum AM, we have set up a number of committees and working groups to tackle ESG matters:

- Sector committees;
- Worst Offenders Committee;
- TCFD and ECL (Energy-Climate Law) working group;
- Sustainable Finance Committee;
- Financial Risk, ESG and Performance Committee;
- Operational Risk Committee;
- ESG ONE

#### SECTOR COMMITTEES

Mission: These committees cover our sector policies, such as coal, weapons, tobacco and our oil & gas policy, which was released in 2022.

They arbitrate and approve exclusion lists covering various sectors concerned, and are also involved in approving any exceptions to these lists.

Staff in the Portfolio Management department may request an exception for an issuer under rare circumstances, contingent on the presentation of a robust and well-documented application to this committee for approval. Members of the Strategy team may also provide their opinion on the matter.

Participants: these committees comprise Portfolio Management (Chief Investment Officer, his/her direct reports and members of the Portfolio Management department who have submitted a name for consideration), the Risk department and the Compliance department. A report is drafted following these committee meetings and sent to the Compliance department.

Frequency: The sector committees meet at least once a year.

#### WORST OFFENDERS COMMITTEE

Mission: Ostrum AM has developed an in-house process and set up a Worst Offenders working group, in addition to a Worst Offenders committee. The Worst Offenders working group is tasked with analysing companies and controversies when it receives an alert from data suppliers or Portfolio Management. It then presents its recommendations to the Worst Offenders committee for approval. Following an extremely stringent process, the Worst Offenders committee may go as far as excluding from our portfolios any issuers that have been subject to a major controversy. If the committee believes that the controversy does not warrant exclusion from portfolios, but that it should be monitored, the issuer is placed on the Watch List and is carefully observed.

The lists of issuers covered are updated at least once per year, and as often as necessary to address changes in issuers' practices.
A number of companies were thus added to our Worst Offenders list and excluded from our open-ended funds due to serious pollution-related controversies.

Participants: The Worst Offenders working group consists of representatives from credit analysis, portfolio management and ESG Strategy. The Worst Offenders Committee includes Portfolio Management (Chief Investment Officer, his/her direct reports and members of portfolio management who have contributed to the study), the Risk department and the Permanent Control department.

Frequency: The Worst Offenders Committee is required to meet at least once year. Ostrum AM may hold exceptional committee meetings in case of a major development concerning an issuer.

## TCFD AND ECL WORKING GROUP

Mission: The TCFD working group is tasked with analysing Ostrum AM's policies and organisation in light of TCFD recommendations and the rules of Article 29 of the Energy-Climate Law, setting out the situation in a formal report, and launching initiatives to best comply with the TCFD framework and the ECL.

Participants: The TCFD working group includes the Head of Research & SRI, her cross-business ESG Strategy team, the Head of CSR and a representative from the Risk department.

Frequency: This group was set up in 2020 and meets four times a year.

## SUSTAINABLE FINANCE COMMITTEE

Mission: The CSR Committee, now known as the Sustainable Finance committee, has four key missions: ensure consistency between the CSR Corporate strategy and the way it is applied, particularly in our investment policies; pre-emptively identify CSR and ESG issues; prioritise and monitor CSR and ESG projects; and share the company's policies and priorities with as many as possible.

Participants: This committee comprises the heads of the Portfolio Management and Development business lines, HR, Risks and Compliance, IT, Communications and CSR. It is chaired by the Chief Executive Officer.

Frequency: This committee meets on a quarterly basis.

## FINANCIAL RISK, ESG AND PERFORMANCE COMMITTEE

Mission: The Risk department updates senior management on our financial risk management set-up for the company as a whole. It presents specific risk indicators for each major group of financial risks – market, credit and counterparty, liquidity, model – and presents performance and investment process monitoring information for the various portfolios, while also alerting on any exceedances or anomalies observed over the period.
Since 2022, the committee covers non-financial dimensions, and aims to measure, consolidate and manage our ESG risks, particularly from a climate standpoint.

Participants: This committee includes the Chief Executive Officer, the Deputy Chief Executive Officer, the Head of Risk, the Head of Permanent Control, the Heads of Portfolio Management, the Head of Research & SRI, the Head of Operations & Technologies, the Head of Development, the Head of Investment Risk and the Head of Market Risk.

Frequency: This committee meets on a quarterly basis.

## OPERATIONAL RISK COMMITTEE

Mission: The Operational Risk committee updates senior management on our operational risk management set-up for the company as a whole. Its purpose is to:

- present a summary of incidents and losses;
- approve the action plans presented by the team, appoint those in charge and the related timeframes;
- present an update of progress on past action plans and risk indicators.

Participants: The committee comprises members of the Executive Committee, heads of the various departments at Ostrum AM and the Head of IT Systems Security and is chaired by the Head of Operational Risk.

Frequency: This committee meets on a quarterly basis.

## ESG ONE COMMITTEE

Mission: The ESG ONE committee is tasked with ensuring operational implementation of the ESG strategy. It works with business lines to develop a multi-annual roadmap, initiatives to be launched, investments and the schedule to prioritise and coordinate the various elements required to roll out Ostrum AM's sustainable finance ambitions. It provides regular updates to the Executive Committee and organises ad hoc working groups, depending on its objectives. In 2022, the committee focused on ESG reporting in order to anticipate and respond to clients' requests in this area and to regulatory changes.

Participants: This committee has a cross-company role and, as such, brings together representatives of the main business lines.

Frequency: The committee meets every other week.

## 1.2 INTERNAL AND EXTERNAL RESOURCES TO SUPPORT ESG

### 1.2.1 Internal resources deployed by the entity

#### GROWING INVOLVEMENT OF THE VARIOUS BUSINESS LINES

The rise in ESG issues, particularly over the last 10 years, has transformed the roadmap for a number of companies' businesses. In addition to strengthening its governance (see above), all Ostrum AM's departments have taken on more responsibilities.

#### HUMAN RESOURCES TASKED WITH INTEGRATING ESG CRITERIA

*Summary table of full-time equivalents working on ESG issues*

| BUSINESS LINE | INTERNAL FTE |
|---|---|
| FIXED INCOME DEPARTMENT | 9.5 FTE |
| TRANSFORMATION DEPARTMENT | 1 FTE |
| PERMANENT CONTROL DEPARTMENT | 1 FTE |
| RISK DEPARTMENT | 2.5 FTE |
| OPERATIONS & TECHNOLOGY DEPARTMENT | 3 FTE |
| DEVELOPMENT DEPARTMENT | 5 FTE |
| PORTFOLIO MANAGEMENT DEPARTMENT: RESEARCH & SRI | 14.8 FTE |
| INSURANCE AND ALM SOLUTIONS DEPARTMENT | 3 FTE |
| COMMUNICATIONS | 1 FTE |
| CSR | 1 FTE |
| TOTAL | 41.8 FTE |
| % OF FTE WORKING ON ESG ISSUES | 11.5% |

Source: Ostrum AM at 31/12/2022

# STAFF AWARENESS AND INCENTIVES

## INCENTIVES

Performance-related compensation for all the members of the Executive Committee is partly indexed to indicators set out in our CSR policy.

One of the five common goals focuses on sustainable finance.

Achieving these goals represents 6% of variable compensation.

Looking to Portfolio Management teams, the Credit Research and ESG Strategy teams have variable compensation indexed to ESG integration goals and application of the responsible investment strategy. Specific criteria are taken into account when reviewing portfolio managers and analysts, depending on their department.

The criteria for equity analysts and portfolio managers are:

- the number of companies analysed with ESG integration;
- the number of specific non-financial analyses;
- the number of controversies where they coordinated with ESG Strategy;
- the number of engagement initiatives conducted on ESG themes, in particular as part of specific engagement campaigns, i.e. coal/oil & gas, etc.

The criteria for portfolio managers are:

- the success of fund accreditations depending on the schedule;
- the ability to develop portfolios that can be classified as Article 8;
- the integration of investors' ESG policies for dedicated funds, i.e. scores/exclusions etc.

## RAISING AWARENESS

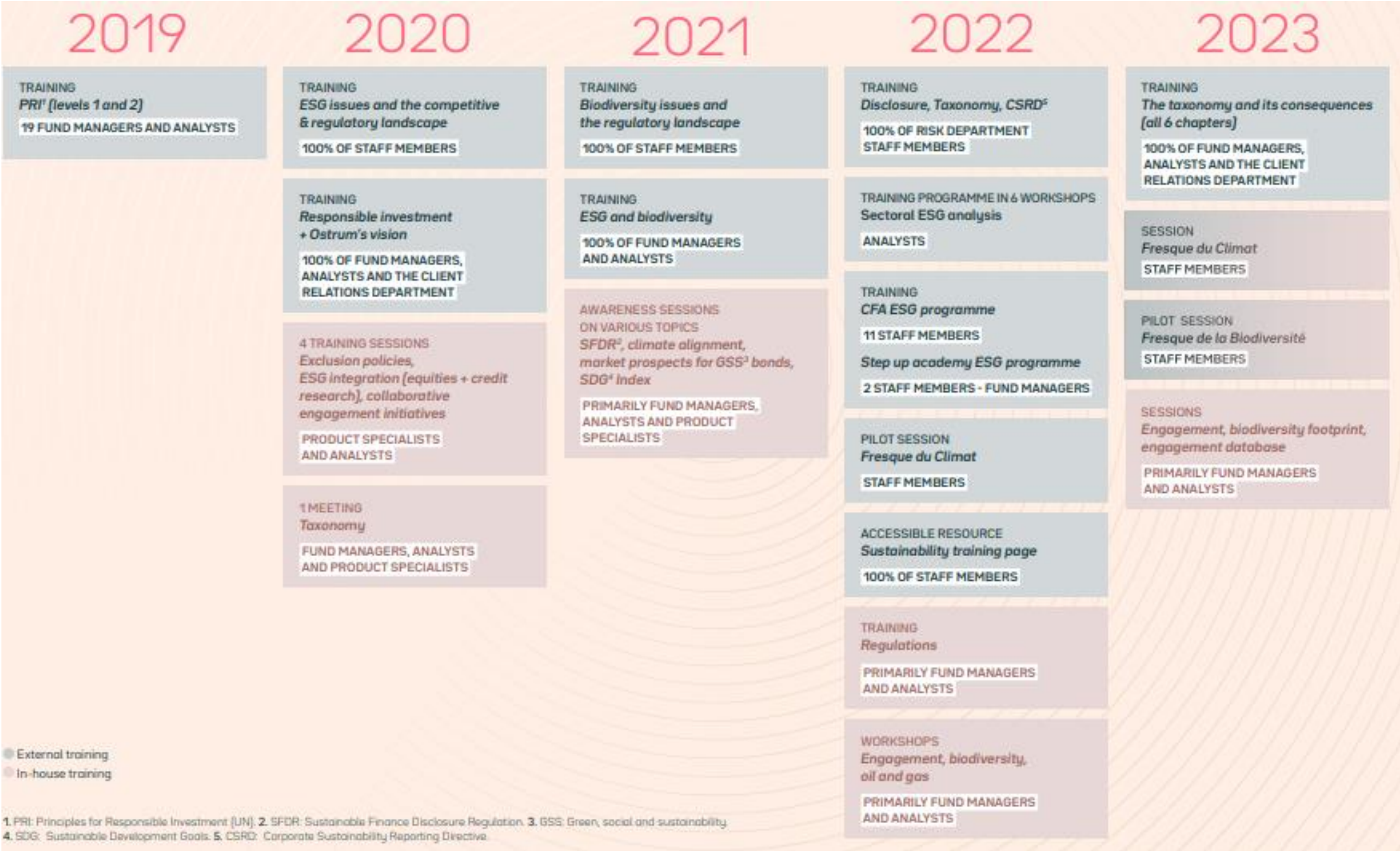
Sustainable finance lies at the heart of our strategy here at Ostrum AM, and we have ensured that all our staff – regardless of their business line – can develop their awareness of these key challenges and clearly understand the motivating factors behind our commitment and our ambition to bolster our expertise in this area in the current regulatory, environmental and social environment. After offering biodiversity training courses to all our staff in 2021, we decided to expand on the theme of ESG in 2022.

A training plan focusing on ESG issues was therefore developed:

As sustainable finance lies at the heart of Ostrum AM's strategy in an increasingly stringent regulatory, environmental and social context, our goal was to:

- Raise awareness among all employees, regardless of their business line, of these challenges;
- Ensure that they fully understand the reasons for our involvement and our desire to enhance our expertise in this area.

A clause was added to our incentive agreement to encourage a shift towards a CSR, sustainable development, diversity and inclusion culture. This clause stipulates that at least one CSR e-learning training course be taken by 30% of the average annual workforce. At over 45%, we easily exceeded this percentage.




## COMMUNICATIONS

We developed an internal and external communications program to raise awareness on all ESG themes with all our staff, building external visibility via convincing messages to enhance the impact of our convictions.

In addition to training initiatives, we raised awareness about ESG among our employees through articles on our corporate social network, regular focuses in our newsletter and meetings for all our staff to showcase our vision of sustainable finance.

Outside the company, experts gave multiple interviews and were involved in press articles. We also held a press conference to launch the Just Transition fund and communicated across social media to promote our convictions as broadly as possible. In an effort to share our practices, we also participated in various ESG round table discussions and events: Time To Change, ESG & Impact Investing Forum, l'AGEFI Hebdo round table discussion. The main topics discussed were ESG and the fixed-income market, sustainability bonds and the Just Transition.

## CONTRIBUTION TO DEFINING STANDARDS AND MARKET-WIDE INITIATIVES

Ostrum AM is also committed to applying and constantly honing its responsible investment policy by contributing to the development of ESG standards and ensuring their promotion. The company plays an active role in sector initiatives aimed at improving and standardising responsible investment practices.

In 2022, Ostrum AM was a signatory to:

| | |
|---|---|
| PRI Principles for Responsible Investment<br>www.unpri.org | Ostrum AM has been a signatory to the six internationally-recognised UN Principles for Responsible Investment since 2008. Signatory organisations must complete an annual questionnaire on their responsible investment practices and publish a follow-up report. |
| CDP<br>www.cdp.net/fr | CDP is an international non-profit organisation that was known as the Carbon Disclosure Project until the end of 2012. It maintains one of the world's largest global databases on the environmental performance of cities and companies. It focuses investors, companies and cities on taking urgent action to build a truly sustainable economy by measuring and understanding their environmental impact.<br>Ostrum AM has been a direct signatory since 2018 and has taken part in the CDP survey since 2010. |
| IIGCC The Institutional Investors Group on Climate Change<br>www.iigcc.org | The IIGCC has more than 230 members, primarily pension funds and asset managers across 15 countries, and with assets under management of more than €30 billion.<br>Ostrum AM is a member of the Institutional Investors Group on Climate Change, a European body for investor collaboration on climate change, and the voice for investors who take steps to make a more prosperous and low-carbon future.<br>The IIGCC plays a key role in the delivery of global investor initiatives and works closely with other investor networks. |
| FIR FORUM POUR L'INVESTISSEMENT RESPONSABLE<br>www.frenchsif.org/isr-esg | The French Social Investment Forum (Forum pour l'Investissement Socialement Responsable) was set up in 2001 by fund managers, specialists in environmental and social analysis, consultants, trade unions, university staff and citizens. Investors later joined in the initiative.<br>Ostrum AM has been directly involved in the FIR since 2019. |
| United Nations Global Compact<br>www.unglobalcompact.org | The UN Global Compact is a call to companies and stakeholders to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption and take actions that advance societal goals.<br>Ostrum AM has adhered to the principles of the UN Global Compact since 2019 through Natixis, a signatory to this initiative. |
| EFAMA European Fund and Asset Management Association<br>www.efama.org/about/SitePages/Home.aspx | EFAMA is the voice of the European investment management industry, represents 28 member associations, 59 corporate members and 22 associate members.<br>Ostrum AM is a member of the Stewardship, Market Integrity & ESG Investment standing committee.<br>Ostrum AM is also involved in working groups on responsible investment and corporate governance. |

https://www.afg.asso.fr/

The Association Française de la Gestion Financière (AFG) brings together French asset management industry professionals and promotes their interests. The association also supports ESG issues through the work of a special committee, of which Ostrum is a member. Philippe Setbon, CEO of Ostrum AM, is Chairman of the AFG, while Nathalie Pistre, Head of Research & SRI, is a member of the Responsible Investment Committee.

https://www.icmagroup.org/

The International Capital Market Association ("ICMA") is an international body headquartered in Switzerland (in Zurich, where it was founded in 1969) with more than 500 members based in nearly 60 different countries. The mission of ICMA is to promote resilient and well-functioning international debt capital markets.
Working actively with its members in all segments of markets, ICMA focuses on a comprehensive range of regulatory, market and other relevant issues which impact market practices and the functioning of the international debt capital markets.

https://www.climateaction100.org/

The mission of the Climate Action 100+ initiative is to encourage and motivate the world's 100 largest greenhouse gas emitters to seize their opportunity to transition to clean energy and comply with the Paris Agreement. Launched in December 2017 during the One Planet Summit, it is considered one of the 12 most relevant initiatives to address climate change issues. To date, 700 international investors have joined the initiative, including Ostrum AM.

https://www.icmagroup.org/

The Green Bond Principles (GBP) and the Social Bond Principles (SBP) are an initiative of the International Capital Market Association (ICMA) whose aim is to establish recommendations on transparency and disclosure and promote integrity in the development of the green and social bonds market. In 2021, Nathalie Beauvir-Rodes, senior impact bond analyst at Ostrum AM, was named a member of the ICMA's Advisory Council of Green Bond Principles.

https://www.fsb-tcfd.org/

The Task Force on Climate-related Financial Disclosures (TCFD) is a working group that aims to propose recommendations on how risks and opportunities related to climate change should be disclosed.
Since 2020, Ostrum AM has published its TCFD report to disclose the integration of climate risks into its overall strategy.

In 2022, Ostrum AM deepened its commitment by taking part in two AFG working groups on the minimum criteria for "Article 8" product eligibility under SFDR and the main definition principles common to asset management companies.

We were also involved in a working group co-led by Finance for Tomorrow and the AFG on the required criteria relating to controversy management and shareholder engagement for SRI accreditation.
We also participate in discussions led by Eurosif on key problems related to the use of ESG scores and data.

We are a member of the Advisory Council of Green Bond Principles of the International Capital Market Association (ICMA). We are involved in several of this association's working groups on the following topics: Social Bonds, Climate Transition Finance and Sustainability-Linked Bonds. We also participate in the Green CPs, Green securitisation, Covered bonds and Green repo sub-working groups in the ICMA's "Task Force on Sustainable Financial Products".

In 2022, we continued to play an active role in the "Coalition for a Just Transition" launched by Finance For Tomorrow in June 2021. The coalition urges companies to incorporate the just transition into their strategies. The initiative brings together investors, companies, non-financial rating agencies and other stakeholders committed to the just transition to advocate for the development of better practices. The coalition pursues three main goals:

1. Encourage companies to incorporate the just transition into their environmental strategies by engaging regularly with them;
2. Promote best practices in business sectors that are most affected by the environmental transition;
3. Support collaboration between investors and corporations.

Ostrum AM leads the working group "Building and Construction", where we work on three challenges, i.e. training, inclusion and sustainable urban development. We are currently working on selecting companies and indicators to conduct engagement actions.

Beyond our participation in various market-wide initiatives, Ostrum Asset Management is also involved in consultations by French and European authorities, such as the taxonomy, the application of regulatory measures on disclosure of sustainability risks (SFDR) and the IOSCO questionnaire on questions related to ESG and the climate.

## ASSESSMENT

- Principles for Responsible Investment

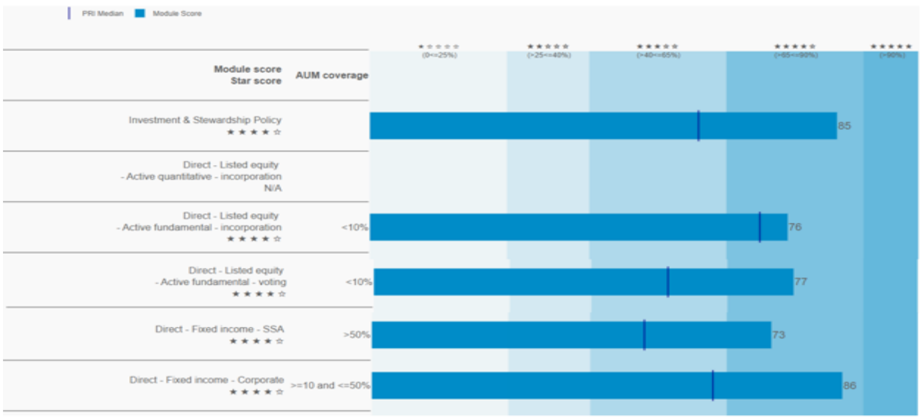
PRI Principles for Responsible Investment

Ostrum AM has been a signatory to the UN Principles for Responsible Investment (PRI)[1] since 2008. Following a detailed reporting exercise, the PRI assign a score, based on a five-level scale, for each applicable module.

Our high-quality, ambitious responsible investment approach has been

recognised by the PRI. In 2022, we received excellent scores for all the modules on which we were assessed: 4 stars for each module and a higher than the median score for each category.

Publication of the 2022 assessment.




Source: Ostrum Asset Management's 2022 PRI Assessment Report. * SSA: Supranational organisations, sovereign states/governments, government agencies, sub-national entities.

[1] The scores range from A+ (highest) to E (lowest). Following a detailed reporting exercise, the PRI assign a score, based on a six-level scale, for each applicable module. The median score of the peer group is also provided so that the results can be viewed on a relative basis. The "Strategy and Governance" Module is applicable to all signatories; other modules are applicable if they cover a category above or equal to 10% of AuM. Refer to our full PRI Transparency Report for further details on Ostrum AM's ESG reporting, available on the PRI website.

