

PILLAR 2

GUIDING OUR CLIENTS TOWARDS A MORE RESPONSIBLE FORM OF INVESTMENT

OUR OBJECTIVES

To help our clients incorporate corporate responsibility into their investments while ensuring their needs are met. As an asset manager, we are committed to being entirely transparent when providing support and information to our clients. We adapt their ESG policies to their dedicated funds and management mandates and keep them informed of regulatory developments. We also offer them a range of products that are able to meet precise ESG criteria.

A RESPONSIBLE AND BESPOKE RANGE OF SOLUTIONS

Each of our clients is unique. Our organisation, experts and information system therefore seek to cater precisely to the specific features of their responsible investment policies. For instance, we provide bespoke solutions for their climate strategies: carbon footprint management portfolios, specific exclusions, products geared towards the energy transition, etc.

And in an effort to take things further and provide proper guidance for our clients, we must:

- assist them in preparing their own investment policies based on their objectives and in compliance with a stringent regulatory framework;
- inform them of our own convictions and responsible investment policy, which we apply to our range of open-ended funds.



€25bn

of assets invested in green,
social and sustainability bonds¹

76%

of our AUM (i.e. €286.5bn)¹
in Article 8 funds and mandates (SFDR²)

1st labelled mandate
invested in insurance-
related assets

Launch of our first just
transition fund

¹. Source: Ostrum AM at 31/12/2022. ². SFDR: Sustainable Finance Disclosure Regulation.

ASSISTING CLIENTS WITH THEIR ESG POLICIES

Support is at the core of our approach to CSR. We therefore endeavour to inform, assist and advise our clients at each step of their ESG journey in a fully transparent manner. Our experts work with them side by side, from defining their sustainable investment policies to ensuring their compliance with regulations and publishing dedicated reporting that will add transparency to their investments.

HELPING AT EACH STAGE OF THE DECISION-MAKING PROCESS

1. Preparing ESG policies alongside our clients

All exclusion, selection, labelling and sector-based policy decisions have repercussions when it comes to making investments and reaching the portfolio management targets set. We provide our clients with the insight they need to prepare their ESG investment policies by reconciling their fiduciary duties towards their own clients with their responsibility as an investor. We join them in analysing the consequences of each of their options so that they can take informed decisions. This process involves carrying out impact studies before implementing the policy based on the key criteria selected by an institutional investor, in particular insurance companies: actuarial rate at purchase, portfolio duration, impact on investment rules, etc.

Achieving continuous improvement

Since 2021, Ostrum AM has been keen to ensure that its clients are satisfied with the ESG management support it provides. We now systematically include questions on these topics in our annual satisfaction survey. We are therefore able to fine-tune the measures we need to introduce in order to provide our clients with better support on these topics based on their feedback.

CONVICTION

"Our approach is one of continuous improvement geared towards always doing more to meet our clients' needs, catering to their investment objectives and methodologies, and assisting them at each stage of their thought process."

Angélie Reynier,
Head of Services Platform
Development and Customer
Experience



2. Assisting our clients with their SRI labelling processes

Ostrum AM has been working to speed up the labelling of its open-ended funds since 2020 and we are still actively doing so. We have thus acquired expertise that enables us to assist our clients both by providing advice and by helping them implement the labelling process. Since 2021, we have provided assistance with the labelling process for all those clients who were interested. In an effort to centre our organisation around our clients' needs, we set up in "agile" mode in 2022 with the help of a multi-disciplinary team; the aim was to continue hitting our goal by meeting 100% of our clients' labelling needs. The team includes labelling process specialists and is made up of members of our investment strategy team, particularly our ESG strategy staff, and our development teams – business strategy, customer experience and investment specialists, all of whom work closely with our clients.

3. Fulfilling the latest regulatory requirements

European Taxonomy¹, SFDR² (with the option of funds being classified as Article 8 or 9), the Energy-Climate Law³...: sustainable finance regulations are becoming increasingly stringent and continue to evolve in an effort to rise to the social and environmental challenges facing France and Europe alike.

We therefore provide our clients with the tools they need to understand and prepare for these new regulations in the investment choices they make and in the information transparency they deliver.

Ostrum AM launched an ESG reporting project in 2022 seeking to make climate and ESG data as well as the concept of "engagement" more transparent and of better quality; it focuses particularly on investment trajectories so that the impact of evolving investment decisions can be monitored over time.