### 1.2.2 External technical resources to support integration of ESG criteria

Ostrum Asset Management's teams draw on qualitative and quantitative data that are selected for their relevance, wide coverage and complementarity to derive an integrated useful ESG analysis, incorporating climate and biodiversity. These various sources, as well as details on direct and frequent discussions with companies' management, are available to our Portfolio Management teams.

Teams can draw on the expertise of our provider Trucost for carbon emission, climate alignment and taxonomy alignment data. The provider offers information on carbon emissions, carbon intensity, taxonomy alignment and climate alignment for companies, sponsored agencies and non-guaranteed agencies in our portfolios.

Teams who work on climate aspects use coal data provided by the GCEL (Global Coal Exit List, www.coalexit.org/) when considering sector policies incorporating a climate dimension, with a view to ascertaining companies to exclude from our investments on the basis of our coal policy. Teams also draw on oil and coal data provided by the GOGEL (Global Oil & Gas Exit List, https://gogel.org/) to apply our policy for this sector.

We also rely on other data providers, such as MSCI (www.msci.com/) and Vigeo (www.vigeo-eiris.com), for other climate indicators (in addition to the above data provided by Trucost), for the indicators used in the ESG score model known as GREaT[1] , and for the indicators on the principal adverse impacts (PAI) required by SFDR.

We draw on Iceberg Data Lab for biodiversity data (https://icebergdatalab.com/).

Additionally, teams responsible for climate integration can also assess data provided by external sources such as Climate Action 100+, Carbon Tracker and the Science-Based Target Initiative, to round out their research.

[1] GREaT: La Banque Postale Asset Management's proprietary non-financial scoring system. Analysis based on four pillars: Responsible Governance, sustainable management of natural & human Resources, Energy transition, Territorial development. Source: PRI

The main sources of external data are as follows:

| List of data providers | | |
|---|---|---|
| **Database providers** | **Scope** | **Description** |
| **Trucost S&P** | 1. Corporate carbon<br>2. Corporate 2DA<br>3. Corporate green/social/sustainability bond<br>4. Taxonomy | • CO2 equivalent data for corporates and sovereigns;<br>• Climate change scenario alignment (1.5°C, 2°C, etc.);<br>• Projected emissions;<br>• Enterprise Value / Market Cap;<br>• Assessment of the green/social/sustainable nature of a bond issued by a corporate and updating of the flag with certain data on the green bond and its issuer;<br>• Information on coal issuers;<br>• Physical and transition risks;<br>• Taxonomy;<br>• GSS bonds. |
| **GREaT** | Corporate ESG indicators | • GREaT score for corporate issuers based on Vigeo and MSCI indicators. |
| **MSCI** | ESG indicators | • Indicators used in the GREaT methodology;<br>• ESG HR gross indicators (SRI accreditation);<br>• PAI;<br>• SDG for Corporates;<br>• Qualitative ESG analyses of issuers. |
| **Vigeo Moody's** | ESG indicators | • Indicators used in the GREaT methodology;<br>• Qualitative ESG analyses of issuers. |
| **Sustainalytics** | Corporate ESG<br>Worst Offenders exclusion | • ESG indicators for Corporates;<br>• Qualitative ESG analyses of issuers;<br>• Alert on issuers with a controversy based on our Worst Offenders exclusion policy. |
| **ISS OEKOM** | Voting | • Provision of the voting platform (platform to submit votes to account holders)<br>• Analysis of so-called "non-core" securities: determination of the outcome of the vote based on the scope and in accordance with the voting policy provided to it;<br>• Voting on so-called "non-core" securities (excluding blocking markets);<br>• "Core" and "non-core" votes sent to account holder;<br>• Analysis of Corporates based on our controversial weapons exclusion policy. |
| **Bloomberg** | Green Bonds flag | • Information on the GSS nature of a bond. |
| **Iceberg DataLab** | Biodiversity footprint | • Biodiversity indicators for Corporates. |

In addition to the data providers we have selected, we regularly use data collected by organisations that work specifically on climate or biodiversity.

| Specific external databases for climate and biodiversity aspects | | |
|---|---|---|
| **Database providers** | **Scope** | **Description** |
| Sustainable Development Goals (SDG) | ESG sovereign | • Overall SDG score + 17 SDG;<br>• Gross indicators for sovereigns + SSA ESG HR for SRI accreditation. |
| CDP | Corporate carbon | • Carbon emissions reported by companies;<br>• Climate/Biodiversity database to provide input for the internal database. |
| Urgewald | Corporate | • List of companies involved in the coal (GCEL) and oil & gas (GOGEL) value chain. |
| Climate Action 100+ | Corporate Carbon | • ESG indicators to track the progress of climate commitments by companies that emit the most gas. |
| Science-Based Targets initiative (SBTi) | Corporate 2DA | • Database of companies that have issued a science-backed climate goal. |
| Carbon Tracker | Corporate Carbon | • ESG indicators on the effects of climate change on financial markets;<br>• ESG indicators on the climate alignment of issuers involved in the oil & gas, electricity and utilities sectors. |

## FINANCIAL RESOURCES TO SUPPORT INTEGRATION OF ESG CRITERIA

In 2022, we allocated financial resources to the integration of ESG criteria. These resources, shown in a summary table that also includes external full-time equivalents, provide a more in-depth view of the use of the various modules taken into account this year.

*Summary table of ESG-related expenses*

| BUSINESS LINE | EXPENSES | THEME |
|---|---|---|
| TRANSFORMATION DEPARTMENT | €134,000 | Support assignment |
| DEVELOPMENT DEPARTMENT | €160,000 | Improvements to ESG reporting for clients |
| COMMUNICATIONS DEPARTMENT | €280,000 | Participation in ESG forums, publications, internal communications, reports, etc. |
| PORTFOLIO MANAGEMENT | €1,726,633 | Total amount of data providers |
| OPERATIONS & TECHNOLOGY DEPARTMENT | €782,507 | External resources for Portfolio Management and Service Platform activities |
| TOTAL | €3,083,140 | |
| % OF THE ESG BUDGET RELATIVE TO OSTRUM AM'S TOTAL BUDGET [1] | 7.8% | |
| % OF THE ESG BUDGET RELATIVE TO TOTAL ASSETS UNDER MANAGEMENT | 0.000818% | |

[1] Ostrum AM's total expenses at 31/12/2022, excluding Payroll and Platform billing representing incurred expenses other than Ostrum AM Portfolio Management. Source: Ostrum AM at 31/12/2022

# 2. RESPONSIBLE ASSET MANAGEMENT: OUR APPROACH

## OUR INVESTMENT PHILOSOPHY

Ostrum Asset Management's purpose is to draw on its investment expertise to enhance the impact of its clients' commitments as they act together to support European citizens' life plans, health and retirement. With this goal in mind, we have been committed to sustainable development and responsible finance for more than 35 years[1] , supporting our clients and informing their decisions, guiding issuers and contributing to work across the financial market.

Here at Ostrum AM, we therefore involve an increasing number of staff – with varying degrees of responsibility and across our different businesses – in rolling out our responsible investment policy goals.

We pursue a comprehensive ESG approach and focus on three areas, i.e. integration, engagement and exclusion:

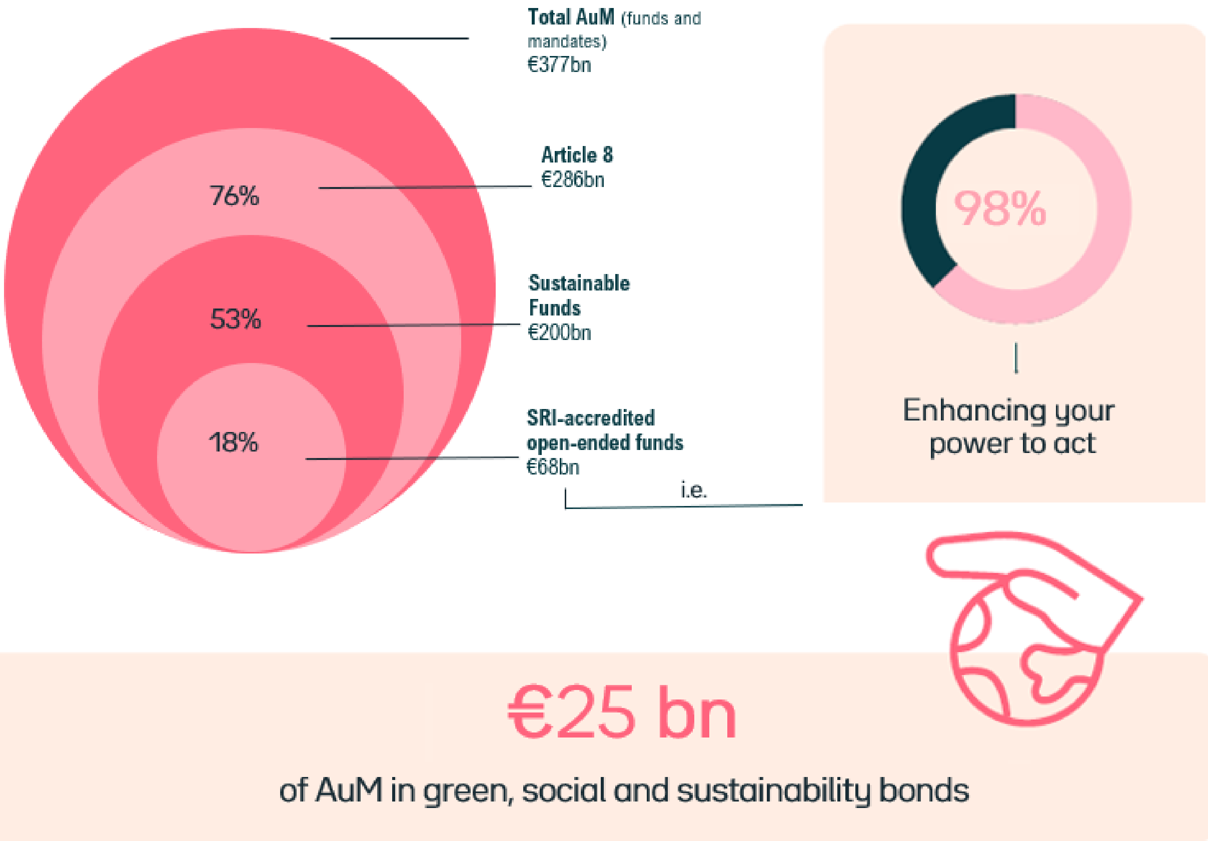
- Environmental (including climate), social and governance risks are incorporated into our company assessments and opportunities are seized in our growth scenario and our quality and risk assessment.
- Our dialogue with companies provides input for this engagement, both with companies we hold in our portfolios and those that issue bonds.
- Our exclusion and divestment policy excludes sectors and companies that do not comply with certain fundamental responsibility principles.

We are convinced that companies that take on board ESG criteria – including climate aspects and biodiversity – boast stronger results growth over the long term than competitors that do not take this approach, while also making for lower credit risk.

Our responsible asset management approach is the result of extensive efforts over a number of years, and is built on specific initiatives to support ESG, applied by our investment teams on their respective specific asset classes on a daily basis. The entire company strives to foster an ambitious and relevant responsible approach to drive long-term performances and promote added value for our clients.

[1] Through the capitalistic combination that led to the creation of Ostrum AM on 1 October 2018.

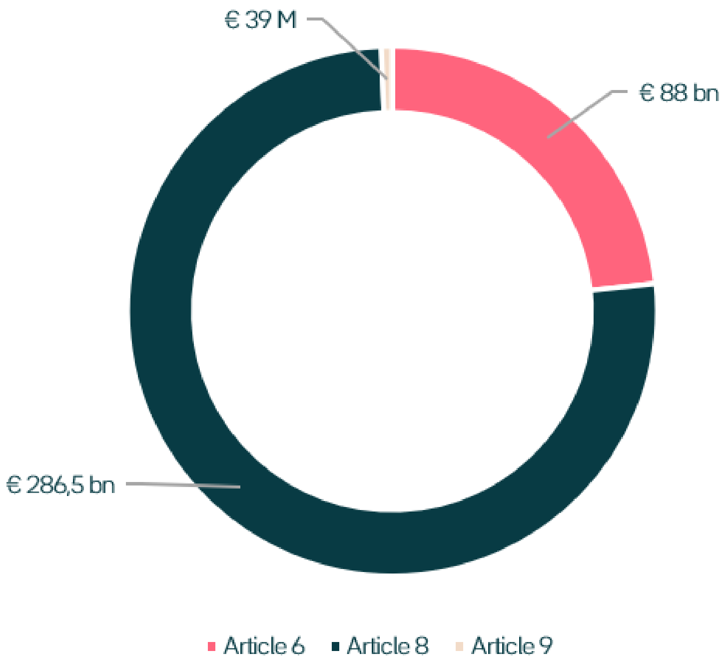
## 2.1 MAIN ESG FIGURES AND FUND CLASSIFICATION




Source: Ostrum AM at 31/12/2022

BREAKDOWN OF AUM UNDER SFDR CLASSIFICATION

Ostrum AM has classified its portfolios in accordance with Articles 6, 8 and 9 of SFDR.




Source: Ostrum AM at 31/12/2022

All these portfolios' characteristics are outlined in their pre-contractual documentation.

Portfolios classified under Article 6 are separated into two categories:

- Portfolios where the investment process does not incorporate an ESG approach;
- Portfolios where there is no ESG objective in the portfolio's management but where the investment process applied by the portfolio manager complies with all ESG policies defined by Ostrum AM and benefits from the integration of sustainability risks in the analysis of the investment universe.

Portfolios classified under Article 8[1] have an investment process that includes ESG characteristics (average score, minimum quality required, $CO_2$ targets, etc.).

Portfolios classified under Article 9 have a clearly defined environmental or social objective.

The list of financial products in our open-ended funds classified as Article 8 and 9 according to SFDR is as follows:

| Fund name | Investment manager | Financial manager | Classification of funds |
|---|---|---|---|
| LBPAM ISR OBLI ENTREPRISES* | La Banque Postale AM | Ostrum AM | Article 8 |
| LBPAM ISR OBLI EUROPE* | La Banque Postale AM | Ostrum AM | Article 8 |
| LBPAM ISR OBLI LONG TERME* | La Banque Postale AM | Ostrum AM | Article 8 |
| LBPAM ISR OBLI MOYEN TERME* | La Banque Postale AM | Ostrum AM | Article 8 |
| LBPAM ISR OBLI REVENUS* | La Banque Postale AM | Ostrum AM | Article 8 |
| OSTRUM ISR MONEY* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CREDIT 12M | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CASH A1P1* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CASH PLUS* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI MONEY* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI MONEY 6M* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI MONEY PLUS* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI OBLI EURO 3-5 ANS* | NIMI** | Ostrum AM | Article 8 |
| REAUMUR ACTIONS* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CREDIT ULTRA SHORT PLUS* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI EURO AGGREGATE* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CREDIT SHORT DURATION* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI EURO BONDS 1-3* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI EURO SOVEREIGN BONDS* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CREDIT EURO* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CROSSOVER* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM SRI CASH* | NIMI** | Ostrum AM | Article 8 |
| CNP OSTRUM ISR CRÉDIT* | NIMI** | Ostrum AM | Article 8 |
| LBPAM ISR TAUX* | La Banque Postale AM | Ostrum AM | Article 8 |
| LBPAM VOIE LACTEE* | La Banque Postale AM | Ostrum AM | Article 8 |
| OSTRUM SRI EURO BONDS 5-7* | NIMI** | Ostrum AM | Article 8 |
| ECUREUIL SRI OBLI MOYEN TERME* | NIMI** | Ostrum AM | Article 8 |
| ECUREUIL SRI OBLI EURO* | NIMI** | Ostrum AM | Article 8 |
| OSTRUM GLOBAL SUSTAINABLE TRANSITION BONDS* | NIMI** | Ostrum AM | Article 9 |

*All portfolios listed above carry a risk of capital loss.
**Natixis Investment Managers International

Visit our website for more details on our funds.

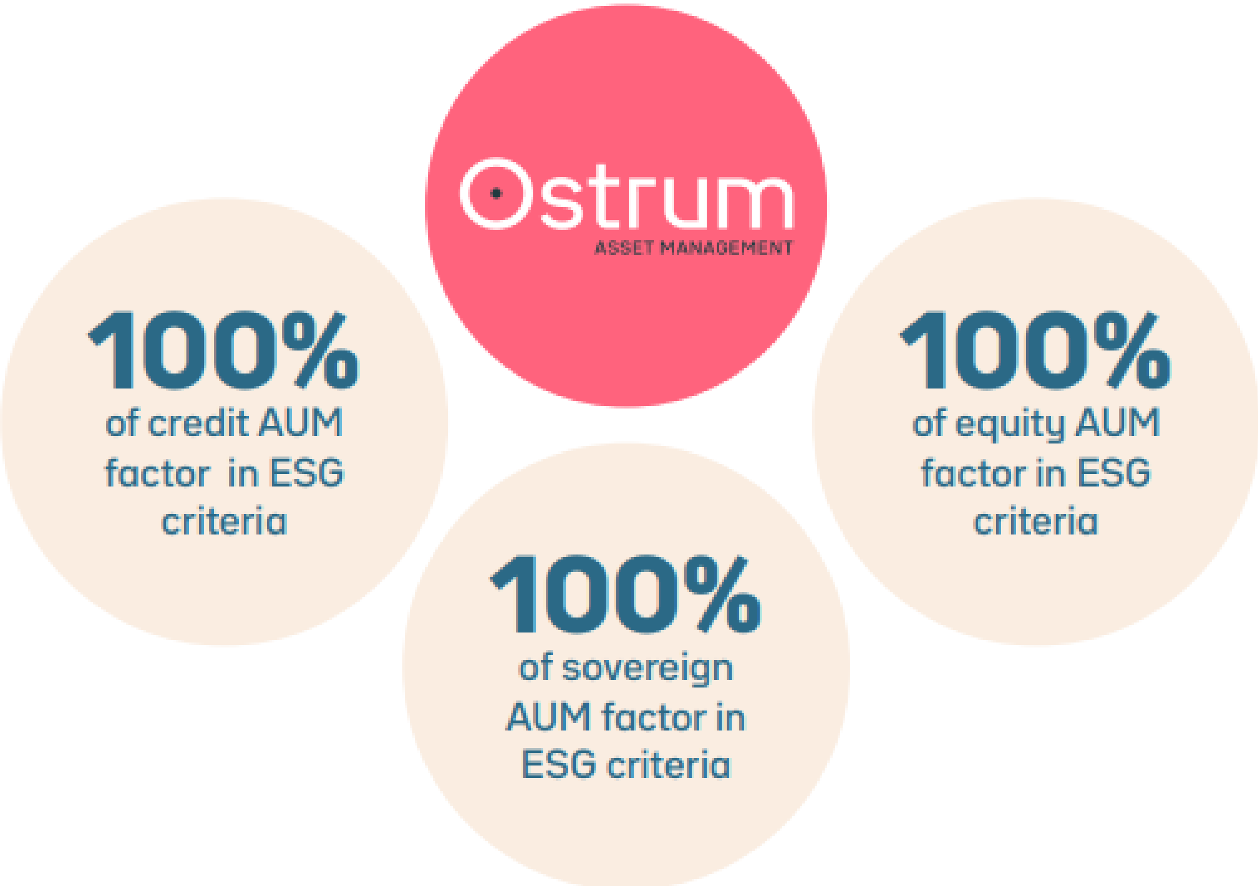
[1] These funds promote environmental, social or governance criteria (ESG) but do not have a sustainable investment goal. They may invest partly in assets with a sustainable goal, for example as defined by the EU classification.

## 2.2 INTEGRATION OF ESG CRITERIA

### 2.2.1 Responsible Investment Process

Client satisfaction is obviously a key goal for us all on a daily basis in our role as asset manager, yet as a market leader and a strong advocate of responsible investment, we particularly strive to provide our clients with responsible products that take on board environmental, social and governance aspects. We work to ascertain the potential impact of these dimensions on our fundamental issuer analysis and their risk profile and ensure that they contribute to the long-term responsible performance of our products and ultimately drive our clients' performances.

SYSTEMATIC ESG ANALYSIS:




In addition to integrating ESG criteria into the analysis (see page 65), and because each client is unique, we also offer products that address their specific individual ESG strategies and philosophies. ESG criteria are obviously vital and add an extra dimension to our business, but the extent to which they are included in our investment universe and portfolio construction must adapt to comply with clients' needs and requirements.

In addition to ESG integration on our various asset classes, we also offer our clients specific SRI products and co-construct customised strategies with them to adapt to their ESG goals.

Beyond our ambitious responsible finance approach rolled out across all these investment strategies, Ostrum AM has also implemented SRI management on 98% of assets under management:

- best-in-class, positive screening and best-in-universe strategies are applied across some of our open-ended funds, which are set to apply for accreditations;

- tailored strategies are co-developed with our clients for their dedicated funds or mandates to better address their ESG philosophies. Strategies are adapted to suit our clients' needs:

**Best-in-class and Positive screening**

Exclude issuers with a high ESG risk profile and favour the best-rated issuers

**Best-in-Universe**

Favor the best performing issuers in terms of ESG in the investment universe, across all sectors

**Reinforced exclusions**

Exclude issuers with the highest ESG risk profiles

**Smart carbon strategies**

Provide portfolio decarbonisation strategies and portfolios with minimised carbon footprints

Source: Ostrum AM, 2022

We monitor and encourage each of our clients in their own initiatives, as they apply increasingly stringent policies, with some setting ambitious guidelines on carbon intensity, temperature, and financing the low-carbon economy, particularly via green bonds. Some clients have signed the Net-Zero Owner Alliance and have set out public pledges to transition their investment portfolios to net zero greenhouse gas emissions out to 2050.

Our overarching aim is to support our clients in every way possible, offering them best-in class, best-in universe and/or portfolio decarbonisation strategies and tailored robust exclusions.

### 2.2.2 Bolstering our SRI accreditation policy

Funds that achieve the SRI accreditation[1] must transparently disclose certain aspects of their environmental performances, particularly in terms of the portfolio's carbon assessment. This requires the development of an indicator on greenhouse gas emissions, covering both direct emissions (scope 1) resulting from the company's operations and indirect emissions (scope 2) resulting from energy use required by its portfolio, in metric tons of $CO_2$ equivalent.
Other relevant indicators may also be added, in particular the WACI – or weighted average carbon intensity – which compares average emissions with a company's revenues.

In 2022, we actively pursued our strategy to achieve accreditations for our open-ended funds,

with nine funds achieving this certification:
- Ostrum SRI Credit Short Duration;
- Ostrum SRI Crédit Ultra Short Plus;
- Ostrum Global Subordinated Debt;
- Ostrum Global Sustainable Transition Bonds;
- Ostrum credit 6M;

and four sovereign funds:
- Ostrum SRI Euro Bonds 1-3;
- Ostrum SRI Euro Bonds 5-7;
- Ostrum SRI Euro Sovereign Bonds;
- Ostrum SRI Total Return Sovereign.

Visit our website for more details on our funds.

[1] This public accreditation was developed by the French Finance ministry and is designed to increase the visibility of Socially Responsible Investment (SRI) funds with investors. To award the SRI accreditation, the certification body conducts an audit to ensure that funds meet all accreditation criteria. For more details on the methodology, visit www.lelabelisr.fr (in French only). Any references to a ranking, accreditation, award and/or rating are no guarantee of the fund's or investment manager's future performance.

We have also achieved accreditations for a mandate and dedicated funds on investor request.

Our AuM with accreditations at end-2022:

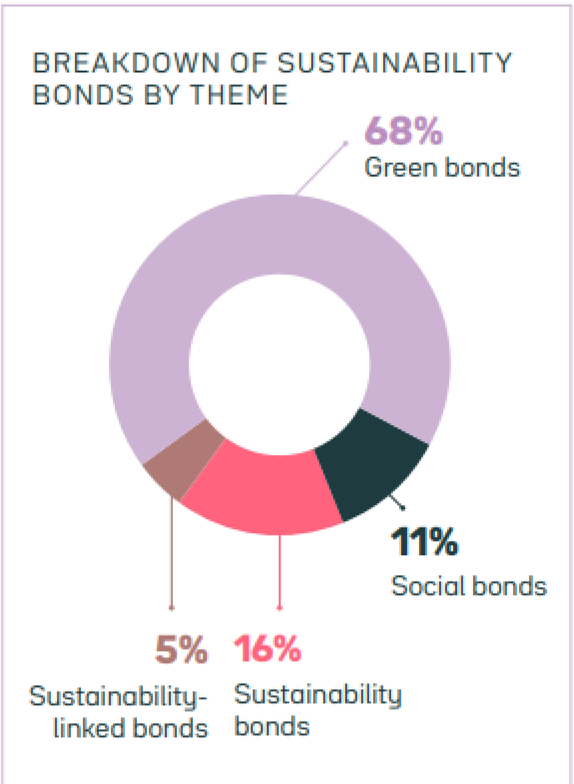
- 20 open-ended funds
- 98% of AuM in our open-ended funds (€68.4bn)

### 2.2.3 Our strategy for funding a low-carbon economy

ENHANCING OUR GREEN/SOCIAL/SUSTAINABILITY BONDS STRATEGY[1]

Ostrum AM significantly ramped up its sustainability bond exposure and expertise in 2022, i.e. green, social, sustainability and sustainability-linked bonds.

Assets under management for sustainability bonds came to €25.2bn at end-2022 across our entire scope via 898 issues:




- 597 green bonds (€17.1bn)
- 137 sustainability bonds (€4 bn)
- 102 social bonds (€2.9bn)
- 62 sustainability-linked bonds[2] (€1.2m)

[1]Green bonds raise funds to invest in projects – both new and existing – that support the energy and ecological transition.
The funds raised through sustainability bonds are used to finance or refinance a combination of green and social projects.
Social bonds use bond products that raise funds for projects – both new and existing – to solve or mitigate social issues.
[2]Sustainability-linked bonds are used to finance a company's general needs while promoting its CSR objectives.

Ostrum AM can draw on the expertise of two specialist analysts and its proprietary methodology to assess and analyse sustainability bonds. There is no single accreditation standard on the sustainability bond market, so it is crucial to develop an inhouse analysis methodology for these investments to ward off greenwashing/socialwashing risks and monitor any potential controversies. Ostrum AM's non-financial analysis methodology for sustainability bonds is based on grids specific to each type of sustainability bond. For sustainability bonds (green bonds, social bonds and sustainability bonds), the proprietary assessment methodology has two dimensions:

- An issuer dimension: assessment of the issuer's sustainable development strategy – environmental and/or social – and how the bond fits with this approach, to ensure that the issue is consistent with the issuer's transition goals;

- An instrument dimension: analysis of the instrument's structure, in terms of transparency on allocation of proceeds, the degree of materiality, additionality and the effective impact of the projects to be funded.

These two dimensions are analysed via around ten quantitative and qualitative rating indicators with specific weightings depending on the importance assigned to them. This analysis then gives a score of between 1 and 10, where 1 is the best and 10 is the worst: only bonds ranking between 1 and 7 are considered sustainability bonds by Ostrum AM.

For sustainability-linked bonds, analysts use a specific approach for the instrument dimension that takes several factors into account, such as: governance of the issue, relevance of the indicators used, calibration of the desired targets of these indicators, commensurability of the bond's structure, reporting transparency and external verification requirement.

This analysis again gives a score of between 1 and 10, where 1 is the best and 10 is the worst, and only instruments ranking between 1 and 7 are considered sustainability bonds.

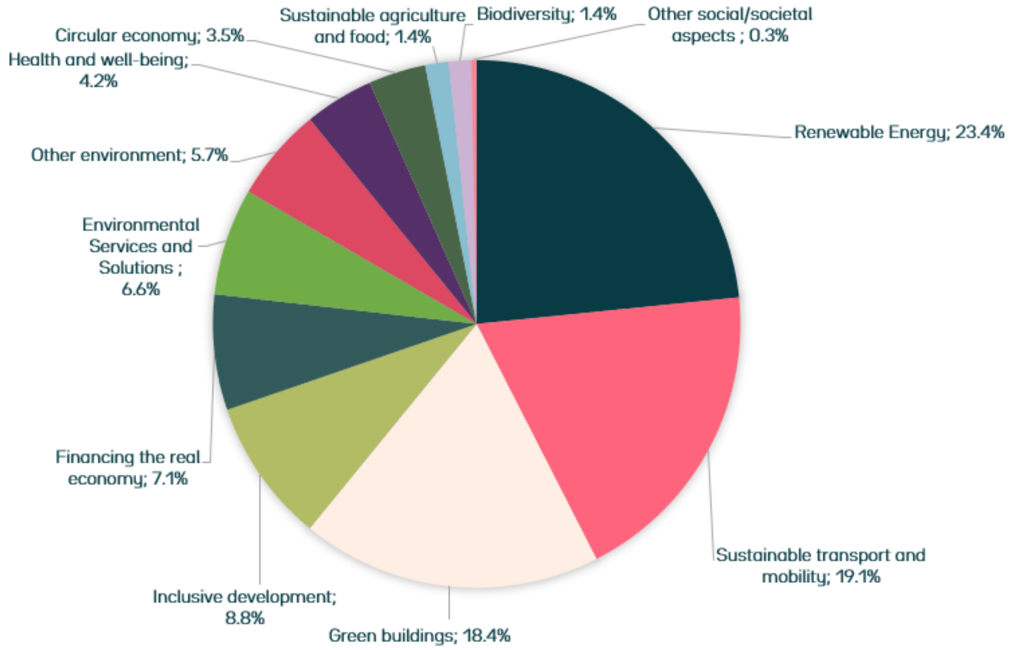
The status for each score can be one of three options:

- "pre-scoring" for issues where the first use of proceeds and impact report has not yet been published;
- "scored" for issues where the first data reports have been published;
- "under-reviewed" for issues that face controversies deemed to be material.

Each score is reviewed at least once a year, and this may result in engagement efforts with the issuer in the event of insufficient reporting or lack of transparency in information disclosed.

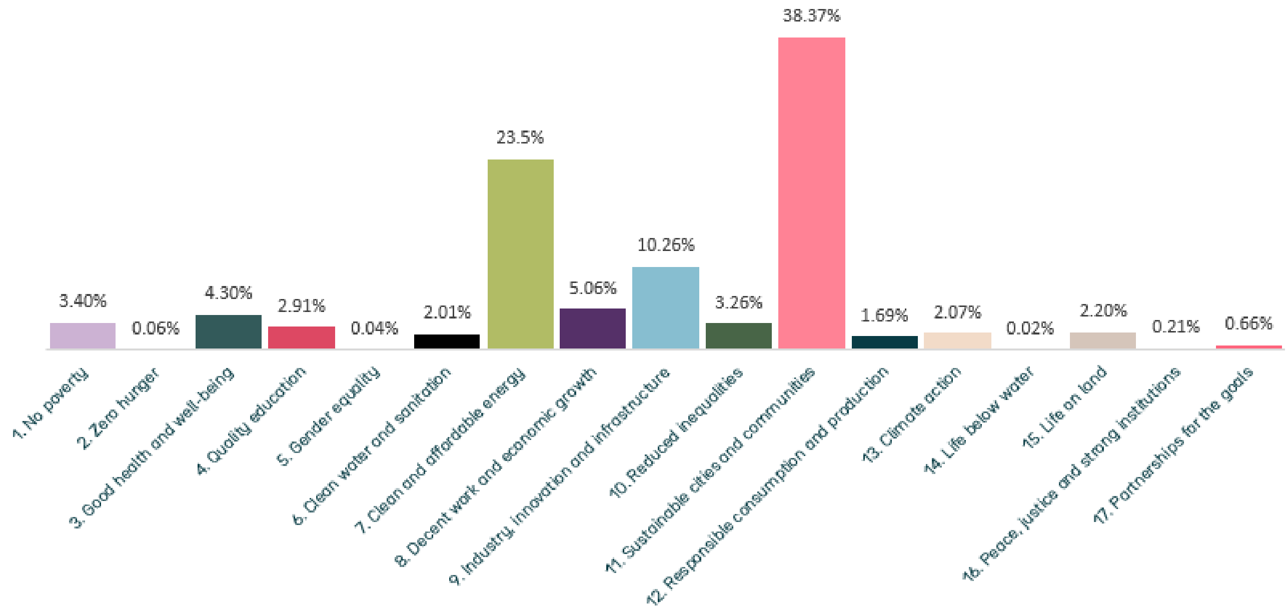
Eligible projects for which funds are earmarked during the sustainability bond issue are mapped on the basis of our 10 sustainable themes, the UN Sustainable Development Goals and the Greenfin accreditation guidelines (for green bonds and the green portion of sustainability bonds).

Projects financed are mostly renewable energy projects, sustainable transport and mobility and green buildings. Refer to the chart below for further details:




Source: Ostrum AM at 31/12/2022

By funding these sustainability bonds, we are able to contribute to several UN Sustainable Development Goals and particularly SDG number 11 (Sustainable cities and communities), SDG 7 (Clean and affordable energy), and SDG 9 (Industry, innovation and infrastructure). Refer to the chart below for further details:




Source: Ostrum AM at 31/12/2022.

### 2.2.4 Just Transition

Convinced that the ecological transition is not possible without giving consideration to social issues, in 2022 Ostrum AM launched the first bond fund invested in a universe of assets dedicated to the Just Transition. Classified as Article 9 and compliant with the Greenfin accreditation guidelines[1] , the Ostrum Global Sustainable Transition Bonds fund is 100% invested in global sustainability bonds and seeks to integrate the just transition in terms of both the issuer and the instruments in which it invests. It has a threefold objective:

1. Reduce the carbon footprint: financing renewable energies, green buildings, clean mobility, solutions for decarbonising industry, energy efficiency, etc.;

2. Promote social impact: promotion of accessibility to basic infrastructure, health, education and training, decent housing and financial services, etc.;

3. Preserve ecosystems and local economies: development of the local economic fabric, sustainable use of resources, preservation of biodiversity.

## 2.3 ENGAGEMENT STRATEGY

Engagement and voting sit at the very centre of our responsible investment approach here at Ostrum AM.

We therefore roll out an engagement policy centred around five themes:

01 CONSTANT DIALOGUE WITH COMPANIES WE INVEST IN

02 AN ACTIVE AND RESPONSIBLE VOTING POLICY

03 SECTOR POLICIES THAT COMMIT COMPANIES PUBLICLY

04 COLLABORATIVE ENGAGEMENT INITIATIVES

05 FINANCIAL MARKET ENGAGEMENT INITIATIVES

For more details on our voting and engagement policies, visit our website.

[1] All instruments in which the fund invests must comply with the exclusions specified for Greenfin accreditation related to the entire fossil fuel value chain and the entire nuclear sector, which are available on the website of the Ministry of Ecological Transition (https://www.ecologie.gouv.fr/). Created by the Ministry of Ecological Transition, the Greenfin accreditation guarantees the green quality of investment funds and is aimed at financial players committed to serving the common good through transparent and sustainable practices. What's different about this accreditation is that it excludes funds that invest in companies operating in the nuclear sector and fossil fuels.

## 2.3.1 Constant dialogue on eight themes for engagement

We have identified eight priority themes for engagement on environmental, social and governance aspects that are shared across our equity and fixed-income investment departments. Each analyst – equity and/or fixed-income – draws on these shared themes to undertake specific initiatives while also complying with our engagement policy.

Our priority themes and areas for engagement:

| | | |
|---|---|---|
| 1. | **Support mitigation and adapt to climate change** | By reducing $CO_2$ emissions to achieve carbon neutrality by 2050<br>By managing physical and transition risks |
| 2. | **Limit impact on environmental ecosystem** | By optimizing resource management<br>By safeguarding biodiversity |
| 3. | **Promote human capital** | By maintaining strong relationships with staff<br>By ensuring staff's and subcontractors' health and safety |
| 4. | **Enhance relationships with stakeholders** | By guaranteeing human rights in supply chains<br>By maintaining strong relationships with local communities |
| 5. | **Ensure consumer security and protect their data** | By ensuring consumers' security and health<br>By ensuring their data security |
| 6. | **Safeguard business ethics** | By rolling out an anti-corruption policy<br>By ensuring a transparent tax policy |
| 7 | **Balance powers and compensation** | By implementing balanced governance<br>By making the compensation policy transparent |
| 8. | **Improve data transparency** | By facilitating access to financial and non-financial data |

Source: Ostrum AM at 31/12/2022

We have singled out a number of company-wide engagement themes.

Not all themes will be subject to specific engagement efforts by the portfolio management teams' analysts. Some will be championed more by the Fixed Income Portfolio Management teams and promoted by the credit analysts, while others will be advocated by the Equity Portfolio Management teams.
In fact, some themes are considered mainstream and are part of the ongoing dialogue with companies and/or there is insufficient data on them at this stage to be able to engage with companies on these aspects. However, these themes can be highly significant in our assessment of companies' CSR policies, and special attention will be given to them via our controversy management policy. Ostrum AM will ensure that an issuer subject to a controversy is monitored closely in accordance with applicable procedures.

Some of these controversies are addressed through our collaborative engagement efforts in accordance with the themes and areas set out by Ostrum AM.

Engagement and voting are closely connected in equity portfolio management. Some of the areas identified in the policy also feature in the voting policy, which is available on our website.

For fixed-income portfolio management, Ostrum AM's asset management teams hold meetings and conference calls with bond issuers as part of our due diligence. We embark on these dialogue efforts either before making our investments, or as part of our constant monitoring efforts for positions in our portfolios.

Ostrum AM monitors both individual and collective engagement efforts. We provide information about our engagement activities on our website and present the quantitative data and results obtained in a report published annually. Engagement initiatives are also closely monitored in SRI-labelled fund reports.

If, despite this dialogue, companies do not meet Ostrum's requirements, we may exclude them (coal policy, worst offenders policy, etc.).

### 2.3.2 Key figures

**Key figures**

**242** engagement initiatives were conducted with **123** different companies.

**149** meetings and contacts on financial and non-financial topics organised with companies

- including **91** with Fixed Income issuers (excl. GSS).

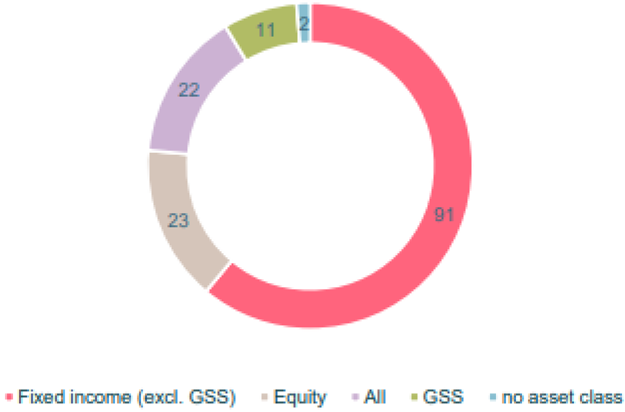
Main themes for dialogue in 2022:


- **Support mitigation and adapt to climate change**
- **Limit impact on environmental ecosystem**


- **Safeguard business ethics**
- **Promote human capital**
- **Enhance relationships with stakeholders**

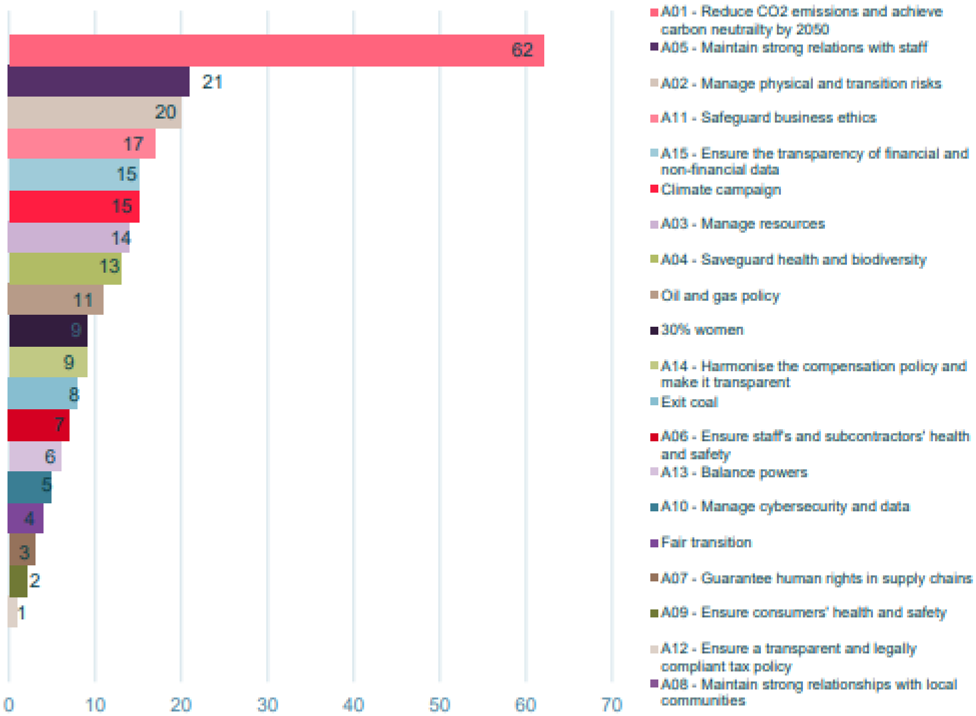

- **Balance powers and compensation**
- **Improve data transparency**
- **Ensure consumer security and protect their data**

Breakdown of our engagement initiatives by asset class:



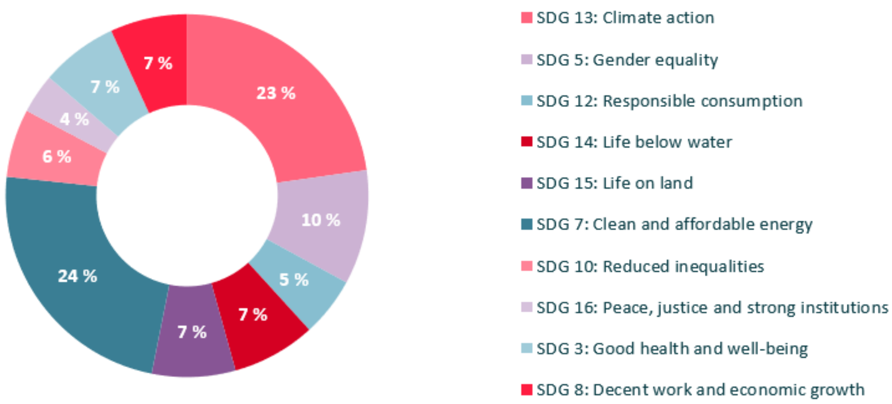

Source: Ostrum AM at 31/12/2022

Breakdown of engagement initiatives by area:




*As part of our engagement in 30% Club Investor France. Source: Ostrum AM at 31/12/2022

Breakdown of engagement initiatives by SDG:




Source: Ostrum AM at 31/12/2022

### 2.3.3 An active and responsible voting policy

Ostrum AM applies a stringent and demanding voting policy when exercising its voting rights at shareholder meetings across a comprehensive voting universe, addressing social and environmental issues, as well as corporate governance guidelines.

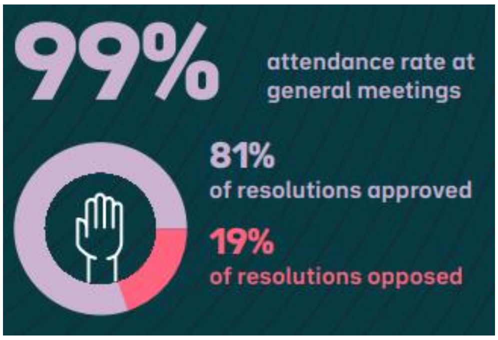
We publicly disclose all votes that we take part in at shareholder meetings.