2022

First label obtained
for an insurance-
related mandate

100%

of client requests
for labelling met

ALL WITH THE UTMOST TRANSPARENCY

Our clients have access to all the information on our responsible investment policy:

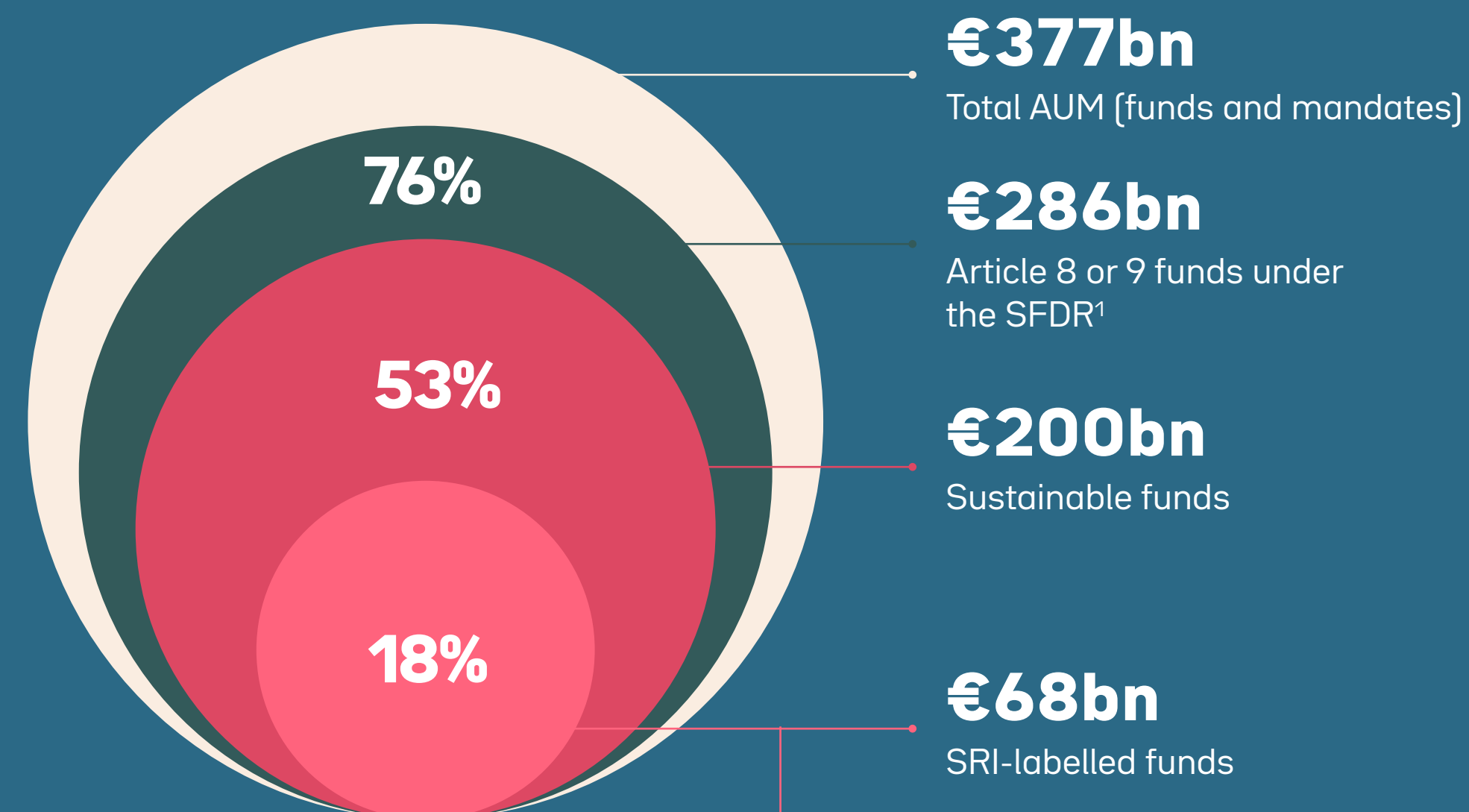
- **CSR policy**
 - Corporate social responsibility report;
 - ESG policy;
 - Sustainability report, Energy-Climate Law (Loi Energie-Climat) report;
 - Voting policy and engagement policy;
 - Voting report, engagement report;
 - Sector policies.
- **Climate risk management report**
 - TCFD report⁴;
 - Report on managing sustainability risks and adverse impacts.
- **Reporting**
 - Portfolio ESG reports.