As an asset management company, Ostrum AM deems that it has a responsibility and duty of care to unitholders to monitor changes in the value of their investments and to exercise the ownership rights attached to the securities held in the portfolios it manages. Thus, we perform our voting duties in the exclusive interest of our unitholders.

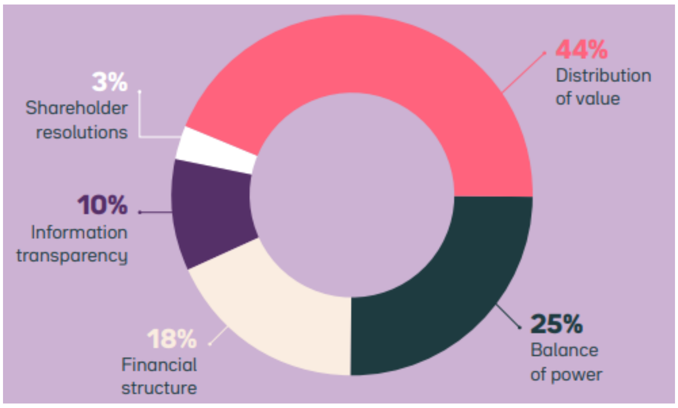
Ostrum AM has had a voting policy setting out the principles to which it will refer when exercising voting rights at shareholder meetings since 1998. These principles reflect best corporate governance practices and form the basis of our philosophy and vision of a good corporate governance system. According to the OECD "corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence".

In 2022, Ostrum AM amended its voting policy. We set out an analysis framework for companies' climate strategies, which must allow for more objective analysis of resolutions on the climate put forward by boards or shareholders, regardless of each company's specific features; we also advocate for closer monitoring of alignment of the company's decarbonisation strategy with environmental performance goals set out in executive compensation.

- Key figures for all portfolios held by Ostrum AM at 31/12/2022:




- Breakdown of votes cast against all resolutions put to shareholder vote:




When we oppose resolutions, we systematically inform the company and discuss the reasons for our opposition.

### 2.3.4 Active engagement in collective initiatives

Ostrum AM signed a number of new climate pledges in 2022:

▪ **Investor Initiative for Responsible Care (*UNI Global Union initiative*):** The impact of the pandemic highlighted and exacerbated many long-standing issues in the nursing home sector. These problems have many causes, including the inherent vulnerability of elderly care, global unpreparedness for a pandemic, poor working conditions and, in some instances, governments' inability to adequately support and/or regulate this sector. This coalition aims to secure concrete commitments from several companies in the sector. In addition to concrete commitments from a number of companies in the sector, in 2022 Ostrum AM signed a letter as part of the investor initiative for responsible care. This letter addressed to the Czech President and the Committee of the Permanent Representative of the Council of the European Union (COREPER) received positive feedback from Commissioner Schmit, who agreed to meet with the signatories to discuss the coalition.

▪ **Non-disclosure campaign 2022 (initiated by the CDP):** The CDP has coordinated a worldwide engagement campaign championed by investors since 2017, the non-disclosure campaign (NDC). Via this campaign, the CDP asks more than 7,000 large companies worldwide to fill in a form each year to disclose their impact and management of climate change, forests and water security. Investors are encouraged to perform engagement initiatives or co-sign letters in cooperation with other investors to request the disclosure of information to companies that have not yet issued their data. In 2022, 121 different companies received a letter co-signed by Ostrum AM.

▪ **Global Investor Statement to Governments on the Climate Crisis (Investor Agenda initiative):** The statement delivers the strongest-ever investor call for governments to intensify their climate ambition and implement robust policies in 2022 to back up this ambition and commit to meeting disclosure requirements on climate risks. In 2022, 604 signatories representing nearly $42 billion in assets under management signed that year's call to action.

▪ **Science-Based Targets campaign (initiated by the CDP):** The CDP Science-Based Targets (SBTs) campaign offers CDP investor signatories the opportunity to play a key role in accelerating the adoption of science-based climate targets in the corporate sector, by collaboratively engaging companies on this matter. The campaign targets the most climate-relevant companies within the global investable market. The CDP's sample of high climate-relevant companies was screened to ensure maximum impact and relevance in terms of both the climate and investment. Companies contacted as part of this campaign will be provided with useful links to resources, and directed to contact their local CDP office to receive further support in getting started or in taking the final steps to set their SBTs. 1,061 different companies received a letter co-signed by Ostrum AM in October 2022 (2022-2023 campaign).

▪ **Investor Statement on Job Standards and Community Impacts (ICCR Initiative):** The idea behind this statement is to demonstrate investor support for the values and principles of the just transition to policymakers and companies. Such a tool has been considered useful for state actors and companies in order to express investor support for the principles of the transition and encourage policymakers to ensure a just transition that supports an ethnically and economically fair decarbonised economy, with priority on "high-potential" jobs, respect for human rights, positive community impacts and compensation for damage. In 2022, 97 global investors representing nearly $4.3 billion in assets under management/advice were signatories to the Investor Statement on Job Standards and Community Impacts.
Following publication of the statement, the ICCR produced a resource entitled: Energy Utilities Engagement Resource on Just Transition: Applying the ICCR Investor Statement on Job Standards and Community Impacts, to assist ICCR members in these dialogues.

▪ **2022 "Say on Climate" Investor platform (*initiative of the FIR: Forum for Responsible Investment*):** "Say on Climate" is a resolution put on the agenda of the shareholders' meetings of listed companies, either by the company itself or by its shareholders, to encourage a vote each year on the company's climate policy and thereby ensure continuous dialogue on environmental issues. Since 2021, the FIR has taken a stand and issued its expectations regarding these resolutions. Along these lines, it publishes an opinion piece to which Ostrum AM is a signatory, reiterating the need for dialogue with shareholders, social partners and all company stakeholders on their ecological transition and asking companies from the most polluting sectors to systematically put climate resolutions on the agenda of shareholders' meetings. The FIR calls on companies to include in their "Say on Climate" resolution a minimum amount of information to rigorously assess their climate ambition. It calls for: full publication of quantified greenhouse gas emissions reduction targets (Scope 1, 2 and 3); a detailed timetable: - these emissions reduction targets must cover the short term (up to 2025), medium term (2030) and long term (2050 or earlier). Finally, the implementation of clear and sufficient resources. Companies must also specify the levers that will be used to achieve their climate targets. In 2022, following voting at shareholder's meetings, investors' average approval rate of French 2022 Say on Climate resolutions was 93%. Lastly, companies' average rate of alignment with the FIR recommendations was 49.5%.

These engagements round out our efforts from previous years that are still ongoing:

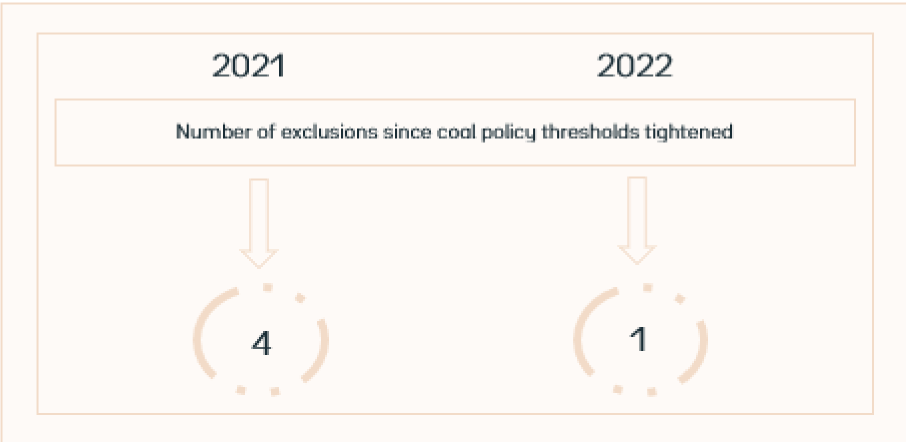
- Investor Decarbonisation Initiative – Organisation – Share Action;
- Investor Expectations on climate change for airlines and aerospace companies – Climate Action 100+;
- Investors for a Just Transition;
- The 30% Club Investor Group for the promotion of better gender diversity within the SBF 120's executive management teams;
- Tobacco Free Finance Pledge;
- Letter to meatpackers and processors on traceability of indirect suppliers in their Brazilian supply chains – IISF, PRI, CERES;

We target the fulfilment of certain Sustainable Development Goals via our full range of individual and collaborative engagement initiatives. Goals relating to the climate and biodiversity are also a way for us to identify sustainability risks, as required by European (SFDR) and French regulation (Energy-Climate Law).
Our sector and exclusion policies (coal, oil & gas, tobacco, controversial weapons, etc.) are also strong areas for engagement.

## 2.4 SECTOR AND EXCLUSION POLICIES

Ostrum AM has ramped up its sector and exclusion policies, which allow strong engagement on the part of asset managers and analysts.

In 2021, we were able to keep an ongoing dialogue with issuers by tightening our coal exit sector policy. We spoke with companies whose coal exit plan prevented them from complying with the Paris Agreement and excluded four companies that did not meet the requested targets. Implementing the coal policy resulted in one exclusion in 2022.



In 2022, Ostrum AM implemented an oil & gas policy. It intends, by 2030, to fully exit unconventional* and/or controversial oil & gas exploration and production activities, a priority area of engagement with companies in which it holds shares or bonds, both in terms of dialogue and voting policy. We will also undertake active dialogue with all sector issuers to discuss how their strategies fit with the recommendations from the International Energy Agency with a view to meeting the Paris Agreement.

## TABLE OF SECTOR OR EXCLUSION POLICIES[1] :

### DETAILS OF OUR SECTOR-BASED

#### BLACKLISTED STATES

Ostrum AM complies with current regulations and therefore does not invest in countries:

- that are under a US or European embargo,
- that are seriously failing in their efforts to tackle money laundering and terrorist financing, according to the Financial Action Task Force (FATF).

#### WORST OFFENDERS

Ostrum AM excludes all companies, whether listed or not, that have been proved to be in serious breach of the principles set out in internationally established standards (United Nations Global Compact, OECD), particularly in the areas of human rights, labour laws, environmental conservation and business ethics.

#### TOBACCO

Ostrum AM has pledged to cease supporting the tobacco industry, which has particularly adverse social, societal and environmental impacts and runs contrary to the Sustainable Development Goals (SDG).

#### COAL

Ostrum AM excludes companies that are adding new coal capacity and those that have not established a coal exit plan as per the Paris Agreement. Ostrum AM also excludes companies that exceed the following thresholds:

- 20% of revenue derived from the production of coal-fired energy or from the production of coal,
- 10m metric tons of thermal coal produced annually,
- 5 GW of installed capacity,
- 20% of energy production generated by coal.

#### CONTROVERSIAL WEAPONS

Our controversial weapons policy excludes companies involved in:

- producing, deploying, stockpiling, selling or transferring cluster munitions or anti-personnel mines, whether newly purchased or held in existing stocks,
- chemical weapons, biological weapons, nuclear weapons or depleted uranium weapons, if newly purchased.

#### OIL & GAS

Ostrum AM has since 2022 been phasing out activities involved in the exploration and production of unconventional[3] and/or controversial oil and gas, with full withdrawal scheduled by 2030.

We have ceased investing in issuers that derive 10% or more of their output in volume terms in these categories[4].

This policy applies not only to the company in question but also to all those companies involved in the value chain: exploration, development and, therefore, much of the downstream chain.

It is supplemented with a voting and engagement policy applied to unconventional and/or controversial oil & gas as well as conventional oil & gas.

This policy will evolve over time. Thresholds are to gradually become more stringent in an effort to support companies through their transition, while maintaining high standards.

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[1] Note on COAL
The thresholds equate to limits set out by the 2020 Global Coal Exit List (GCEL, www.coalexit.org/). Similarly, divestment from companies concerned will be conducted within six months under normal market conditions.
At the latest, Ostrum Asset Management will phase out coal exposure by 2030 for OECD countries and 2040 for non-OECD countries, with no possible exceptions.
Note on OIL & GAS: Unconventional oil & gas production: In line with the recommendations of leading institutions, which are based on scientific studies, the unconventional/controversial categories have been defined as those that use fracking (shale oil & gas, tight liquids and gases) or ultra-deepwater offshore drilling, Arctic drilling, as well as the extraction of oil sands, coalbed methane and extra-heavy oil.

[1] Worst Offenders: Worst offender. [2] Organisation for Economic Co-operation and Development. [3] In line with the recommendations of leading institutions, which are based on scientific studies.
[4] The unconventional/controversial categories have been defined as those that use fracking (shale oil & gas, tight liquids and gases) or ultra-deepwater offshore drilling, Arctic drilling, as well as the extraction of oil sands, coalbed methane and extra-heavy oil. [5] For more information, see page 43

## FOCUS ON THE CONTROVERSY MANAGEMENT POLICY

### Daily controversy monitoring

Ostrum AM monitors for controversies on a permanent basis via our proprietary inhouse research set-up and information from our specialist data providers.
Within the company, our Credit Research and equity investment management teams monitor issuers closely and, in most cases, pre-empt serious controversies before they become extremely material. Credit Research dialogues regularly with portfolio managers during the Morning Meeting, as well as during special committee meetings (e.g. sector reviews) and via specific profiles for each issuer.

### Controversy alerts

Ostrum AM has also developed an inhouse system to transmit alerts on serious controversies based on information from our data providers on our investment scope, with a view to warning the Portfolio Management department in real time and making sure that we do not miss a controversy due to its sudden occurrence, e.g. major environmental accident that highlights a flaw in an issuer's risk management where the market had been unaware.

We therefore very closely monitor controversies – including environmental aspects – and are able to assess their materiality for each issuer's risks.

### Role of risk department in drafting exclusion lists

Members of our Credit Risk team sit on various committees – Worst Offenders, Coal, Controversial Weapons – and ensure that alerts on global norms provided by our data provider Sustainalytics are assessed during committee meetings.

If a consensus does not emerge on the issuers assessed during Worst Offenders committee meetings, details may then be passed on to the Executive Committee for a decision.

Decisions by these various committees are incorporated into our risk monitoring systems, particularly via a freeze on the issuers in question.

### Application of exclusion lists in control systems

Investment Risk sets up pre-trade controls for regulatory lists (controversial weapons), sector exclusions (coal, tobacco) and the worst offenders list: these controls block investments. Post-trade controls are also applied for prohibited issuers.

We apply the same alert and escalation procedure used for other regulatory and contractual investment constraints to monitor and manage any exceedances. See section entitled ESG risk Consolidation and Monitoring

For more details on all our policies, visit our website.

## 2.5 CONSIDERATION OF PRINCIPAL ADVERSE IMPACTS

### 2.5.1 Due diligence policy on principal adverse impacts of investment decisions on sustainability factors

Article 4 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector provides for transparency on adverse sustainability impacts on sustainable investment objectives or on the promotion of environmental or social characteristics in investment decision-making on products concerning us.

Ostrum AM has further taken account of adverse sustainability impacts in its decisions and its organisation. Governance on these aspects is set out in its procedures, geared towards clarifying the roles and responsibilities of the various teams.

Ostrum AM fully takes into consideration the principal adverse impacts of its investment decisions on sustainability factors.

A number of policies identify and categorise the principal adverse impacts on sustainability factors.

Ostrum AM has set out an ESG policy that defines its environmental, social and governance (ESG) investment policies and practices. This document highlights its pledges to responsible investment across its full business range, complying and keeping up to date with French and international regulations.

Ostrum AM has also developed an engagement and voting policy that covers all asset classes and sets out shared themes and areas for engagement. Engagement and voting are closely connected in equity portfolio management. Ostrum AM encourages companies it invests in to improve their practices by voting at shareholder meetings on all holdings and in accordance with its active policy, following the most stringent standards and taking into account social and environmental issues.

In keeping with the commitments made by the Paris financial centre at the 2015 COP 21, Ostrum AM is committed to actively contributing to the vital fight against climate change and supporting the transition to a low-carbon economy. In 2019, following on from the Declaration of the Paris financial centre of 2 July, Ostrum AM bolstered its actions in terms of both market-wide efforts and its own policies.

All sector policies outlined in the section on incorporating sustainability risks also provide a clear view of the principal adverse impacts taken into consideration by Ostrum AM.

A number of initiatives are also outlined in Ostrum AM's general CSR policy.

### 2.5.2 Statement on principal adverse impacts of investment decisions on sustainability factors

Ostrum AM considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Ostrum AM.

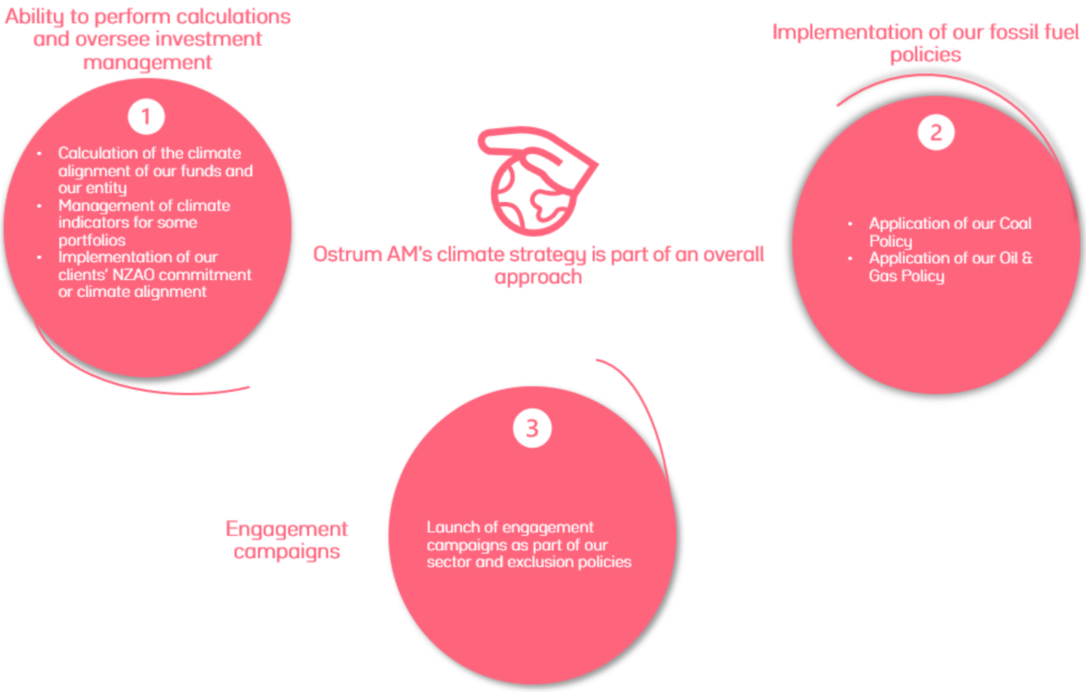
This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2022.

*Description of the principal adverse impacts on sustainability factors*

| Adverse sustainability indicator | Metric | Impact |
|---|---|---|
| **Indicators applicable to investments in investee companies** | | |
| **1. GHG emissions** | Scope 1 GHG emissions | 7 360 289.36 tCO2e |
| | Scope 2 GHG emissions | 1 592 595.71 tCO2e |
| | Scope 3 GHG emissions | 16 218 807.85 tCO2e |
| | Total GHG emissions | 25 171 692.92 tCO2e |
| **2. Carbon footprint** | Scope 1+2+3 | 65.10 tCO2e / mEUR invested |
| **3. GHG intensity of investee companies** | Scope 1+2+3 | 91.73 tCO2e / mEUR revenues |
| **4. Exposure to companies active in the fossil fuel sector** | Share of investments in companies active in the fossil fuel sector | 4.53% |
| **5. Share of non-renewable energy consumption and production** | Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage | 29.18% |
| **6. Energy consumption intensity per high impact climate sector** | Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector | 0.27 GWh / mEUR revenues |
| **7. Activities negatively affecting biodiversity-sensitive areas** | Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas | 0.17% |
| **8. Emissions to water** | Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average | 0.00 tCO2e / mEUR invested |
| **9. Hazardous waste ratio** | Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average | 0.12 tCO2e / mEUR invested |
| **10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises** | Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | 0.47% |
| **11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises** | Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | 35.65% |
| **12. Unadjusted gender pay gap** | Average unadjusted gender pay gap at investee companies | 2.52% |
| **13. Board gender diversity** | Average ratio of female to male board members in investee companies | 17.80% |
| **14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)** | Share of investments in investee companies involved in the manufacture or selling of controversial weapons | 0% |
| **Indicators applicable to investments in sovereigns and supranationals** | | |
| **15. GHG intensity** | GHG intensity of investee countries | 103.60 tCO2e / mEUR GDP |
| **16. Investee countries subject to social violations** | Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law | 0.01% |

# 3. STRATEGY TO ALIGN WITH CLIMATE AND BIODIVERSITY TARGETS

## 3.1 STRATEGY TO ALIGN WITH THE PARIS AGREEMENT




### 3.1.1 Ability to perform calculations and oversee investment management

CLIMATE ALIGNMENT

Ostrum AM draws on Trucost's expertise (https://www.spglobal.com/esg/trucost) to estimate the issuer's carbon emission trajectories. Trucost provides an estimate of carbon emission pathways for each issuer over the past six years as well as a projection for the next six years. The company's climate impact is then assessed depending on how its trajectory aligns with the various climate change scenarios. Trucost uses two approaches recognised by the Science Based Targets Initiative (SBTI),

covering the following:

- The SDA approach, which applies to homogeneous and high-carbon intensity sectors for which the IEA (International Energy Agency) produces a decarbonisation pathway. These include eight sectors: electricity generation, coal production, oil production, natural gas production, steel and aluminium, cement, cars and airlines. For these issuers, past output is the reported figure, while future figures are estimated on the basis of the company's projections. The intensity pathway obtained is compared to the pathway calculated by the IEA for the sector in question. A scale is then applied based on the company's share of the sector's total production. Trucost then calculates the differences between the company's emissions and figures provided by the IEA for the various temperature trajectories (1.75°C, 2°C and 2.7°C).

- The GEVA approach applies to all non-SDA sectors, i.e. companies with low-emitting or heterogeneous activities. These companies therefore do not have an identified decarbonisation pathway. This approach is based on the principle that companies must make carbon emission reductions in line with the pace needed for the global economy as a whole. In other words, a company's transition trajectory equates to its contribution to total world emissions and emission intensity. It is measured in terms of greenhouse gas emissions by unit of inflation-adjusted gross margin. Trucost calculates companies' alignment with the IPCC AR5 scenario (1.5°C, 2°C, 3°C, 4°C and 5°C) where intensity is expressed in tons $CO_2$/Mn$ before adjusting to the value-added scale (inflation-adjusted gross margin).

Once the best approach has been identified and applied to an issuer, Trucost calculates the gap between the company's emissions and those required by the chosen scenario across the trajectory's 12-year duration. The resulting gap can be positive or negative. If it is positive, the company is not in line with the chosen scenario. Conversely, if it is negative, the company is aligned with the scenario. In sum, the company is deemed to be aligned with the climate scenario under which the negative emissions gap is the smallest in absolute terms. Once these data are collected, our Quantitative Recherche team can gauge the temperature of a portfolio by calculating the average gaps of the portfolio components with a given scenario weighted by their quantity in the portfolio in relation to the enterprise value. This approach is based on the underlying assumption that holding 1% of a company's value is equivalent to holding 1% of the emissions and 1% of the gap. The portfolio will be considered aligned with the first scenario with which it has a negative gap.

Based on this methodology, we are able to measure the climate alignment of the portfolios we manage as well as Ostrum AM's overall climate alignment.

At 31 December 2022, all our portfolios were aligned with a 2 degrees scenario (scope 1 and 2).

## CLIMATE INDICATORS

Some portfolios have quantitative climate indicators such as carbon footprint or carbon intensity.

Ostrum AM uses Trucost for all carbon emission data on scopes 1 and 2 for corporates, sponsored agencies and non-guaranteed agencies in our portfolios. These data are then used to ascertain total carbon emissions.
Once carbon emissions are calculated, we can assess carbon emissions per million euros invested by dividing carbon emissions in absolute value terms by the portfolio's value, providing a standard figure for carbon emissions for every €1,000,000 invested. This measurement is applied to an increasing number of portfolios and is a way for Ostrum AM to precisely compare all portfolios without taking account of their size.

Ostrum AM also uses Trucost for all carbon intensity data on scopes 1 and 2 for corporates, sponsored agencies and non-guaranteed agencies in our portfolios. At this stage, scope 3 is not included in the analysis, as recommended by the SBTi. Once the carbon intensity is established for each issuer, the carbon intensity of each portfolio is calculated by combining the intensity for each issuer and re-weighting on the basis of each company's percentage of the portfolio. Carbon intensity figures achieved are a way for portfolio managers to measure carbon emissions per dollar of revenues generated by these issuers in their portfolios over a given period.

We can also access data from Trucost sovereign for sovereigns' carbon intensity. The intensity figure is defined by the volume of $CO_2$ emitted for 1 million of GDP.

For the vast majority of SRI-accredited portfolios, carbon intensity is selected from among the four ESG HR indicators.
In accordance with the SRI accreditation guidelines and for most accredited portfolios, Ostrum AM decided that the carbon intensity score would be better than that of its reference universe. This climate indicator therefore allows us to oversee management of the products concerned.

IMPLEMENTATION OF OUR CLIENTS' COMMITMENTS

Some of our institutional clients are signatories to the UN Net-Zero Asset Owner Alliance (NZAOA).
Launched in September 2019 at the UN Climate Action Summit, the NZAO Alliance brings together institutional investors committed to transitioning their investment portfolios to net zero greenhouse gas emissions by 2050. The Alliance's work is built on a commitment to implement the Paris Agreement, the main objective of which is to limit the rise in the average global temperature to 1.5°C.
The Alliance members are the first in the financial sector to set intermediate targets, which include $CO_2$ reduction ranges for 2025 (22%–32%) and 2030 (40%–60%).

Other clients have also set ambitious climate targets which Ostrum AM is committed to meeting.

**Thus, 53% of our total assets under management seek to cut their carbon footprint by 25% between 2019 and 2024.**
**Some portfolios accounting for 11% of our total AuM also have a climate goal of aligning with a 2 degree scenario.**

### 3.1.2 Implementation of our fossil fuel policies (oil & gas and coal)

Ostrum AM has developed demanding exclusion policies enabling it to exclude from its portfolios companies that have major climate risks. Ostrum AM refuses to support sectors or issuers that do not comply with certain fundamental principles of responsibility. What is at stake is the credibility of our approach and our fiduciary responsibility towards our clients. We have therefore set out a range of exclusion policies that we apply first and foremost to develop an initial scope for our investment universe.

See section 2.4 for more details on our sector policies.

### 3.1.3 Engagement campaigns

According to the principles of our coal policy, we have entered into dialogue with some 20 issuers, several of whom have already been excluded.

We also engaging with around 12 issuers based on the principles of our oil & gas policy.

We have developed a climate engagement framework consistent with Climate Action 100+ which is centred around four areas:

- Alignment with a 1.5°C scenario: short-, medium- and long-term targets;
- GHG emissions offsetting;
- Internal governance of the climate strategy;
- Integration of the European Union taxonomy for sustainable activities.

## 3.2 STRATEGY TO ALIGN ON BIODIVERSITY OBJECTIVES

In 2021, we set out a biodiversity strategy designed to take the necessary steps to comply with the three main goals in the Convention on biological diversity of 5 June 1992, by 2030:

- conservation of biological diversity,
- sustainable use of its components,
- fair and equitable sharing of the benefits arising out of the utilisation of genetic resources.

Additionally, when analysing issuers, we also assess our contribution to reducing the main pressures and impacts on biodiversity defined by the Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services (IPBES).

We pledge to achieve the following by 2030:

- bolster our expertise on identifying and monitoring components of biodiversity that are crucial for its conservation and its sustainable use as required by the convention via our issuer assessment;
- measure and monitor our biodiversity footprint;
- ensure that we monitor and increase our investment in sustainability bonds linked to biodiversity challenges;
- continue excluding issuers with the most damaging effects on ecosystems;
- increase our engagement with issuers on sectors that are most dependent and have the greatest impact.

### 3.2.1 Integration of biodiversity into our issuer analysis

Non-financial dimensions are systematically taken on board in our issuer analysis when they are deemed to be material, i.e. they affect the issuer's risk or opportunity.

The loss of biodiversity costs at least USD500bn per year. Over the past 30 years, economists have calculated the cost of biodiversity loss and estimated the value of ecosystem services from nature at between USD125,000bn and USD140,000bn per year, which is almost double world GDP.

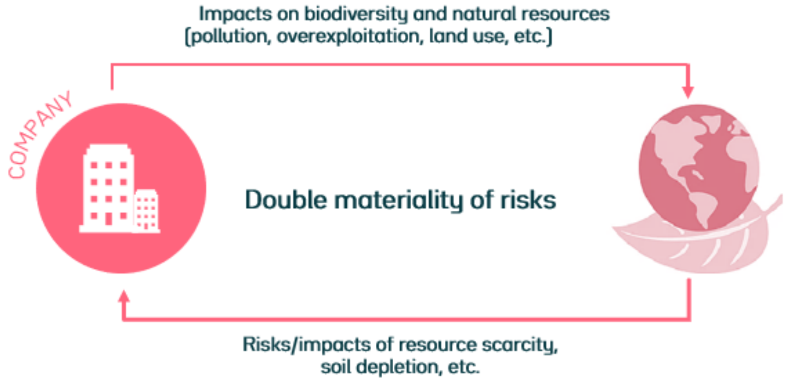
Failure to take action would lead to an operational risk for companies – any risk related to dependency on resources used – as well as legal risks, such as failure to comply with new regulation, along with controversies and increased tax (polluting business operations, water, etc.).
There is also a major reputational dimension as these aspects would tarnish the company's image.

Other risks can also develop, such as market risk due to pressure from shareholders and financial risks resulting from difficulties in achieving funding on the markets in the current context where investors are increasingly taking on board biodiversity dimensions.

Broadly speaking, we incorporate groups' involvement in rolling out adaptation steps into our scores.

Financial materiality is easily identifiable in some sectors, such as agri-food and infrastructure, but it is more challenging to grasp in some other industries.

Materiality must therefore not only be considered from just one standpoint, but rather we must also take account of our impact on biodiversity and natural resources (pollution, overuse, land use, etc.). This double materiality concept is extremely meaningful when it comes to biodiversity.



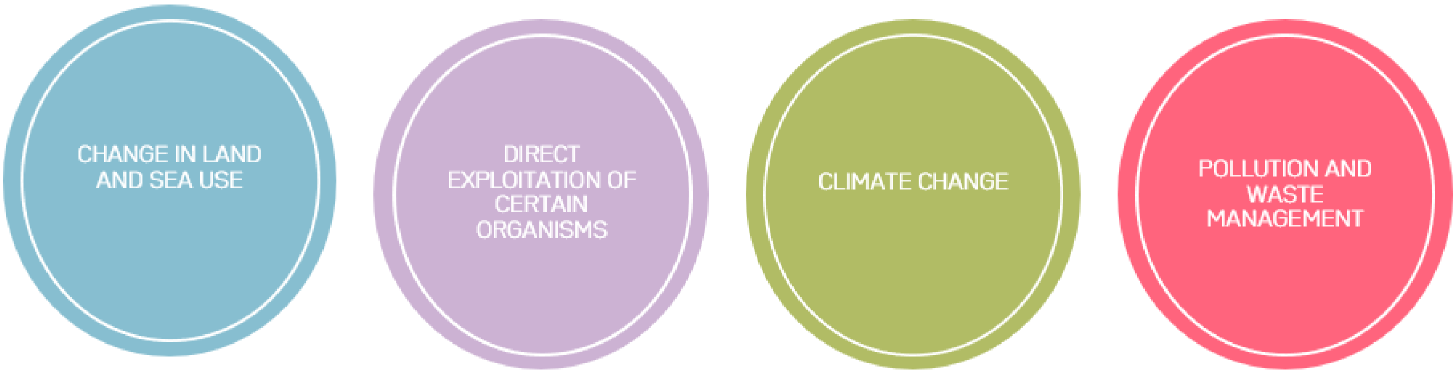

Multiple topics are incorporated into our materiality analysis by analysts, with a view to curbing our impact on the destruction of biodiversity.

At the global level, several causes of biodiversity erosion have been clearly identified, including five major ones by the IPBES[1] :

- changes in land and sea use: destruction and fragmentation of natural environments, resulting in particular from urbanisation and the development of transport infrastructure;
- direct exploitation of certain organisms: overexploitation of wild species: overfishing, deforestation, trade in ornamental species;
- climate change: this can combine with other causes and exacerbate them. It contributes to changes in living conditions for species, and forces them to migrate or adapt the way they live;
- pollution of water, land and air;
- the spread of exotic/alien invasive species.

Some of these pressures are particularly applicable to our investment business and are taken into consideration by analysts and portfolio managers in several sectors. Companies contributing to the development of natural capital are large companies in the following sectors (this list is not extensive): agri-food, infrastructure, transport, waste, energy, luxury goods and pharmaceuticals. These industries have an impact on biodiversity, while natural capital is a crucial resource for their businesses.

We particularly focus on the following pressures in the main sectors affecting biodiversity:




[1] IPBES: The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services

### 3.2.2 Calculating and monitoring our biodiversity footprint

We have chosen to use Iceberg DataLab (IDL) to measure our biodiversity footprint. It provides its assessment by measuring MSA per km².

MSA – or Mean Species Abundance – is the unit used to measure the impact or footprint of companies or investments on biodiversity. This measurement is expressed as a percentage of the integrity of ecosystems and reflects the average abundance of indigenous species in a specific area as compared to undisturbed ecosystems (%). It is the benchmark used by the IPCC, the Convention on Biological Diversity (CBD) and the United Nations (IPBES). The figure can range from 0% to 100%, where 100% indicates an intact and undisturbed ecosystem.

IDL's methodology takes into account four different pressures on biodiversity:

- changes in land use: assessment of land occupation (maintaining land in a disturbed state) and land transformation (transformation of undisturbed land);
- air pollution (NOx emissions, which lead to terrestrial eutrophication and acidification): acidification and eutrophication disturb living conditions for flora and fauna, leading to changes in ecosystems;
- climate change: multiple species are highly sensitive to changes in temperature. Species will not be able to adapt or are in danger of dying out as a result of the current pace of climate change;
- ecotoxicity: some pollutants are particularly dangerous for water and species that live in fresh water. Pollutants can be directly toxic for species or they can bioaccumulate in water organisms and hence possibly affect regeneration.

The biodiversity footprint takes into account past, present and future impacts.

The value chain covered by this methodology can be broken down into three scopes:

- Scope 1 covers operations directly related to the company's business, i.e. land occupation resulting from the use of the company's buildings, water use, $CO_2$ emissions due to gas combustion in power stations;
- Scope 2 refers to impacts on biodiversity due to the generation of electricity, steam, heating and cooling bought by the company (company's electricity purchase, electricity generation from fossil energy, other than fuel);
- Scope 3 Upstream corresponds to the purchase and transport of raw materials, waste generated during operations, business travel, staff commuting, company's use of leased assets / Downstream corresponds to the operation or end of life of a product: distribution (transport of finished products), use, waste (managing waste resulting from the product used).

We therefore gather details on the direct and indirect impacts on biodiversity for scopes 1, 2 and 3 for the majority of companies, sponsored agencies and non-guaranteed agencies in our portfolios.

These data are then used by Ostrum AM to calculate the total impact of pressures on biodiversity. The total impacts are expressed as MSA.km² and measure the impacts for which Ostrum AM is responsible as an investor.

If our holding in a company equates to 1% of the company's total value, then we own 1% of the company and are therefore responsible for 1% of impacts (MSA.km²). By calculating the impact for which Ostrum AM is "responsible" for each position in our portfolio and combining them, we can calculate the entire impact of any given portfolio on biodiversity.

Once impacts on biodiversity for a portfolio have been calculated, our teams are able to assess the impacts on biodiversity per million euros invested by dividing the amount of impacts on biodiversity by the value of the portfolio for which the impact was measured. This new result provides a standard measurement of impacts on biodiversity per €1,000,000 invested.

Ostrum AM uses the following formula to calculate the biodiversity footprint of its investments:

$$\textbf{Biodiversity footprint (MSA.KM²/€M invested)} = \frac{\sum_i^n \left( \frac{\textbf{Value of position}_{\mathbf{i}}\ (€M)}{\textit{Issuer's entreprise value}_{i}\ (€M)} * \textbf{CBF Value}_{\mathbf{i}}\ \textbf{Scope 1,2\&3}(\textbf{MSA.Km}^2) \right)}{\sum \textit{Position}_i\ \textit{value}\ (€\text{M})}$$

In concrete terms, Ostrum AM's biodiversity footprint is estimated at around -0.12 MSA.KM²/M€ invested at 31 December 2022.

At this stage, the calculation takes into account scopes 1, 2 and 3. There is therefore a risk of double counting for a portfolio.

### 3.2.3 Integration of biodiversity into our portfolio management process

⇨ SUSTAINABILITY BONDS LINKED TO BIODIVERSITY CHALLENGES:

When our Sustainability Bond analyst team assesses an instrument, they systematically map projects financed and the use of proceeds on sustainable themes, including biodiversity. This covers eligible project categories such as sustainable forestry, river and marine environment restoration (including coral reefs).

Sustainable agriculture projects that also incorporate challenges related to biodiversity and ecosystem protection are mapped according to the sustainable theme: "sustainable agriculture and food". This systematic mapping process allows us to assess the percentage of our investments in sustainability bonds linked to biodiversity aspects.

Additionally and aligning with the *"do no significant harm" (DNSH)* approach outlined in the European taxonomy, our analysts assess sustainability bonds and endeavour to check the potential effects of eligible projects on biodiversity and their management, where data are available.

For example for green buildings, we check that the location where they are built is not a protected area or a site with major environmental value. Similarly, we rely on second party opinions to ensure that renewable energy projects incorporate an analysis of the environmental effects and that the necessary mitigation steps required to protect biodiversity and ecosystems have been taken.

Some examples of investments:

- Financing the acquisition, maintenance and management of forests certified by international organisations (Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC)), with the aim of regenerating the biodiversity of these planting and harvesting areas and contributing to the restoration of primary forests.
- In the electricity grid sector, financing costs to reduce land use and the impact on terrestrial biodiversity, including demolition of kilometres of existing overhead lines and their replacement with underground grids. This reduces permanent land occupation by overhead lines and the need to cut down massive amounts of vegetation in natural reserves, wetlands and other protected areas. Demolition also eliminates the risk (although low) of birds colliding with power lines.
- Financing for the Canada Nature Fund, which aims to protect Canada's biodiversity through the creation of areas protected and conserved by organisations and initiatives that are helping to recover endangered species.
- Assisting with financing for the "Neo Terra" project in Nouvelle Aquitaine, particularly for the Nouvelle-Aquitaine Regional Biodiversity Agency (ARB NA), which manages the observatory that monitors species in the region and is involved in integrating biodiversity-related issues into land development and production plans.

### ⇨ SECTOR AND EXCLUSION POLICIES

The sector and exclusion policies (see section 2.4) take biodiversity into account, where applicable. It factors into our controversy management (worst offenders policy) and our coal and tobacco sector policies.

In 2022, we implemented our oil & gas policy in line with the principles published in 2021. We took an in-depth approach to target techniques with the most severe environmental impact, i.e. unconventional and/or controversial extraction techniques.

All types of infrastructure related to the oil & gas industry can have major impacts on biodiversity, but particularly those that use unconventional and/or controversial techniques such as ultra-deep offshore drilling, drilling in the Arctic, heavy and extra-heavy oil, oil sands and similar, coalbed methane, and shale gas/oil.

Techniques such as horizontal drilling, hydraulic fracturing with chemical products, exploration involving pumping of large volumes of water, vapor injection, open-cast mining, in situ extraction, conventional drilling that requires specific equipment suited to Arctic weather conditions must be prohibited.

They lead to high $CO_2$ and methane emissions, produce toxic sludge and oil spills, increase the risk of earthquakes, harmful long-term chemical or physical effects on the land structure and methane leaks, and require intensive water use and the use of chemicals that can contaminate groundwater and surface waters and damage ecosystems.

These various extraction techniques have serious and irreversible environmental impacts on land and marine ecosystems already under pressure from climate change. Here at Ostrum AM, we therefore decided to focus in particular on these methods in our oil & gas policy.

## ⇨ INDICATORS INTEGRATED INTO THE GREaT METHODOLOGY

The GREaT methodology offers a pragmatic issuer/company analysis framework to tackle sustainable development challenges. The GREaT method not only takes on board environmental, social and governance (ESG) criteria, it also measures engagement, responsibility, opportunities and risks for companies.

## ⇨ ENGAGEMENT POLICY

Ostrum AM has developed an engagement policy that focuses on a number of priority themes (cf. section 2.3).

The preservation of biodiversity is one of our priority areas for engagement (theme 2/sub-theme 4) and is addressed at a company-wide level here at Ostrum AM.

We work with our credit analysts and equity analysts/portfolio managers to organise the dialogue we wish to pursue with issuers: this will depend on the sector in question as we develop our areas for engagement as well as possible questions to raise with them.

We have already identified several sectors where biodiversity is crucial. We have also started to identify longstanding issues where more in-depth questions and discussions would be relevant.

**Metals & Mining**
- pollution and mining residues
- technologies used / regions of operations;
- operations in protected areas or controversial activities.

**Consumer goods**
- soil degradation / deforestation;
- supply of controversial raw materials;
- waste / management of releases of chemical substances.

**Transport**
- Pollution and impact on ecosystems linked to ships, aircraft, motorways and airports.

**Utilities**
- Procedures related to accident management and pollution and their management when a controversy arises.

**Oil & Gas**
- accidents and resulting pollution;
- technologies used/regions of operations.

**Auto**
- sustainable sourcing/extraction of rare materials;
- new sourcing risks linked to new materials.

**Pharmaceuticals**
- soil, air and water pollution;
- release of chemicals.

**Real Estate & REITS**
- soil, air and water pollution;
- release of chemicals.

**Chemicals**
- soil, air, water pollution/waste management/sourcing;
- recyclability (trend towards bioplastic, greener packaging, etc.).

In 2022, initial efforts were made in the agri-food sector, which has a particularly strong impact on biodiversity. Numerous issues are being analysed in terms of land, water and waste management.

Beyond our individual engagement policy, we also signed a number of collaborative engagement initiatives that seek to preserve biodiversity:
- Arctic Drilling in Wildlife Sanctuary – 2017
- Investor Initiative on Sustainable Forests (Cattle and Soy) – Ceres & PRI (since 2018);
- Deforestation and forest fires in the Amazon Investor Statement 13/09/2019 Ceres Forest Environment, which works to tackle this issue;
- Investor statement on the need for biodiversity impact metrics;
- CDP's Non-Disclosure Campaign;
- Tobacco Free Finance Pledge;
- Letter to meat packers and processors on the traceability of indirect suppliers in their supply chains in Brazil – IISF, PRI, CERES.

See our biodiversity strategy for more details on the main pressures and impacts on biodiversity available on our website.

# 4. TAXONOMY – FOSSIL FUELS

**Proportion of taxonomy-aligned assets under management in accordance with Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.**

| |
|---|
| At 31 December 2022, 0.68% of Ostrum AM's AuM were taxonomy-aligned investments[1] (first two objectives, namely climate change mitigation and climate change adaptation).<br><br>The proportion of taxonomy-eligible investments was 14.59% at 31 December 2022.<br><br>These calculations cover all the products (funds and mandates) managed by Ostrum AM. |

The concept of taxonomy-eligible activity corresponds to an economic activity described in the delegated acts (present in the summary of the taxonomy), whether or not this economic activity meets some or all of the technical screening criteria set out in these delegated acts. If the company carries out one of the activities listed in the taxonomy, it is eligible for the taxonomy.