¹. A tool for classifying activities according to whether they should be considered "green" or "sustainable". ². SFDR: Sustainable Finance Disclosure Regulation. ³. The Energy-Climate Law adopted on 8th November 2019 sets ambitious targets for France's climate and energy policy (gradual withdrawal from fossil fuels, development of renewable energies, etc.). ⁴. Task Force on Climate-related Financial Disclosures.

A LEADING RESPONSIBLE INVESTOR

€25bn

of our assets invested in green, social or sustainability bonds



€377bn

Total AUM (funds and mandates)

€286bn

Article 8 or 9 funds under the SFDR¹

€200bn

Sustainable funds

€68bn

SRI-labelled funds

98%

i.e.

of the assets held in our open-ended funds carry the SRI label

2023 GOAL

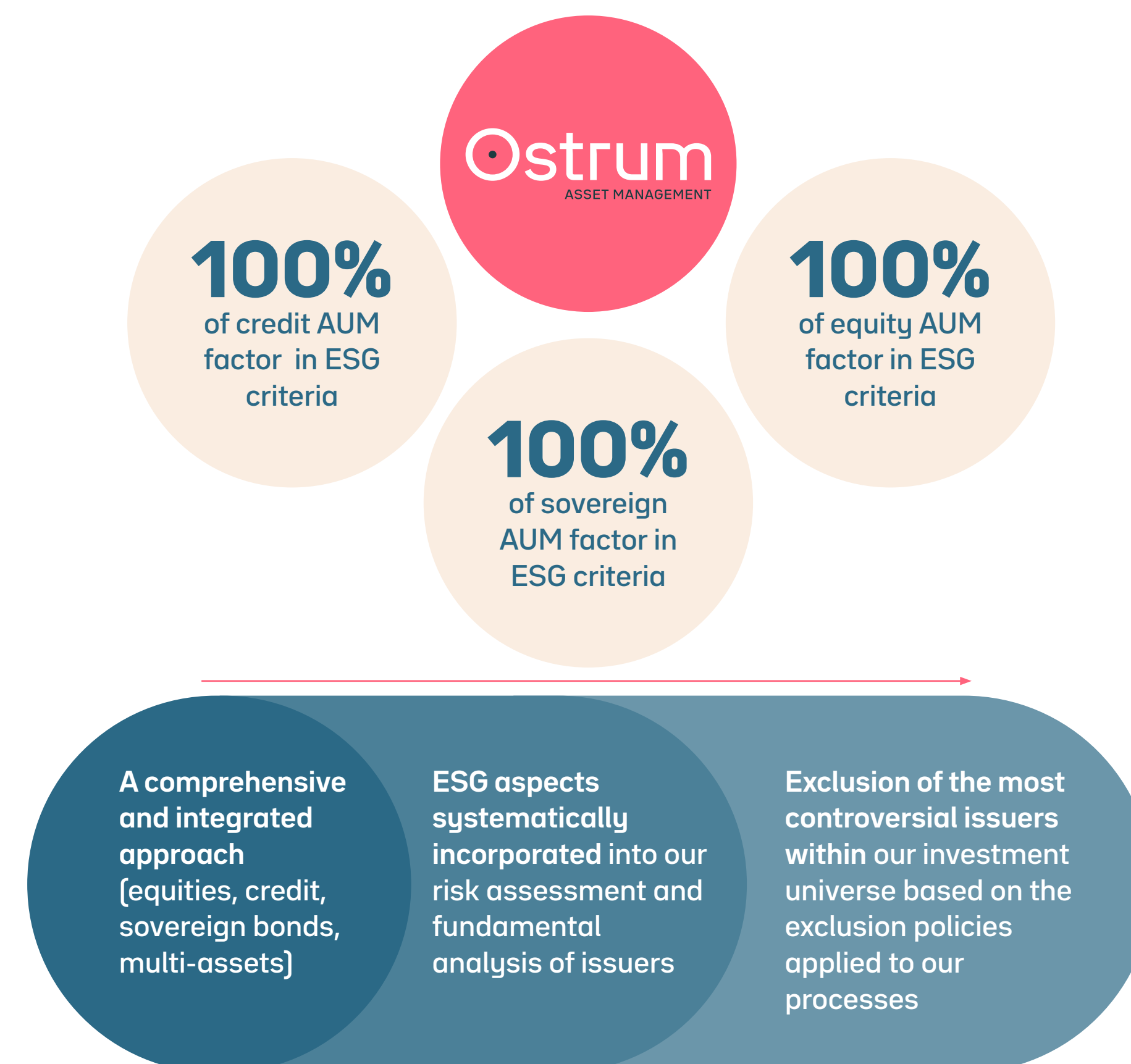
Over **90%** of AUM classified as Article 8

¹ Funds classified as Article 8 promote ESG characteristics but do not have sustainable investment as an objective. They may partially invest in assets with a sustainable objective, for example, as defined by the European Union's classification. Article 9 funds under the SFDR have sustainable investment as an objective.

ESG CRITERIA FACTORED INTO ALL OUR INVESTMENT STRATEGIES

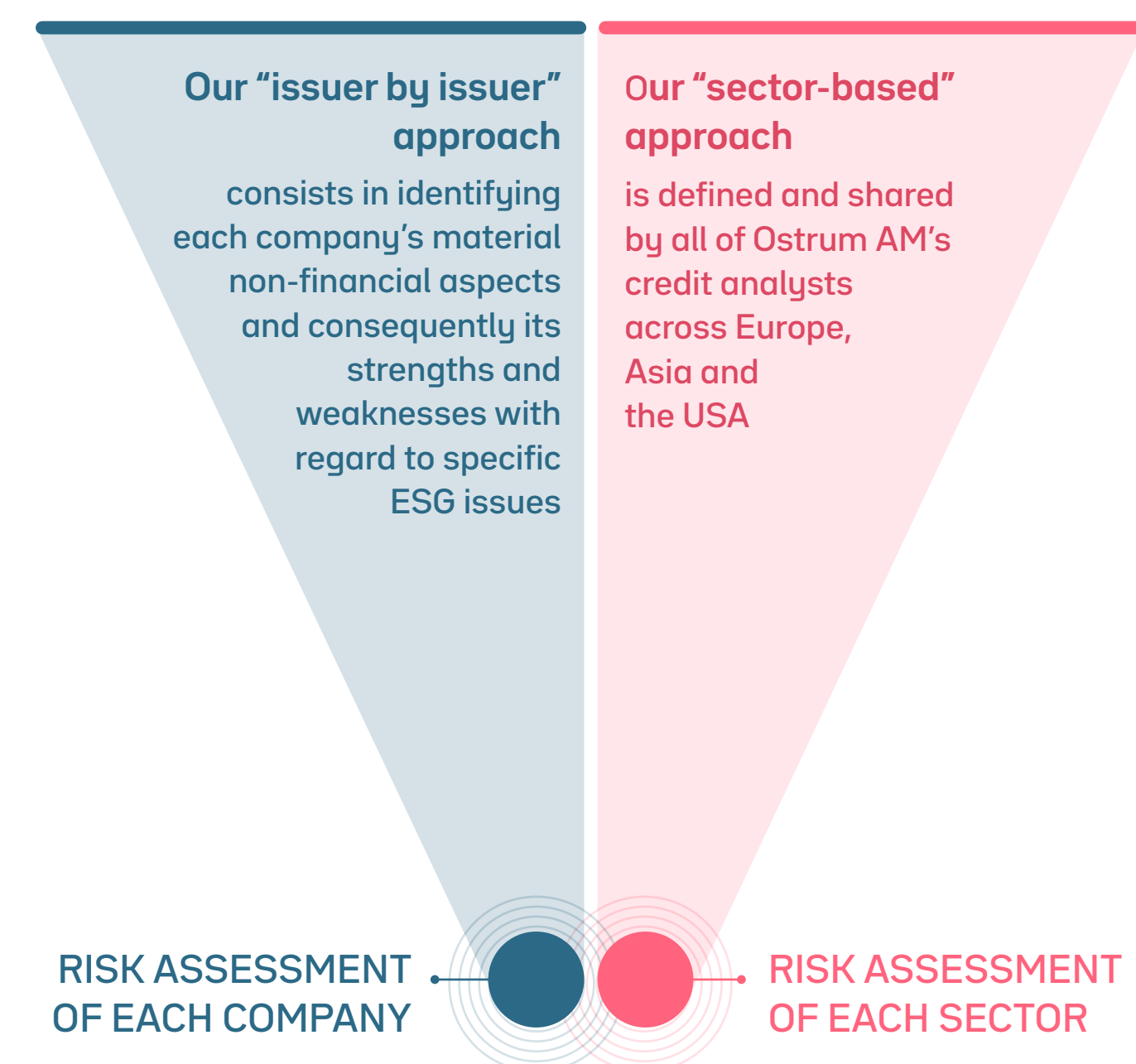
We firmly believe that material non-financial criteria provide essential information about an issuer's risk profile and about the returns delivered by its securities. We therefore incorporate ESG criteria into all our investment strategies. We offer our clients responsible investment solutions catering to all their varied needs. We work with them to develop bespoke strategies according to their ESG aspirations.