On the other hand, a taxonomy-aligned activity is an activity for which full compliance with the technical screening criteria described in the delegated acts for the environmental objective in question has been verified.
Several steps must be taken to verify alignment:
- Verify that the activity or activities are listed (eligibility);
- Verify compliance with the corresponding technical criteria;
- Ensure that the activity complies with the "Do No Significant Harm" (DNSH) principle – that it does not cause collateral damage to one or more of the other five objectives;
- Ensure compliance with minimum social safeguards.

We use the data provided by Trucost S&P to calculate taxonomy eligibility and alignment. The S&P Global EU Taxonomy Data Solution methodology is based on the first delegated act on sustainable activities for climate change adaptation and climate change mitigation. The taxonomy describes 96 economic activities that fall under one of the 13 macro-sectors of the Nomenclature of Economic Activities (NACE) eligible under the Taxonomy.

These include economic activities that have a direct carbon mitigation potential (e.g. renewable energy) and activities that are relatively carbon intensive but have the potential to reduce their carbon emissions significantly. They also include activities that enable climate change adaptation.

S&P Global EU Taxonomy Data Solution includes both an assessment by S&P Global Sustainable of the alignment of each company's revenue with the taxonomy requirements, either for the individual economic activity or for the company, and the underlying data points used to inform this assessment. A prudent approach is taken by assigning the aligned classification only when sufficient data and information are available to show that a business activity has met the requirements of the Taxonomy, namely eligibility, Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS).

Operational activities are defined as transitional, enabling or enabling in terms of adaptation and associated with climate change mitigation or climate change adaptation objectives. For adaptation activities, expenditure is used as a measure of assessment since companies incur costs to implement measures to mitigate physical climate risk. The current dataset contains complete data only for capital expenditure and operating expenditure at the company level. No breakdown by activity is currently available.

[1] As not all issuers' alignment data is readily available at this time, Ostrum AM uses an external data provider.

Activities associated with other environmental objectives of the Taxonomy will be added to the dataset as relevant texts are published. The dataset covers 20,000 companies in the Trucost Core Plus universe, including approximately 15,000 listed companies and 5,000 private companies that issue fixed-income securities.

S&P Global Sustainable's approach is as follows:

| Sector mapping | Eligibility and substantial contribution | DNSH | MSS | Alignment |
|---|---|---|---|---|
| • 176 of Trucost's 464 economic activities are associated with Taxonomy activities<br>• Selection criteria for substantial contribution, DNSH and MSS for the primary activity are entered for each activity as indicated in the Delegated Acts and other relevant sources such as the OECD | • Companies along with their activities that fall under the heading of Trucost business activities associated with Taxonomy activities are considered eligible<br>• The Taxonomy's technical screening criteria for substantial contribution are applied to all eligible activities, which are identified as having met or not met the criteria<br>• Where data is not sufficient to assess a company's performance relative to the technical screening criteria for substantial contribution, the taxonomy-aligned coefficient (TAC) is used to fill statistical gaps | • Assessments are conducted at the activity and company level to ensure that no significant harm is caused to the other objectives of the Taxonomy | • A company-level assessment is carried out to ensure that the company complies with the minimum social safeguards | • Depending on the performance of the three assessment pillars, a company and its activities are assessed based on the percentage of taxonomy revenue |

Share of assets invested in companies active in the fossil fuel sector:

From 1 January to 31 December 2022, the share of Ostrum AM's assets invested in companies active in the fossil fuel sector was 4.53%.

This calculation covers all products (funds and mandates) managed by Ostrum AM.

The methodology used for this calculation is taken from the MSCI Data Provider. MSCI ESG Research collects data provided by companies:

- Direct company communication: sustainability reports, annual reports, regulatory filings and company websites;

- Indirect company communication: data published by government agencies, industry and trade associations and financial data providers;

- Direct communication with companies, as described below.

Where communication about the company is not available, investors may choose to use a subset of suggested estimated metrics (if any) based on other MSCI ESG Research datasets. These datasets are built using exclusive proprietary methodologies and contain data from companies, market and industry peers, media, NGOs, multilateral institutions and other credible institutions.

The dataset includes MSCI ESG Research's ratings, measurements, climate solutions and controversies. The components of the MSCI ACWI Index are reviewed within four months of their annual filing. All other companies in the coverage universe are reviewed on an ongoing basis within 12 months of their annual filing. Datasets whose sources are updated dynamically independent of annual filings, such as carbon emissions, board composition and controversies, are reviewed.

MSCI ESG Research maintains robust, transparent communications with all issuers in their coverage universe. This engagement includes:

- a data review process that allows companies to comment on the accuracy of the company's data for all MSCI ESG Research reports;

- issuers' free access to published versions of all their MSCI ESG Research company reports;

- direct communication with a company concerning the company's specific ESG performance;

- a prompt response to requests made by companies to discuss their MSCI ESG Research reports.

MSCI proactively contacts companies as part of its standardised and systematic review process. It does not issue surveys or questionnaires, does not conduct general interviews with companies, and does not accept or take into account in its analysis data provided by issuers that are not publicly available to other stakeholders. Given the dynamic nature of the research, companies may access and review data collected to date at any time via the issuer communications portal (ICP). They are invited to ask questions and provide feedback at any time during the year.

# 5. INTEGRATION OF ESG CRITERIA INTO OSTRUM'S RISK MANAGEMENT

## 5.1 IDENTIFICATION OF RISKS AND OPPORTUNITIES

### 5.1.1 Climate risks and opportunities identified

To identify risks that could have a material impact on its investments, a comprehensive analysis is conducted by sector which covers all the activities of companies in which Ostrum AM has invested. This research not only allows it to focus on short-term risks, which are more visible as they affect its investments today, but also to prepare for medium- and long-term risks, which are sometimes more difficult to grasp.

#### TRANSITION RISKS

"Transition risks are the uncertain financial impacts (positive and negative) resulting from the effects of setting up a low-carbon business model on economic players. Transition risks are characterised by "radical" uncertainty about the nature of the low-carbon pathway (e.g. the pathway to greenhouse gas emissions reduction, which restructures the economy) and a more "usual" uncertainty about how to implement this pathway in economic and social terms[1]".
Transition risks therefore include all impacts resulting from the transition to a low greenhouse gas emissions economy. The Paris Agreement, as well as the numerous initiatives aimed at achieving carbon neutrality, encourage economic players to propose reliable, effective transitions. This transition therefore brings with it risks and opportunities for companies.

#### PHYSICAL RISKS

"Physical risks are the uncertain financial impacts resulting from the direct effects of climate change on business activity (change in average temperatures and rainfall patterns, increase in the frequency and severity of extreme climate events, etc.), economic players and asset portfolios[2]".

There are two types of physical risks:

##### Acute physical risks

Acute physical risks include extreme weather events, such as cyclones and floods, which are exacerbated by global warming. These acute risks are even more significant as it is difficult to foresee and actually prepare for them. Unlike chronic physical risks, which evolve slowly over time, acute physical risks have a strong impact over a short period of time. It is therefore important that all organisations map these climate events, since their frequency and strength will increase continuously. These phenomena can have serious impacts on a company's business model. For example, damage to buildings can impact the operating cycle by preventing employees from working safely. Companies must be able to quickly spend large amounts of money on renovation. Physical risks can lead to interruptions in supply chains, have repercussions on production and sales, and can result in late penalties, thereby increasing the entity's financial risk.

[1] Definition provided by I4CE: https://www.i4ce.org/publication/gestion-risques-climatiques-financiers/
[2] Definition provided by I4CE: https://www.i4ce.org/publication/gestion-risques-climatiques-financiers/

### Chronic physical risks

Chronic physical risks correspond to the impacts resulting from longer-term changes in climate models and rising temperatures. They take into account rising sea and ocean levels, changes in rainfall patterns (risk of water stress or flooding), as well as heat and cold waves. The impacts of chronic physical risks will therefore be increasingly visible over time. As an example, coastal businesses or plants may be directly threatened by rising sea levels. Power producers, for their part, are under threat from changes in rainfall patterns. The creation of new water stressed-areas also has a major impact on the operating costs of sectors that consume large amounts of water. This is true for hydraulic electricity producers and nuclear power plants for cooling.

Ostrum AM is currently unable to provide further details about the measurement of physical and transition risks since the data collected from Trucost S&P is currently being integrated into our IT systems.

Ostrum AM has chosen Trucost S&P to identify and measure physical and transition risks to which the companies in which we invest as asset manager are exposed.

First of all, to identify companies' physical risks, Trucost uses models and datasets representing the expected absolute exposure to eight different risks related to global climate change under four climate change scenarios and over eight time periods (2020 to 2090) to produce maps of physical risks related to global climate change. The risks covered by this module are coastal flooding, river flooding, extreme heat, extreme cold, tropical cyclones, forest fires, water stress and drought.

Accordingly, Trucost breaks down a company's "assets", which represent any structure or property owned or leased by a company, to identify the physical risks to which each asset is exposed. The physical risk exposure score model used by Trucost assigns risk scores from 1 (lowest risk) to 100 (highest risk) to each asset in the database corresponding to its location in climate change risk maps. The physical risk exposure scores for the asset are then aggregated with the company scores as a weighted average of all the assets mapped for that company. These eight scores are then weighted equally at the company level, so that an overall exposure score is assigned to the company. Lastly, Trucost corrects this score based on the company's business model. The objective is that the exposure score takes into account both exposure to climate risks and companies' and assets' expected sensitivity to each risk.

Ostrum AM will use this score to identify its portfolios' exposure to climate risks and hazards.

Next, to identify companies' transition risks, Trucost focuses on a company's ability to absorb future carbon prices and the resulting risks.

To do so, Trucost has developed three carbon price scenarios that could have an impact on companies. These scenarios are as follows:

- A low carbon price scenario that assumes full implementation of countries' Nationally Determined Contributions (NDCs).
- An average carbon price scenario that assumes full implementation of policies in line with the 2°C target of the Paris Agreement, but with delayed action in the short term.
- A high carbon price scenario that assumes full implementation of policies in line with the 2°C target of the Paris Agreement.

Trucost therefore obtains a carbon price risk premium for each company and each scenario that reflects the additional financial cost per tonne of greenhouse gas emissions compared to the price currently paid.

Ostrum AM will use these data to identify its portfolios' exposure to transition risks.

Once these data are integrated into our IT systems, we will be able to publish all the information needed to identify and measure the physical and transition risks associated with the investments made by Ostrum AM.

This data integration is expected to occur by the end of 2023, which will enable us to provide this information next year.

## REGULATORY RISKS AND OPPORTUNITIES

Ostrum AM gives careful consideration to regulatory risks and opportunities, which can have major short-term impacts both for the companies in which it invests and for itself. Depending on their sectors and regions, companies are exposed to numerous regulations related to carbon, energy and climate change. These risks even more significant for sectors that emit the most greenhouse gases. European companies have been subject to limits under the market for greenhouse gas emission allowance trading (EU ETS) since 2005. Other types of markets/carbon tax also exist in Asia, Canada and some states in the United States. Due to overly low prices, quota/tax systems are struggling to prove their worth. However, with the expected tightening of $CO_2$ regulations, companies are taking the lead in reducing their carbon footprint. Some companies are starting to set internal carbon prices, i.e. a price on their own emissions. Other laws are regularly passed as a result of countries' commitments to reduce their carbon emissions.
Let's take the example of two sectors that emit particularly high levels of greenhouse gases.

- For oil & gas companies, the increase in the carbon price can significantly affect the company's accounts through drastic increases in costs. While environmental risks related to accidents continue to be monitored, carbon emissions and the energy transition are increasingly high priorities for oil & gas companies and their stakeholders. Since December 2019, with the first announcements from Repsol, major European companies (Repsol, BP, Eni, Shell, Total) have stepped up their commitments to reduce their carbon footprint and align their activities with the Paris Agreement.

- For the automotive sector, the Euro 6 regulation now limits $CO_2$ emissions to 95 gr/km. Companies that fail to comply with this regulation are subject to very high penalties. Fines can amount to hundreds of millions of euros for some automakers.

However, there are also regulatory opportunities for these sectors.

- Oil & gas companies must show how their businesses can hold up in a low-carbon world and how they have integrated climate considerations into their strategies. Thus, the transition to green and renewable energies opens up significant business opportunities for these companies. Although this change in energy mix could be an important market opportunity for this sector, the initial investments to contribute to it are significant.

- Auto parts manufacturers can also benefit from regulatory changes. With the development of hybrid and electric cars, the diversity of automotive parts has increased significantly, enabling them to expand their product range and increase their margins on certain new parts.

As a company, Ostrum AM must also comply with all climate-related regulations, failing which it may be penalised.

## LEGAL RISKS AND OPPORTUNITIES

Legal risks are also taken into account and are likely to increase significantly as climate awareness grows.

Climate justice is a recent political concept linked to the inequitable impacts of climate change. It takes the form of legal action by associations and citizen groups against governments and companies. It is directly inspired by the idea of social justice, as it raises the question of socio-economic inequalities linked to the effects of climate change.

Legal action against governments is mainly based on the accusation of climate inaction, with governments not taking the necessary measures to achieve the climate objectives they themselves have set. They are accused of violating the principle of integrating the environment into public policies.

For example, in 2019 several NGOs (including Notre Affaire à Tous, the Fondation pour la Nature et l'Homme (FNH), Oxfam France and Greenpeace France) supported by more than 2.3 million citizens decided to sue the French government for its failure to take action against climate change and to fulfil its international, European and French obligations.
On 3 February 2021, the Paris Administrative Court handed down its decision in the "Affaire du Siècle" (Case of the Century), in which it recognised the French government's liability in the climate crisis, ruled that its failure to fulfil its obligations to reduce greenhouse gas emissions was illegal and found it liable for environmental harm. The court recognised the existence of ecological harm caused by a public entity, whereas such harm was previously reserved for private individuals.

According to a United Nations Environment Programme (UNEP) report published on 26 January 2021, the number of climate change lawsuits has increased significantly in the last four years, nearly doubling since the last report on the subject in 2017 to 1,550 in 38 countries, 39 including the courts of the European Union. As of 1 July 2020, some 1,200 of these cases had been filed in the United States and 350 in the rest of the world.

Lawsuits are also being brought against companies accused of climate inaction, or even "climate fraud".

Legal action by NGOs against companies that are not doing enough to meet their responsibilities in terms of climate impacts is likely to intensify in the coming years. We must stay abreast of all these lawsuits to limit the impacts on our investments and, in fact, on our reputation.

## RISKS AND OPPORTUNITIES RELATED TO MARKET CHANGES

Risks related to market changes are also watched closely in Ostrum AM's investments.

In recent years, demand has been increasingly focused on products and services that emit less greenhouse gases or are more responsible (green buildings, clean vehicles, plastic-free packaging, etc.). Companies have a keen interest in adapting to these new demands to avoid losing – but also to increase – their market share.

Changes in consumer behaviour, particularly in the food and beverage sector, are good examples of this. Possible changes in regulations and consumer behaviour regarding food components and labelling have prompted many companies to work on recipes and information provided on labels, and to invest in "greener" ingredients.

Companies can also turn these changing trends into opportunities. Many companies have been able to create new markets and improve their margins. In fact, over the last 10 years, most food companies have revised their strategies by introducing product and packaging innovations. These include products with protected designations of origin offering a taste and nutritional value that address health and well-being concerns. Despite incurring high additional costs at the outset, companies can ensure customer loyalty and even develop more expensive products.

## REPUTATIONAL RISKS

For any company, reputational risks are mainly linked to changes in consumer preferences, stigmatisation of sectors with the heaviest impact on the climate, or heightened concerns of stakeholders, all of which can have a major impact on its reputation. Trust on the part of customers, suppliers, employees, shareholders, etc. is essential to keeping the company in business.

Ostrum AM's brand can be "ruined" if stakeholders (shareholders, clients, NGOs, employees, etc.) believe that the company is not meeting their expectations in terms of climate risk management.

## OPERATIONAL RISKS

Operational risks can affect a company's activities (management, IT, etc.) as well as its infrastructure, and refer to losses due to failure to adapt to climate change.

For Ostrum AM, operational risks result from the potential tightening of regulations which could cause investments to increase or decrease: building standards with potentially higher renovation costs, vehicle fleet, higher carbon price for Ostrum AM's direct emissions, increase in the cost of water. An increase in the volumes and sources of non-financial data for physical and transition risks leads to additional operational risk if such data is not updated or contains an error.

In terms of physical risk, the risks identified for Ostrum AM are linked to extreme events, such as heatwaves, floods and bad weather, which could impact the availability of the building, information system and/or skills.

## STRATEGIC AND COMMERCIAL RISKS

A company's failure to take climate risk into account can have a significant impact on its competitiveness and market share. Indeed, climate is now a major concern for institutional clients and the increasingly important duty of transparency requires them to work with a management company that manages climate risk.

### 5.1.2 Impacts of identified risks and opportunities on Ostrum AM’s business

The various climate risks and opportunities identified in Ostrum AM’s investments can impact its business. All the risks identified above can become material for Ostrum AM’s activity.

Climate risks can be a source of problems in our various forms of portfolio management. For example, fraud can result in a loss in value of a bond or share, which directly and negatively impacts the issuer’s value. In the wake of a scandal, for instance, bonds that previously had very high ratings and were considered free of credit risk can depreciate significantly.

In addition, the amount to be paid in case of a conviction (fines, but also compensation for damages) can weaken a company’s financial robustness and therefore increase credit risk. A borrower’s repayment ability may be reduced, which could cause its security to drop in value and therefore have a negative impact on performance.

As discussed above, climate risks can also cause disruption in certain business sectors. If companies cannot adapt to new trends, their profiles will become less attractive to investors because they are less profitable. It is therefore essential that Ostrum AM identifies them so as not to sustain losses. The opposite (opportunity side) is equally important.

Therefore, Ostrum AM makes every effort to monitor the regulatory, legal, reputational, operational and market change risks of investee companies and companies in which the portfolio managers wish to invest, since these risks would result in a direct financial loss for Ostrum AM and its clients.

While Ostrum AM seeks to minimise potential defaults of its investments, it is also very mindful of opportunities. Companies that are successful in creating new low-carbon business/offerings (renewable energy, clean consumption, etc.) create, in effect, new revenues.

Ostrum AM uses the materiality analysis of ESG factors to assess sector and/or specific risks and their likelihood of occurrence. This analysis enables us to identify long-term trends that are likely to disrupt certain business sectors. Incorporating research on material ESG aspects into traditional financial analysis allows better insight into sustainability risks and the quality of issuers over the longer term.

Ostrum AM is convinced that its duty as an asset manager is to take informed decisions and use all available information, including ESG factors.

Moreover, as an investor, Ostrum AM's reputation can also be tarnished when controversies about a security arise or if it invests in a company with poor ESG practices (financing of coal, weapons, etc.).

NGOs are also very attentive to financing from asset managers.

## 5.1.3 Climate risk mapping

In recent years, Ostrum AM has made identifying climate risks and opportunities one of its priorities. For instance, the staff of the Risk and Asset Management Department is increasingly taking risks and opportunities into account in its activities. The holistic view of climate risks and opportunities concerns physical and transition risks, both for the companies in which it invests and for itself. They include reputational, legal and regulatory, operational, strategic and market risks.

| | Transition risks | | | Physical risks | | | Description | Risk management |
|---|---|---|---|---|---|---|---|---|
| Timeframe | ST | MT | LT | ST | MT | LT | | |
| Reputational risk | Medium | High | High | Low | Low | Medium | Reputational risk is the risk on image resulting from a failure to sufficiently consider climate risk. This applies to Ostrum AM as an entity and to its investments. | Implementation of sector and exclusion policies, particularly bolstering efforts to exit the coal sector in 2020 and development of an oil and gas policy in 2022. Additionally, consistent dialogue with companies helps raise awareness of risks and opportunities resulting from climate change. Lastly, first- and second-level controls are performed to ensure compliance with all SRI/ESG management constraints for our portfolios. |
| Operational risk (management, IT, infrastructure) | Medium | Medium | Medium | Low | Low | Medium | Operational risks are primarily related to the integration of climate risks into the management process. Physical risks for Ostrum AM as a company are broadly limited in light of our infrastructure and our current geographical location. | Ostrum AM has rolled out the necessary resources to address climate challenges, particularly by ramping up the due diligence process for ESG data suppliers, and implementing centralized tools and processes for ESG requirements. Physical risks related to Ostrum AM's role as a business are incorporated into our business continuity plan. |
| Market risk and credit risk | Medium | Medium | High | Low | Medium | High | The integration of physical and transition risks in the management process enables us to pre-empt potential losses in our portfolios resulting from the climate alignment of investments and carbon price projections. | ESG/SRI criteria are closely incorporated into management processes and gradually enhanced. Additionally, we perform analysis of materiality resulting from climate change when assessing credit risk and country risk. |
| Strategic and commercial risk | High | High | Medium | Low | Low | Medium | Investors are increasingly mobilized to fight against climate change and therefore have high expectations on their investments. Failure to address these aspects on Ostrum AM's part could have negative consequences with significant market share loss. | Ostrum AM has developed a low carbon emissions financing strategy. Climate risks are included in the management processes to extend our clients' responsible investment commitments. In addition to our management policy and efforts to achieve SRI accreditations (90% of AuM in Ostrum AM's open-ended funds carry an SRI label at 12/31/2021), Ostrum AM has significantly bolstered its exposure and its strategy on sustainability bonds with a view to playing an active role in funding projects that support the fight against climate change, the energy transition and projects with strong social impact. |
| Legal and regulatory risk | Medium | Medium | High | Low | Low | Medium | Non-compliance risk on regulation or risk of litigation with clients for failure to comply with climate commitments. More stringent climate-related regulation for asset managers and institutional clients creates additional pressure for this type of risk. | Ostrum AM makes an active contribution to financial market initiatives to fight climate change and is placing stronger emphasis on ESG regulatory watch to roll out best practices. |

Source: Ostrum AM, March 2022

**ST:** Timeframe < 2 years ▪ **MT:** Timeframe of 2 to 5 years ▪ **LT:** Timeframe >10 years

The table below shows the way in which we view and manage the above risks. It will be enhanced in 2023 with the identification of physical and transition risks.
The various processes for identifying and assessing physical and transition risks, as well as climate opportunities on all our open-ended funds are performed by taking ESG criteria into account in our portfolio management (see section 2.2). These processes are also available for clients on our dedicated funds and mandates.