Systematic ESG analysis & a comprehensive approach



INCORPORATING ESG CRITERIA INTO CREDIT RESEARCH

Our credit research team incorporates non-financial aspects into its analyses systematically. What is the condition for doing so? They must be considered “material”, i.e. with an impact on the issuer’s credit risk. Our analysts ensure that their issuer assessments are consistent and fair by taking a dual approach, the results of which are shared and integrated into our investment management tools:



The results obtained using this methodology are quantified based on an assessment scale measuring material ESG risks and opportunities:
THE ESG MATERIALITY SCORE¹

1. SCORE: the ESG materiality score.

INCORPORATING ESG CRITERIA INTO SOVEREIGN BOND RESEARCH

Non-financial aspects are systematically factored into our sovereign bond investment processes, with each country’s risk profile assessed in two stages:

Our sovereign risk assessment model²

This is a proprietary quantitative model used to carry out medium-term assessments of developed and emerging countries:

- It covers all developed and emerging countries;
- It evaluates the probability of a change in the rating assigned by Standard & Poor’s within the next one to three years.

Our selection of sovereign bonds according to ESG criteria

Whenever E, S or G aspects might potentially have an impact on:

- the investment horizon;
 - sovereign risk;
- the Sovereign Debt Selection team³ will factor them into its investment views.

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

3. The sector team responsible for selecting sovereign bonds.

INCORPORATING ESG CRITERIA INTO EQUITY RESEARCH

When it comes to investing in equities, ESG practices are considered a guarantee of a company’s overall quality.

These aspects are discussed during contacts with the company. Ostrum AM’s equity fund management team therefore factors in ESG criteria not only to identify the risks involved in investing in a company or sector but also the opportunities.

Assessing the risks of a company or sector

- Identifying long-term trends that might disrupt certain business sectors;
- Incorporating ESG aspects into traditional financial analysis in order to increase visibility on an issuer’s quality in the longer term.

Identifying quality growth companies

- Evaluating a company’s quality, upside potential and aggregate growth based on meetings with its management;
- Incorporating ESG aspects in order to complete our assessment of the company’s quality: environmental risks (relating to the company’s products and services), social risks, governance and management.

Our fund managers will therefore not select a company if it has poor ESG credentials or faces ESG risks.

Catering to increasingly demanding ESG requirements

Certain portfolios and mandates have explicit SRI constraints. We manage these portfolios, at the client’s request, on the basis of significantly higher ESG quality standards:

- a minimum ESG quality threshold enforced for a company to be included in the investment universe;
- a portfolio ESG score that is significantly higher than that of the benchmark index or better than the ESG score of the index’s top four quintiles, in accordance with the standards set by the French government’s SRI label.

SRI STRATEGIES

CATERING TO ALL OUR CLIENTS' NEEDS

Thanks to our long-standing experience of responsible investment, we are able to offer our clients specific SRI and ESG solutions and investments across all our asset classes. We work with them to develop bespoke strategies that are closely tailored to their ESG objectives.

Besides incorporating ESG criteria when analysing its entire spectrum of asset classes, Ostrum AM has also rolled out an SRI investment strategy. Some 76% of its AUM are now classified as Article 8 or 9 according to the SFDR.



BEST-IN-CLASS AND POSITIVE SCREENING
Excluding issuers with high ESG risk profiles and favouring issuers with the best ESG ratings



BEST-IN-UNIVERSE
Favouring issuers with the best ESG credentials within the investment universe, all sectors combined



STRICTER EXCLUSION CRITERIA
Excluding issuers with the highest ESG risk profiles



SMART CARBON STRATEGIES
Suggesting portfolio decarbonisation strategies as well as carbon footprint management portfolios

ROBUST TOOLS

We make use of the following resources to apply our SRI strategies:

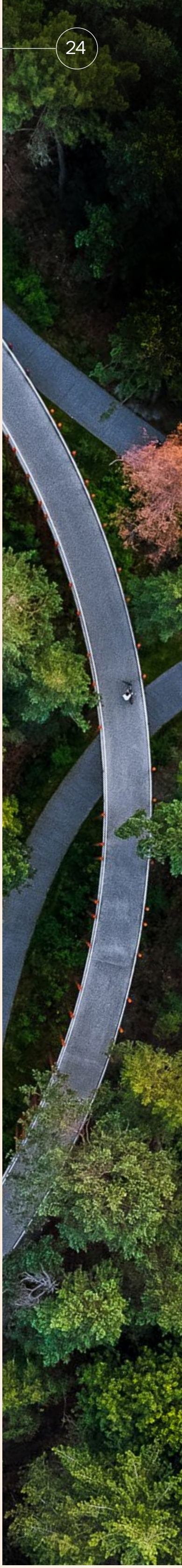
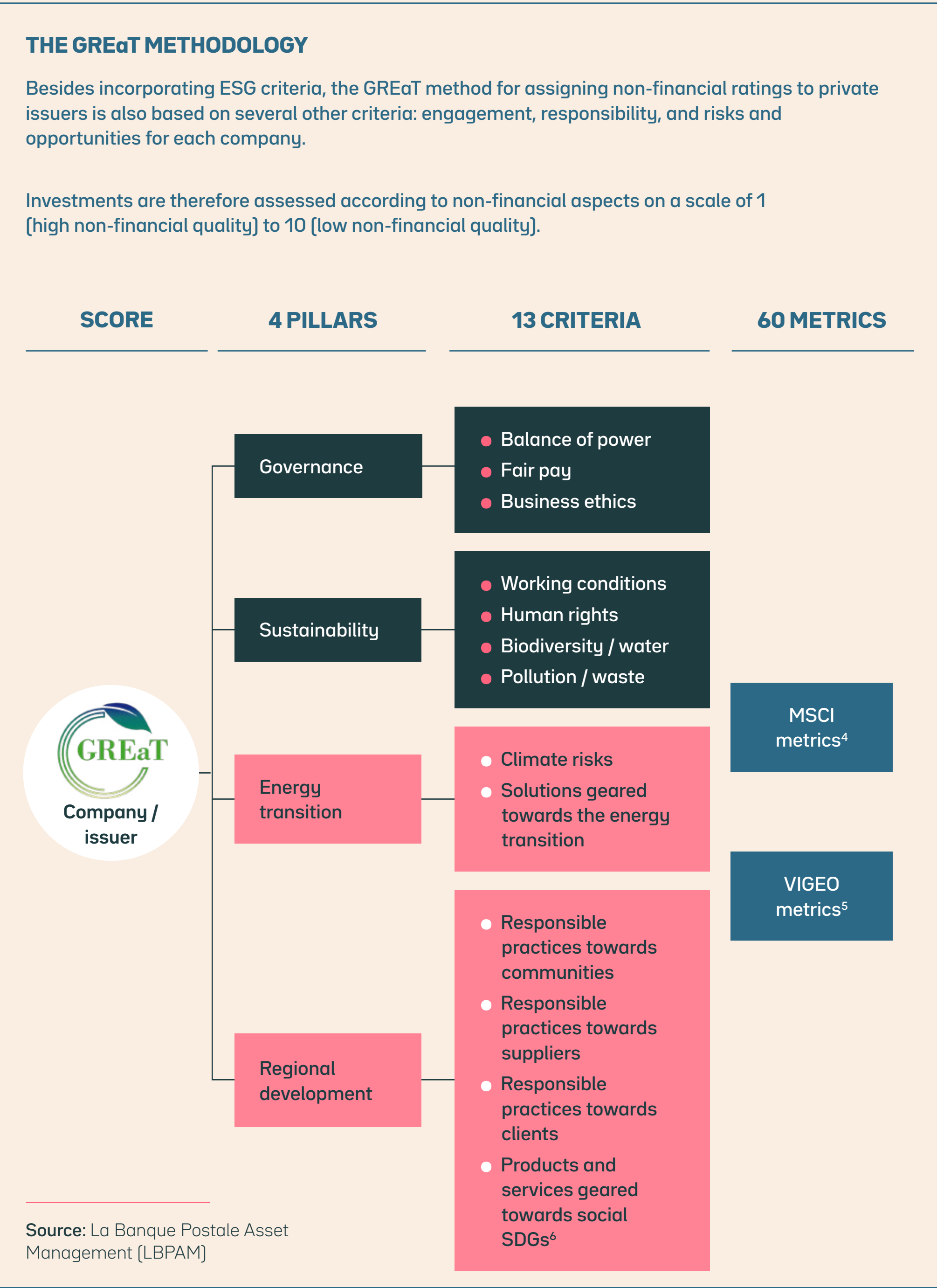
- **External databases renowned for being of high quality and covering a broad scope, including:** SDG Index for sovereign issuers, Trucost, CDP for analysing each company's carbon criteria, Vigeo for ESG indicators, Iceberg Datalab for biodiversity¹.
- **The GREaT methodology²**, which analyses companies through the prism of sustainability issues. While incorporating data of such high standards, Ostrum AM is also attentive to its clients' needs and capable of managing their portfolios according to their own analytical approaches.