We identify ESG and climate risks and opportunities in terms of:

- sectors, with sector analyses and indicators/scores;
- issuers, with qualitative and controversy analysis as well as indicators/scores;
- portfolios, with analysis of portfolios and related indicators.

In addition to our various tools, indicators and alerts from our data providers, we also identify risks and opportunities for each asset class, based on qualitative analysis.

These various initiatives combine to give us the wherewithal to identify an environmental, social or governance event or condition that, if it occurs, could have an actual or potential material adverse impact on the value of the investment.

## 5.2 ESG/CLIMATE RISK MANAGEMENT

### 5.2.1 Policy on the integration of sustainability risks

ESG risks and opportunities are factored into our assessment of business sectors as well as companies via our quality and risk analysis.

These risks are taken into consideration in several ways, i.e. through our sector and exclusion policies; our controversy management policy (Worst Offenders); integration of ESG criteria; on the credit portion, ESG dimensions are systematically included in our issuer analysis where they are deemed to be material, i.e. having an impact on the issuer's credit risk; and our comprehensive engagement policy that applies to all Ostrum AM's portfolio management activities.

We combine these various actions to single out any environmental – and climate-related in particular – event or condition that, if it occurs, could have an actual or potential material adverse impact on the value of the investment.

For further information, please refer to our Policy on managing sustainability risks and adverse impacts:
https://www.ostrum.com/fr/publications-reglementaires#politique-de-gestion-des-risques-de-durabilit%C3%A9-et-des-incidences-n%C3%A9gatives

In our mandates and dedicated funds, clients can either follow our policy or apply criteria that meet with their own philosophies. We have developed a solutions and product range to address our clients' climate policy requirements, i.e. portfolio with limited carbon impact, targeted exclusions, products that support the energy transition, etc.).

We update these various processes on a regular basis to take on board all ongoing changes.

### 5.2.2 Integration of ESG criteria into risk management based on asset classes

#### INTEGRATION OF SUSTAINABILITY RISKS INTO CREDIT RESEARCH

Our first step is to narrow down the investment universe by the application of exclusion and controversy management policies (see below).

We then systematically incorporate qualitative and quantitative ESG aspects into our issuer analysis in terms of both risks and opportunities if they have a material impact on the company's sustainability. These various aspects are applied in order to select securities.

Teams work in close cooperation to ensure interaction and integration with portfolio management, with informal communication as well as more formal meetings and committees. Additionally, all research material and analyses produced by Ostrum AM are centralised and instantaneously published in the research knowledge database in our inhouse platform. This online information system is available for all portfolio management staff.

ESG dimensions are deemed to be material when they have a positive or negative impact on an issuer's credit profile, with a relatively high likelihood of occurrence during our investment timeframe, which is between three and five years approximately, similarly to our fundamental ratings.

We take a qualitative approach, drawing on our asset management teams' extensive insight and their strong capabilities on assessing material aspects that can affect issuers' credit risk in their individual sectors of expertise.

Governance is systematically assessed and incorporated into the "Management, Strategy and Governance" section that features in our analysis reports. Social and Environmental aspects are addressed at each stage – in terms of the industry, the business model and financial analysis – and are then integrated into the credit analysis score.

The credit integration process is a combination of an "issuer by issuer" approach and a sector-based approach.

- ISSUER BY ISSUER APPROACH

Each analyst's own individual judgement is a crucial component and the review of all non-financial inputs is vital in assessing the strengths or weaknesses of any given issuer in terms of a specific ESG dimension identified.

We have developed a classification of risks and opportunities for each of the three E, S and G components to take on board ESG criteria in a consistent manner. Analysts bear this in mind during their assessment and incorporate it into their evaluation of issuers' credit risk.

For example, we have ascertained that material environmental issues are generally related to two risks, i.e. environmental "accidents" or ecological disasters of human origin, and "transition" risks, which result from changes in the regulatory framework that seeks to reduce environmental risks. A typical transition risk for an automaker comes, for example, from new regulations on air quality (regulation of $CO_2$ emissions in Europe, nitrogen oxide emissions in the United States, and fuel consumption in China). This kind of new regulation involves additional R&D spending, extra costs related to new components to be incorporated, potential fines, etc.

- SECTOR-BASED APPROACH

The sector-based approach defined and shared by all our analysts mobilised our entire team of credit analysts, as we rolled out this approach across all our teams in Europe, Asia and the United States.

The team can therefore draw on this approach to ascertain and set out specific ESG issues that have a major impact for each individual business sector and segment.

We regularly organise ESG workshops with credit analysts, who pinpoint key material ESG aspects that can affect any given sector and hence our ratings. These aspects are documented and provide input for mapping material risks.

In our role as a long-term investor, it is crucial to be able to ward off future ESG risks as we closely monitor the future of the companies we finance. In some cases, we can observe that some ESG risks are not necessarily material in the short term, but they will take on a material dimension in the next 10 years, e.g. risks resulting from climate change.

We have therefore set out specific ESG issues that are not material for the moment or even in the medium term, but that are poised to become material in the long term. That is why we are monitoring developments today. This is a key and distinctive aspect of Ostrum AM's proprietary credit research.

The output of our sector risk mapping consists of dedicated sector reviews that sum up key risks and opportunities:

1 public service companies (integrated utilities)
3 automotive
5 telecoms
7 metals & mining
9 chemicals
11 pharma ceuticals
13 media & entertainment
2 regulated public service companies (regulated utilities)
4 energy – Oil & Gas
6 transport
8 capital goods
10 banks
12 real estate
14 consumption & retail

▪ ESG MATERIALITY SCORES

In 2018, Ostrum AM's credit research team decided to adopt a scale to measure the risk intensity and opportunities of ESG factors for companies' credit profiles. This proprietary scale allows a specific ESG materiality score to be assigned to each issuer.

In 2022, we went a step further by using a common approach to ESG integration for equities and credit. With this approach, we assess not only the implications of ESG factors for companies' credit profiles, but also their implications for their overall robustness. We define robustness as the ability of companies to maintain their revenues over the long term, cope with potential industry disruptions and/or address risks as and when they arise.

The definition of proprietary ESG materiality scores changes accordingly:

- we recognise that there are risks (-) or opportunities (+) with respect to ESG factors that are important for a company's robustness;
- the extent of their impact may vary from minor (ESG1) to major (ESG3); and
- we will assess the extent of the impact based on management's willingness and ability to detect change, adapt to or cope with it, and the time that it has to do so.

| | | Magnitude of the impact of E, S or G factors on robustness | | |
|---|---|---|---|---|
| | | High | Moderate | Low |
| Impact | Opportunity | ESG3+ | ESG2+ | ESG1+ |
| | Risk | ESG3- | ESG2- | ESG1- |

We interpret the table as follows: an ESG2+ materiality score means that of the various E, S or G factors that we have identified, we believe that (i) the opportunities outweigh the risks, and (ii) the extent of the impact is moderate for the company's robustness.

More specifically:

| | | Implications for equities and credit investors |
|---|---|---|
| ESG3+ | Non-financial factors lead to positive structural changes for the industry - and may even be considered disruptive and a good positioning of the company within the industry and management's strong willingness and ability to adapt should support the company's long-term success. As a result, we expect the company to post higher growth than the industry. | The most sensitive equities up over the long term. Credit should be less sensitive given the long-term horizon. |
| ESG3- | E, S or G factors are likely to disrupt the industry or the company within a certain timeframe, resulting in a significant negative impact on the company and its robustness.<br>• In cases where these disruptive effects are sometimes expected to occur over a long period of time, management may lack the willingness or skills to adapt;<br>• In cases where the disruptive element is more likely to occur over a short period of time (e.g. 2-3 years), management may not have the time or ability to adapt even if it has the skills. The associated risk is already factored into Ostrum AM's proprietary credit score.<br>• If the disruptive element is imminent (such as litigation risk), this would also result in a High Negative Event Risk in Ostrum AM's credit score. | ESG3- implies that the company's robustness is at great risk over the long term, and equity investors will therefore most likely exclude the company from their investment universe.<br>Credit investors expect to distinguish between short-term and long-term exposure. |
| ESG2+ | Non-financial factors lead to positive secular changes for the industry (usually niche industries). Additional growth for the company will come either from its own positioning within the industry or from the industry itself.<br>For example, only a portion of the company's business is likely to benefit from favourable industry trends, and/or management's willingness and ability to adapt is only partial. Therefore, the potential for improvement in the company's robustness in the future is lower than for an ESG3. | Sensitive information for the company's equities. Positive support for the quality of the credit profile, but not a deciding factor on spreads[1]. |
| ESG2- | E, S or G factors are likely to lead to negative changes for the industry or company within a certain timeframe, resulting in an erosion of robustness.<br>Management has the willingness, ability and/or benefit of time to adapt, and/or the diversification of activities helps to partially mitigate risks, etc.<br>Consequently, the company's robustness will most likely suffer, but will not be degraded. The erosion of robustness is already taken into account in the fundamental credit score. | Equities will most likely feel pressure on an ongoing basis.<br>Credit will feel pressure during certain periods of the credit cycle, combined with other negative catalysts. |
| ESG1+ | Non-financial factors, though favourable to industry trends, should only materialise in the long term, having only a moderate (sometimes even negligible) impact on the company's long-term outlook. | Not a game changer for the performance of equities and credit. |
| ESG1- | Non-financial factors, though not very favourable to industry trends, should only materialise in the long term, having only a moderate (sometimes even negligible) impact on the company's long-term outlook. The very long-term time horizon gives management sufficient time to adapt if necessary. | No change for equities and credit. |

[1] Differential or gap between two indices or rates.

Teams work in close cooperation to ensure interaction and integration with portfolio management, with informal communication as well as more formal meetings and committees. Additionally, all research material and analyses produced by Ostrum AM are centralised and immediately published in the internal research knowledge database. This online information system is available to all portfolio management staff.

Our portfolio managers pay close attention to these analyses, particularly when the issuer has an ESG materiality score of level 3, i.e. when the ESG factors can be a key element of the fundamental score, or when they are combined with other factors.

## INTEGRATION OF SUSTAINABILITY RISKS FOR SOVEREIGN AND QUASI-SOVEREIGN ISSUERS

Material non-financial factors are systematically taken into account and directly included in portfolio construction via the assessment of country risk. This assessment involves two stages:

**SOVEREIGN RISK ASSESSMENT MODEL**

Proprietary quantitative model for medium-term assessment of developed and emerging countries

1. Coverage of all developed and emerging countries

2. Assessment of the probability of a change in S&P rating over a 1 to 3 year horizon

Sources: S&P macroeconomic data and World Bank, United Nations and ND Gain non-financial data

**SOVEREIGN DEBT SELECTION**

Integration of ESG into SDS

When E, S or G factors may have an impact on the investment management horizon, sovereign risk or debt valuation, the SDS sector team integrates them into its management views.

Source: Ostrum AM at 31/12/2022

### ▪ SOVEREIGN RISK ASSESSMENT MODEL

Our quantitative engineers have developed a proprietary assessment model to provide medium-term projections with a one- to two-year timeframe, which are then updated every quarter if necessary.

This model helps outline any possible changes in the risk assessment for both developed and emerging countries, using our inhouse rating scale. Projected changes in the risk assessment are monitored for each country (+/- rating category).

This innovative machine learning model, an additional information source for portfolio managers, is used to build sovereign portfolios, making it central to the investment process. It is based on the following aspects:

- Economy: internal vulnerability variables, such as unemployment, and external factors such as primary balance. Source: Standard & Poor's (https://www.spglobal.com/ratings/en/);
- Non-financial information: ESG variables, such as corruption control, political stability, $CO_2$ emissions, etc. Sources: the World Bank and the United Nations Development Programme.

## ▪ SOVEREIGN DEBT SELECTION (SDS) SECTOR TEAM

Our sovereign investment experts have longstanding expertise on ESG factors and their impact on risk assessments for eurozone countries.

The SDS team produces bottom-up views on the relative value of government bonds for each eurozone country. The objective is to identify the sovereign debts to which the managers wish to be exposed over a defined investment horizon.

Members of the SDS team assess performance factors (views on spreads and flows) as well as risk factors (financial, such as macroeconomic and regulatory, and non-financial risks).

The sovereign risk model is based on fundamental views on sovereign issuers.

Non-financial aspects are reviewed with the investment timeframe in mind and can undergo further specific analysis if the country is set to be downgraded soon.

## INTEGRATION OF SUSTAINABILITY RISKS IN EQUITY PORTFOLIO MANAGEMENT

ESG practices are considered an integral part of a company's overall quality. Analysts and managers therefore analyse the risks of a company or sector, as well as the opportunities related to ESG aspects. The teams engage with companies to discuss these aspects.

The equity portfolio management team thus seeks to ward off any potential risks via ESG considerations. In particular, ESG analysis provides the ability to identify long-term trends that are likely to disrupt certain business sectors. Incorporating ESG aspects into traditional financial analysis allows better insight into the quality of issuers over the longer term. These considerations also enable the equity investment management team to identify opportunities (new markets, new technologies, etc.) and companies with growth potential.

The various methods used:

- Non-financial quantitative screening (ESG) to generate ideas

We use the GREaT[1] non-financial assessment method to incorporate ESG factors into our fundamental analysis. This method awards companies a score on a scale from 1 (best) to 10 (worst). In practical terms, this screening excludes all companies with an overall score of more than 7.

- Integration of ESG issues into the fundamental qualitative analysis process

Portfolio managers-analysts use a materiality scale to score each eligible company when assessing its ESG profile. This results from identifying and quantifying the ESG factors that positively or negatively impact the sustainability of its business model in the short or long term.
This analysis begins with the identification of sustainability issues that impact the company's business sector or business model, which then point to the inherent risks and opportunities for the company and reflect how it is positioned to take advantage of opportunities and avoid/mitigate risks, via the existing procedures and organisation and the practical steps that have been set out and applied.

- Use of the GREaT quantitative score to determine the discount rate used to value the company

This rate takes into account its non-financial score. A high-quality non-financial score will reduce the discount rate, while a poor score will increase it.

[1] GREaT: La Banque Postale Asset Management's proprietary non-financial scoring system. Analysis based on four pillars: Responsible Governance, sustainable management of natural & human Resources, Energy transition, Territorial development.

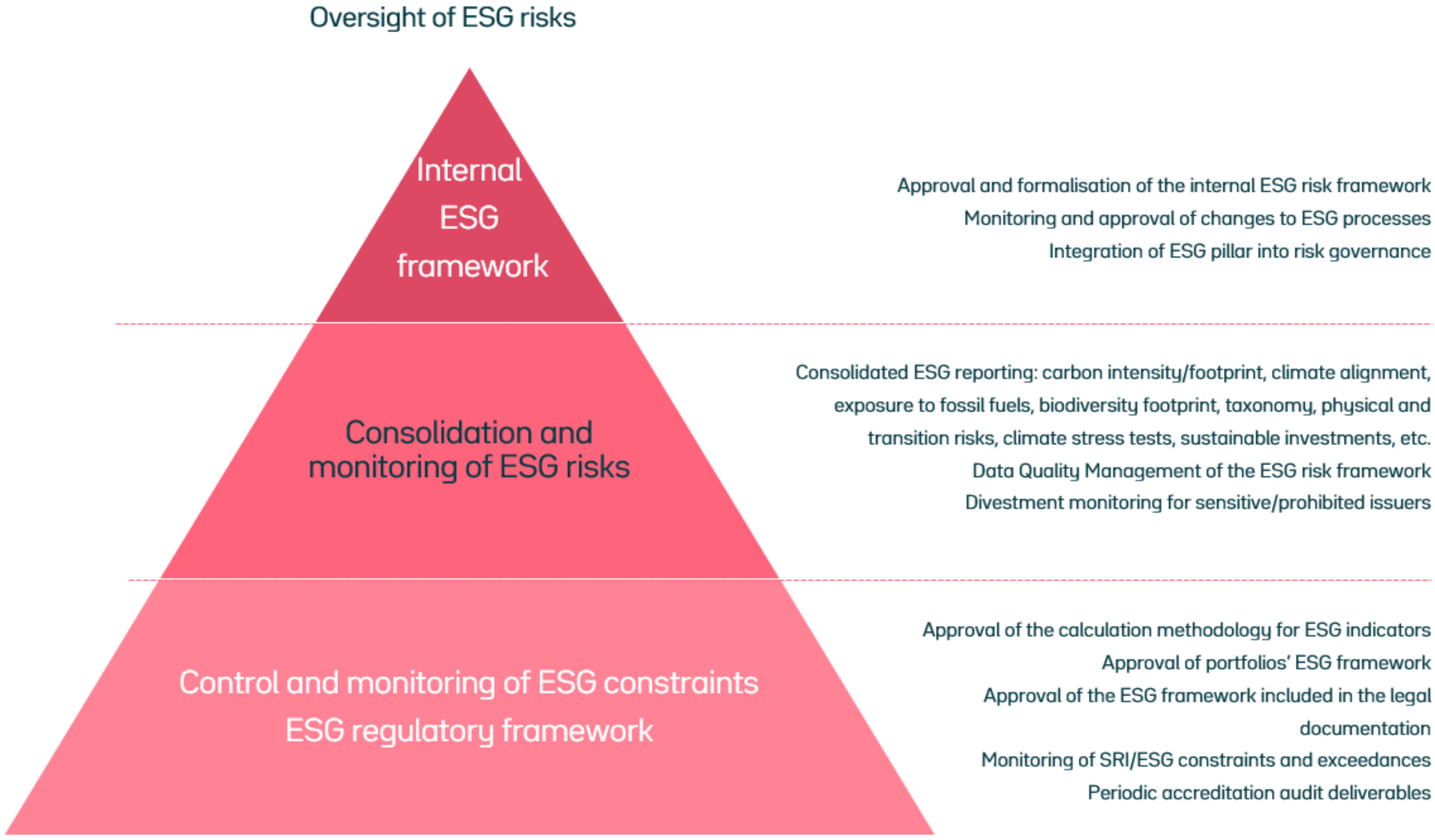
- Integration of the qualitative score resulting from the fundamental analysis of the company into the weighting of securities in the portfolio

The methodology to determine the calibration of positions will support portfolio construction and management. This methodology encapsulates the degree of conviction, the intrinsic risks and the non-financial quality for each eligible company.

Additionally, at the request of our clients on certain investment mandates with specific SRI requirements, we ensure high ESG quality for the portfolio. For example, this can mean achieving a significantly higher ESG score for the portfolio than the benchmark. A minimum degree of ESG quality is also required on some portfolios to include a company in the investment universe.

Lastly, some equity portfolios also target an ESG score for the portfolio surpassing the ESG score for the first four quintiles of the index: this goal is also included in the French SRI accreditation guidelines.

### 5.2.3 Role of the Risk department in ESG/SRI processes




### A. Control and monitoring of ESG constraints, ESG regulatory framework

#### VALIDATION AND IMPLEMENTATION OF ESG CONSTRAINTS

The Risk Department is responsible for *ex-ante* validation of ESG constraints on portfolios. For commercially open portfolios, these constraints are set out in the legal documentation or – when they result from SRI accreditation – in an amendment to the portfolio management process. For mandates that are classified as Article 8 or have specific ESG constraints, post-trade controls are implemented for daily monitoring of ESG ratios. The Risk department is also involved in producing deliverables for accreditation audits of commercially open funds.

## CONTROLS OF ESG CONSTRAINTS RESULTING FROM SRI ACCREDITATION

- For bond and money-market funds that have received SRI accreditation or are in the accreditation process, exceedances of ESG indicators are detected and reported to portfolio management on D+1. They are subject to the same escalation procedure used for other regulatory, statutory and contractual investment constraints. In particular, portfolio management is required to resolve any exceedances observed as quickly as possible, taking into account the best interests of investors. Exceedances considered active are reported to the regulator on a quarterly basis.

- For funds accredited using the average score method, control of ESG performance seeks to ensure that the SRI fund has a better average ESG score than the score of the filtered universe (i.e. after eliminating 20% of the worst scores in the universe). For funds accredited using the minimum score method, control of ESG performance seeks to ensure that each asset in the SRI fund has a better average ESG score than the minimum score of the filtered universe (i.e. after eliminating 20% of the worst scores in the universe). Eligibility and ESG coverage ratios (minimum 90% coverage) are also subject to control. Lastly, for funds accredited under version 2 of the SRI label, the four indicators of E, S, G and HR (human rights) impacts used are also subject to control (with outperformance and coverage constraints for two of the four indicators) and monitoring (for all four indicators) depending on the constraints of the Label.

- A Positive Screening discretionary analysis also reveals the most virtuous issuers and provides the ability to track changes in ESG score distributions compared to their weekly moving averages. The representativeness of the investment universe is also measured daily, making it possible to verify that the initial investment universe is in line with the fund's investment policy.

## ESG CONTROLS FOR NON-ACCREDITED ARTICLE 8 FUNDS

The Risk department also performs daily controls on the ESG constraints of non-accredited funds classified under Article 8, a category that mainly includes dedicated funds and mandates. The indicators tracked relate to:

- the ESG score of the portfolio for each asset class – private sector, sovereign and quasi-sovereign bonds – which must be better than the ESG score of the investment universe;

- ESG coverage, which must be higher than the minimum indicated in the contractual document: 90% in general, but possibly as high as 95%.