LAUCH OF THE 1ST GLOBAL BOND FUND BASED ON THE JUST TRANSITION THEME

Ostrum AM firmly believes that the ecological transition will not work properly unless social issues are taken on board. Accordingly, in 2022 it launched the first bond fund spanning a "global" investment universe and centred around the just transition theme: Ostrum Global Sustainable Transition Bonds. The fund is classified as Article 9 [SFDR] and adheres to the Greenfin label directives³; it is 100% invested in international sustainable bonds and seeks to factor in the just transition when selecting both the issuers and the instruments in which it invests. Its objective is three-fold:

- 1. Reduce the carbon footprint
- 2. Promote social impact
- 3. Protect local ecosystems and economies

1. You can find the full list of our data providers at <https://www.ostrum.com/en/our-csr-and-esg-publications>. 2. A proprietary non-financial rating methodology developed by La Banque Postale Asset Management. 3. The Greenfin label aims to steer a portion of savings to the energy and ecological transition. You can find more details here: www.ecologie.gouv.fr/label-greenfin. 4. <https://www.msci.com/> 5. <https://esg.moodyys.io/> 6. SDG: Sustainable Development Goals.



AN AMBITIOUS SECTOR POLICY

Ostrum AM has defined strict exclusion policies with the aim of excluding sectors or issuers from its investment universe if they do not observe certain fundamental principles of responsibility. We promote them to our clients through a process of permanent dialogue and resort to exclusion only as a last resort.

Exclusion policies

When we need to apply strict exclusion policies, we do so on different levels and based on clearly defined themes.

- **Arms industry, blacklisted states**
All our funds;
- **Coal, oil, gas, tobacco and Worst Offenders¹**
Applicable to all our open-ended funds as well as mandates and dedicated funds, unless otherwise requested by our clients;
- **Bespoke exclusions applied specifically**
for certain clients in accordance with their objectives.

New oil and gas policy

- Ostrum AM established its new oil and gas policy in 2022, pledging to phase out activities involved in the exploration and production of unconventional and/or controversial² oil and gas by 2030.

¹. Worst Offenders: those most in breach of the rules. ². The definition of unconventional/controversial applies to those that make use of fracking processes [shale oil and gas, tight liquids and gases] or that rely on ultra deepwater drilling, Arctic drilling or the mining of tar sands, coal methane or extra-heavy oil. ³. In compliance with the recommendations issued by leading institutions based on scientific research. ⁴. More information is available in the TCDF report.

CONVICTION

"We engage in permanent dialogue with companies in an effort to encourage them to improve their practices, and we will exclude them only as a last resort."

Joséphine Chevallier,
Head of ESG integration
and ESG strategy



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 unconventional³ 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 categories⁴.

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.