As with ESG constraints resulting from SRI accreditation, any exceedances are reported to portfolio management on D+1 for resolution and are subject to the same escalation procedure. Exceedances considered active are reported to the regulator on a quarterly basis.

## ADDITIONAL CONTROLS FOR ARTICLE 8 AND 9 FUNDS

The clarifications provided by the Regulatory Technical Standard under the SFDR involved the definition and performance of additional controls on Article 8 and 9 funds, whether or not they are SRI-accredited. Additional constraints, set out in the appendices to the legal documentation, relate to:

- the minimum proportions of sustainable investments, *Green* and *Social;*
- the minimum share of assets aligned with environmental or social characteristics.

As with the above constraints, these ratios are monitored daily. In case of exceedance, portfolio management is alerted for resolution on D+1 in accordance with the alert and escalation procedure. Exceedances considered active are reported to the regulator on a quarterly basis.

## B. ESG risk Consolidation and Monitoring

### DEVELOPMENT AND IMPLEMENTATION OF EXCLUSION LISTS

The Risk department participates in the various sector committees – Worst Offenders, coal, controversial weapons, oil & gas – and, prior to the Worst Offenders committee meeting, ensures that alerts on *Global N*orms provided by the data provider Sustainalytics are assessed during committee meetings.
If a consensus does not emerge on the issuers assessed during Worst Offenders committee meetings, details may then be passed on to the Executive Committee for a decision. Decisions by these various committees are reflected in our risk monitoring systems, particularly via a freeze on the issuers in question:

- for open-ended funds, dedicated funds and mandates, pre-trade controls that block investments are implemented for regulatory lists and normative exclusions (Worst Offenders, controversial weapons). Post-trade controls are also applied for prohibited issuers in order to manage their exit from our portfolios when necessary;

- for open-ended funds, pre-trade controls that block investments are implemented for sector exclusions (coal, tobacco, oil & gas). Ostrum AM's sector exclusion lists are also offered to clients, who can apply them in addition to or instead of their own lists. Post-trade controls are also applied for prohibited issuers in order to manage their exit from our portfolios when necessary;

- we apply the same alert and escalation procedure used for other regulatory and contractual investment constraints to monitor and manage any exceedances.

### CALCULATION OF ESG INDICATORS AND MONITORING

The Risk department is involved in selecting data providers together with the ESG Strategy team. Once integrated, raw data are aggregated by portfolio. The Risk department then ensures that the calculation formulas are correct and properly implemented in Ostrum AM's information system. It is also responsible for implementing quality controls on these data.
As part of risk consolidation and monitoring, the Risk department uses an internal tool that provides all non-financial risks, in addition to financial risks, for the various portfolio management areas of expertise each month. Consolidated non-financial reporting covers a wide range of indicators, particularly on the following topics:

- carbon and climate alignment indicators come from data provided by Trucost: $CO_2$ emissions, $CO_2$ intensity, $CO_2$ footprint, implied temperature of the portfolios based on various climate change scenarios (1.5°C/1.75°C, 2°C and 2.7/3°C), projected climate alignment trajectory based on a 2°C warming scenario;

- coal indicators come from data from Urgewald's GCEL (Global Coal Exit List): the residual coal exposure of the portfolios is measured by electricity production from coal in GWh, the proportion of electricity generated from coal or the revenue generated by electricity production from coal;

- biodiversity risks are measured using the Corporate Biodiversity Footprint (CBF) provided by Iceberg Data Lab: biodiversity impact in MSA.km² (Mean Species Abundance per km² compared to species abundance in an undisturbed ecosystem), biodiversity intensity and biodiversity footprint in MSA.km²/MEUR.

## C. Internal ESG framework

Ostrum AM's ESG governance is structured around several specialised committees: Sector Committees, Sustainable Finance Committee, SFDR Accreditation and Classification Steering Committee and Financial Risks, ESG and Performance Committee. The main responsibilities of the latter committee are:

- risk monitoring and control, including for ESG risks;
- performance monitoring for the various portfolio management areas of expertise;
- approval of changes to the risk framework and processes, including for ESG risks.

The main ESG risk indicators for each portfolio management area of expertise and unit have been presented at its meetings since the beginning of 2022. Changes to the ESG risk framework and processes are also approved by this committee.

### PROCESS FOR IDENTIFYING, ASSESSING AND MANAGING CLIMATE RISKS WITHIN OUR OWN SCOPE

- As a reminder, in addition to those related to its investments, Ostrum AM has identified climate risks within its own scope, including transition, reputational and physical risk.
- Physical risk is monitored as a risk scenario in Ostrum AM's Business Continuity Plan (BCP). The BCP ensures rapid resumption of its critical operations on a reduced basis and includes technical and operational backup solutions adapted to each disaster scenario. This ensures that Ostrum AM's essential or important services and operational tasks can continue, if necessary on a temporary and reduced basis, and that operations can be resumed as planned. In addition to being a regulatory requirement, business continuity is a strategic and business issue for Ostrum AM and is essential for safeguarding its image in the event of a major crisis or extreme shock.
- Transition and reputational risks mainly include three risks, i.e. discrepancy between investment management and the prospectus, selling products or carrying out activities that are unauthorised, not compliant or not suited to clients' needs, and the risk of failure in portfolio management, whether in terms of ESG investments or voting policies. A risk management system ensures that first and second level procedures and controls are properly implemented.

### COMMUNICATION ON RISK MANAGEMENT

#### Communication with our clients

Beyond our ESG integration process, Ostrum AM is committed to greater transparency regarding the ESG and carbon assessment of its funds. Just as some of our clients must also disclose ESG and carbon data on their portfolios, we provide specific reports that meet transparency requirements, whether or not they are required by regulations (Article 173 of the Energy Transition for Green Growth Act, SFDR, etc.).

Clients and investors are regularly informed of how we take ESG criteria on board in the investment policy.
Pursuant to regulation, fund prospectuses and KIID indicate the SFDR classification for each fund. Additionally, fund reports incorporating financial and non-financial information for our open-ended funds are issued each month. For dedicated funds, clients can choose the frequency and type of information they require, in line with the management strategy and public commitments they have adopted, where appropriate.

#### Reports, reporting and regulation

At Ostrum AM, we strive to make all our practices transparent. Each year, we make every effort to publish not only regulatory documents but also those useful for our various stakeholders. For instance, voting and engagement policies, exclusion policies, the report on the exercise of voting rights, the responsible investment report and the CSR report are all available on our website.
We ensured that we are able to send a "light" EET (European ESG template) to our clients at the end of the first half of 2022. This report was added to throughout the year to ensure that we could deliver the "full" EET[1] (European ESG Template) to our clients starting in January 2023.

[1] European data exchange template designed to facilitate data reporting. (Source: https://www.fefundinfo.com/)

# 6. INDICATORS AND IMPROVEMENT TARGETS/MEASURES

## 6.1 INDICATORS

### THE GREaT METHODOLOGY FOR MEASURING THE RESPONSIBILITY OF OUR INVESTMENTS

The GREaT method not only takes on board environmental, social and governance (ESG) criteria, it also measures engagement, responsibility, opportunities and risks for companies.

This ESG score for private issuers is based on several pillars:

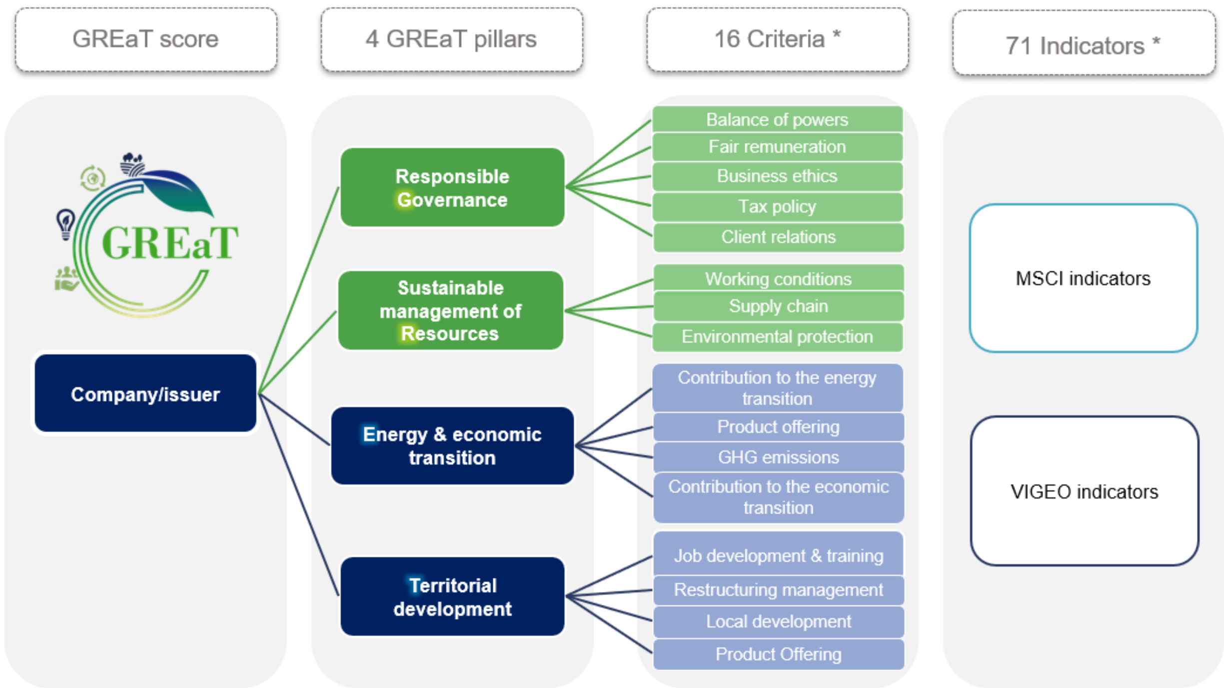
1. Responsible governance: the main purpose of this pillar is to assess the organisation and effectiveness of each issuer's governance bodies (for example, for companies this involves assessing the balance of powers, executive compensation, business ethics and tax practices).

2. Sustainable resource management: this pillar involves assessing, for example, each issuer's environmental impacts and human capital (including quality of working conditions and management of supplier relations).

3. The economic and energy transition: this pillar entails assessing, for example, each issuer's energy transition strategy (including efforts to reduce greenhouse gases and its response to long-term challenges).

4. Territorial development: this pillar involves assessing, for example, each issuer's strategy regarding access to basic services.

Investments are assessed on the basis of ESG criteria and awarded a score ranging from 1 (high ESG quality) to 10 (low ESG quality).




Source: Ostrum AM, LBPAM

Climate analysis is based on pillar E of the GREaT philosophy, which expresses the quality of the climate strategy of each issuer in the investment universe through a score of 1 to 10, with 1 being the best result. The score for this pillar has a direct impact on an issuer's GREaT score.

This score is built on two main components: climate risk management and the contribution of the product and service offering to the energy transition. This analysis draws on around 15 indicators collected from specialised ratings agencies.

Climate risk management:

- GHG emissions: this criterion is a way to assess an issuer's strategy for measuring and reducing direct and indirect GHG emissions related to its operations by defining quantified, time-bound GHG reduction targets that correspond to a scientific scenario and/or by adopting a recognised decarbonisation method, such as Science Based Targets. A company that has clearly defined these elements will have a higher score;
- holding high-carbon assets (fossil fuel reserves) and use of renewable energy in its operations.

Contribution of the product and service offering to the energy transition:

- measurement of exposure to services and solutions that contribute to the fight against climate change based on revenue and/or EBITDA (depending on the company, its sector and the products it sells).

Depending on the sector's exposure to climate-related risks and opportunities, the weighting of pillar E accounts for between at least 15% and at most 35% of the final GREaT score.

Lastly, this systematic score is a way to assess the robustness of issuers' climate strategies by taking a critical look at their operations, which makes it easier to identify companies that can turn their commitments into action to transform their business.

## OUR ESG SCORE FOR SOVEREIGN SECURITIES

For our ESG analysis of sovereign issuers, we rely on the SDG Index published by SDSN (Sustainable Development Solutions Network), a global initiative of the United Nations and Bertelsmann Stiftung.

The SDGs, or Sustainable Development Goals, are 17 goals adopted by all UN member states to guide international collaboration towards sustainable development. They are a call to action to all countries – poor, rich, and middle-income – to promote prosperity while protecting the planet. They recognise that ending poverty must go hand-in-hand with strategies to develop economic growth and address a range of social needs, including education, health, social protection and employment opportunities, while also combatting climate change and protecting the environment.

## SDG INDEX

For sovereign issuers, Ostrum AM uses the SDG Index, which consists of external data and is based on the 17 Sustainable Development Goals (SDG) defined by the UN. The SDG Index is published by SDSN (Sustainable Development Solutions Network), a global initiative of the United Nations and Bertelsmannstiftung, for sovereign issuers. The SDG Index aggregates available data for all 17 SDGs and provides an assessment of how countries are performing compared to their peers. It computes a numerical score between 0 and 100 that is available to all portfolio management teams and tracks countries' progress in achieving the 17 UN SDGs.

Its primary role is to help each country identify sustainable development priorities and implement an action plan, understand their challenges and identify gaps that must be closed in order to achieve the SDGs by 2030. The index also allows each country to compare itself to the region as a whole, or to other similar countries that have similar scores. The SDG index has developed different measurements for each SDG so as to immediately indicate a country's position on a scale of 0 to 100 from "worst" (score 0) to "best" (score 100). The report produced by the SDG Index also presents the SDG dashboards for each country assessed. Each goal is coloured green, yellow or red, indicating whether the country has already achieved the goal (green), is in a "caution lane" (yellow) or is far from achieving the goal (red).

To assess each of these objectives, the SDG index draws on official data (communicated by national governments and international organisations) and unofficial data (collected by non-governmental bodies, such as research institutes, universities, NGOs and the private sector). It should be noted that half of the official data used is from three organisations: the OECD, WHO and UNICEF. Some examples of the main indicators analysed by the SDG index are maternal mortality rates, life expectancy, people with access to basic health services, access to electricity (% of the population), people using the Internet, perception of corruption Index, etc.

# CLIMATE INDICATORS

## Total carbon emissions

Ostrum AM uses Trucost for all carbon emissions data on scopes 1 and 2 for corporates, sponsored agencies and non-guaranteed agencies in our portfolios. These data are then used to ascertain total carbon emissions.

Total carbon emissions measure absolute tonnes of $CO_2e$ (scope 1 + 2) for which Ostrum AM is responsible as an investor. If our holding in a company equates to 1% of the company's market capitalisation, then we own 1% of the company and are therefore responsible for 1% of the company's carbon emissions (tonnes of $CO_2$). By calculating the emissions for which Ostrum is "responsible" for each position in our portfolio and combining them, we can calculate the total carbon emissions of any given portfolio.

## Carbon footprint

Once carbon emissions are calculated, we can assess carbon emissions per million euros invested by dividing carbon emissions in absolute value terms by the portfolio's value, providing a standard figure for carbon emissions for every €1,000,000 invested. This measure is applied to an increasing number of portfolios and is a way for Ostrum AM to precisely compare all portfolios without taking account of their size.

## Carbon intensity

- For companies, sponsored agencies and non-guaranteed agencies

Ostrum AM uses Trucost for all carbon intensity data on scopes 1 and 2 for corporates, sponsored agencies and non-guaranteed agencies in our portfolios. At this stage, scope 3 is not included in the analysis, as recommended by the SBTi.

Once the carbon intensity is established for each issuer, the carbon intensity of each portfolio is calculated by combining the intensity for each issuer and re-weighting on the basis of each company's percentage of the portfolio.

Carbon intensity figures achieved are a way for portfolio managers to measure carbon emissions per dollar of revenues generated by these issuers in their portfolios over a given period.

- For sovereigns, guaranteed agencies, local governments and supranationals

We can also access data from Trucost sovereign for sovereigns' carbon intensity. The intensity figure is defined by the volume of $CO_2$ emitted for 1 million of GDP.

Intensity figures obtained are defined as follows:

- if the issuer is a supranational, carbon intensity is defined as the sum of the sovereign values adjusted for their weighting in the supranational's "shareholding" (capital);
- if the issuer is a guaranteed agency, carbon intensity is that of the sovereign to which the agency is linked;
- if the issuer is a local government, carbon intensity is that of the sovereign to which the local government is linked.

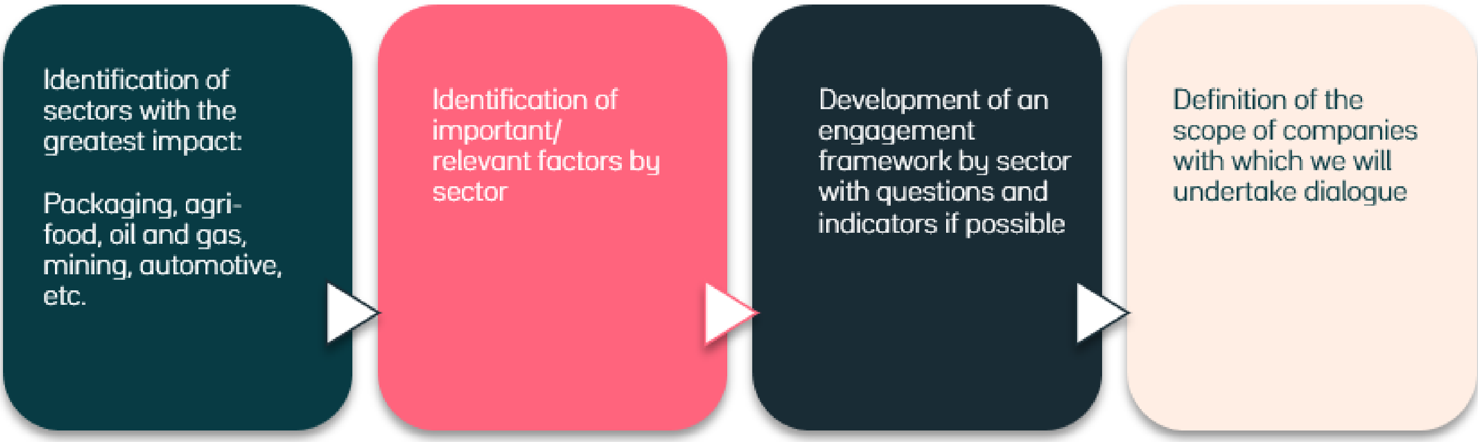
## 6.2 IMPROVEMENT TARGETS AND MEASURES

### OSTRUM AM'S GOALS AND OBJECTIVES FOR ITS INVESTMENTS

In 2022, Ostrum AM remained within reach of its clients to advise them on their ESG policies in a changing regulatory environment. We also supported them in their accreditation planning and had our first management mandate accredited. Thanks to a human and financial investment, we were able to launch projects to ensure greater transparency in reporting.

Engagement continues to be a special area of focus. We pursue our goal of being a pioneer in the financial sector by promoting engagement on ESG themes in the credit business, and we believe that our influence with issuers can impact companies' practices.

In 2023, Ostrum AM will ramp up its engagement initiatives on biodiversity by implementing the following plan:




We further enhanced our climate strategy by continuing to implement our coal exit policy. After implementing the constraints of the oil & gas policy in 2022, we will focus on rolling out our Engagement Campaign in 2023.

In 2022, we also launched our just transition bond fund. In 2023, our goal is to increase our assets under management in the sustainability bond category.

More generally, Ostrum AM aims to have more than 90% of its AuM in Article 8 funds (SFDR).

Lastly, we will bolster our work with financial market bodies and further support the financial sector's efforts to improve ESG practices.

### OSTRUM AM'S RISK GOALS AND OBJECTIVES

To further strengthen its sustainable finance policy and risk management, in 2023 the Risk department plans to add physical and transition risks, Taxonomy indicators, PAIs and exposure to fossil fuels to the non-financial control reports.
There are also plans to roll out an ESG data control process.

## OSTRUM AM'S GOALS AND OBJECTIVES FOR ITS OWN SCOPE

Beyond our investment goals, Ostrum AM strives to reduce the carbon impact of our operations by focusing on measuring, reducing and offsetting our emissions.

We have conducted an annual carbon assessment since 2009 on scopes 1, 2 and 3 of the ADEME methodology. This process has enabled us to better understand our carbon emission sources and take the necessary steps to mitigate them.

Our 2022 carbon assessment of scopes 1, 2 and 3 amounted to 2,500 tonnes of $CO_2$-eq*. Greenhouse gas emissions therefore came to 7 tonnes of $CO_2$-eq per person. Ostrum AM has been working on its office buildings, working methods and staff involvement to reduce the impact of our operations.

Though mindful that offsetting is not a climate solution in itself, we have nevertheless chosen to "offset" our emissions while also prioritising measures aimed at reducing energy use. Every year since 2016, we have offset 100% of our direct carbon emissions in partnership with EcoAct, a European leader in climate consulting.

We chose the Kyoga Cookstove project in Uganda to offset our emissions in 2022. This project entails distributing locally produced stoves to residents, which helps to reduce wood consumption and exposure to smoke from wood combustion. On the whole, it avoids the emission of 1,604,772 tonnes of co2 per year. This avoidance offset approach enables us to have a direct and immediate effect on the environment.

At the same time, Ostrum AM is launching numerous initiatives to encourage eco-friendly practices and everyday resource utilisation. These include reducing the use of plastic cups, recycling cigarette butts, reducing water and energy consumption, improving waste management through sorting, collection and recovery, and eliminating most paper.

For 2023, Ostrum AM's goal is to further reduce its carbon footprint while continuing its offsetting initiatives.

# ADDITIONAL NOTES

## Ostrum Asset Management



Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.

Ostrum Asset Management
Asset management company authorised by the French Financial Markets Authority (Autorité des Marchés Financiers, AMF) under No. GP-18000014 of 7 August 2018 – Public limited company – Paris Trade and Companies Register No. 525 192 753 – VAT: FR 93 525 192 753.
Registered office: 43, avenue Pierre Mendès-France – 75013 Paris – www.ostrum.com

Ostrum ASSET MANAGEMENT

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