Ostrum
ASSET MANAGEMENT

Enhancing your power to act

TCFD Report 2021

May 2022

Report drafted on the basis of Task Force recommendations

An affiliate of: NATIXIS INVESTMENT MANAGERS

CONTENTS

Editorial

"In keeping with the commitments taken by the Paris financial center at the 2015 COP 21, Ostrum Asset Management is committed to actively contributing to the vital fight against climate change and supporting the transition to a low-carbon economy.

We draw on our investment expertise to enhance the impact of our clients' commitments and bring meaning to their investments by developing products and services that meet their climate policies e.g. portfolios with a limited carbon impact, targeted exclusions, products that support the energy transition, etc.

In 2021, we ramped up our policy for exiting the coal industry and set out the main principles of our Oil & Gas policy, which will be rolled out in 2022.

Over the past several years, we have also supported our teams by building training programs to assist them in developing their ESG expertise.

We pursue ambitious goals for 2022, as on the one hand we seek to support our clients in implementing their own climate policies and on the other as we continue to engage with issuers, which is a key priority for us here at Ostrum AM.

This report sets out the steps we have taken to incorporate climate-related risks and opportunities into our governance, strategy, risk management and the indicators we use.

I firmly believe that the recommendations from the Task Force on Climate-Related Financial Disclosures have a strategic dimension that contributes to tackling today's climate challenges and strengthens our role as a responsible asset manager."

Philippe Setbon,

CHIEF EXECUTIVE OFFICER AT OSTRUM ASSET MANAGEMENT

Ostrum AM in a nutshell

LEADING PLAYER IN EUROPE[1]

€442 billion
in assets under management[2], including **€341 billion for insurance-related management**[2]

€581 billion
of assets administered on the Ostrum **Services platform**[2]

Solid shareholders
Groupe BPCE, the second-largest banking group in France[3], and La Banque Postale a leading European bancassurer..

DUAL OFFER: ASSET MANAGEMENT AND SERVICE PLATFORM

Extensive range of fixed-income strategies and insurance management solutions:

77 %
of our funds rated **4 or 5 stars by Morningstar**[4]

Over 100 investment professionals
including an in-house research team

Modular services platform

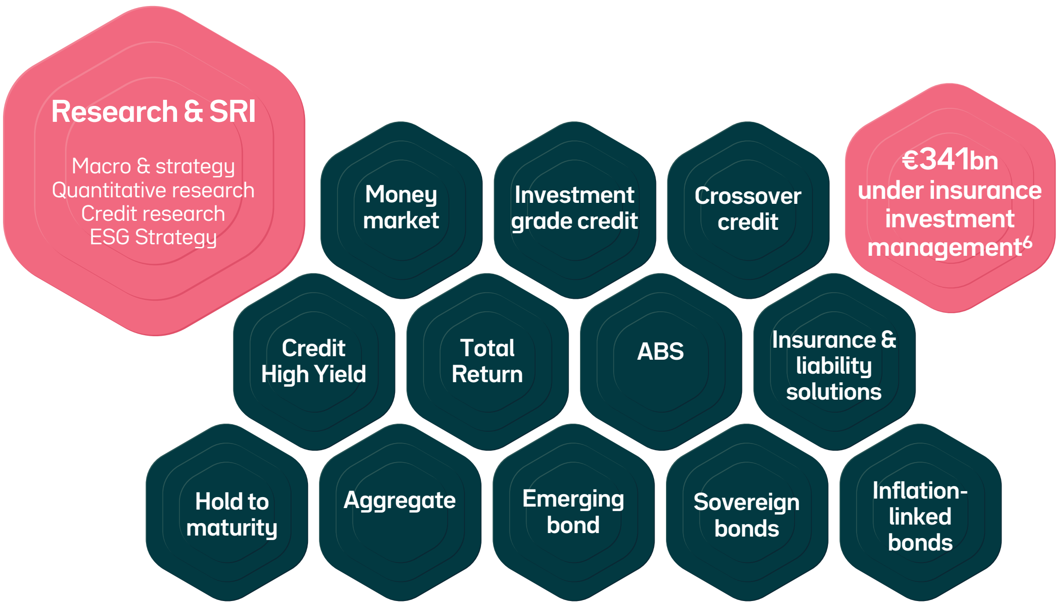
GO-TO PARTNER FOR EUROPEAN INVESTORS

+ 35 years
of trusted relationships with our clients[5]

+ 25 insurer clients
in Europe

Services platform tried-and-tested by our clients
– asset managers and share owners[5] – **for over 10 years**

EXTENSIVE RANGE OF FIXED-INCOME STRATEGIES AND INSURANCE INVESTMENT SOLUTIONS



1. IPE Top 500 Asset Managers 2021 ranked Ostrum AM 51st in its listing of the largest asset managers at 12/31/2020. References to a ranking are not a guide to the asset manager's future results. – 2. Source: Ostrum Asset Management, consolidated data as at 12/31/2021. Administered assets include Ostrum AM's assets. The services provided for a given client may concern certain services only. – 3. Source: Groupe BPCE at 02/28/2021: groupebpce.com – 4. Source Morningstar, 12/31/2021. Excluding money-market funds not included in the scope for this Morningstar rating. References to a ranking, price and/or rating do not prejudge the future results of the funds or of the management company. – 5. Through the capitalistic combination that led to the creation of Ostrum AM on October 1st 2018. – 6. Source: Ostrum AM as at 12/31/2021.

EXPERIENCED INVESTMENT TEAMS

Over 100 investment professionals

+ 58 PMs and 22 analysts & research experts[1]

Long-standing market experience and more than 35 years in insurance-related asset management

- ESG criteria integrated into each asset class
- Funds certified by the French ESG "Label ISR"[2] in all strategies

MODULAR SERVICES PLATFORM DEDICATED TO ASSET MANAGERS AND ASSET OWNERS

Enhancing the impact of our client's commitments

CLIENT EXPERIENCE	ACCESSIBILITY	SECURITY	CUSTOMIZATION
Scalable and complementary tools • Analysis and portfolio optimization • Order execution • Post trade prcessing & position holding • Reporting, Data management	**Real-time data access and processing possibilities** to perform investment simulations and reporting on aggregated assets held by the client	**Simple integration and secure value chain** Integration adapted to clients' existing tools and services	**Modular services** with open architecture, enabling clients to combine several services to meet their needs

1. Source: Ostrum AM at 12/31/2021. – 2. The "SRI Label" 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.lelabelisr.fr/en/what-sri-label/

PART 1

GOVERNANCE ON ESG & THE CLIMATE

Board of directors

Approves strategic decisions, including climate-related dimensions e.g. approving withdrawal from coal in 2020

Executive committee

- Supervises ESG and climate topics
- Approves the CSR action plan and ensures correct implementation via quarterly monitoring

Research & SRI department – ESG Strategy

Ensures alignment of portfolios with the various policies i.e. voting, engagement and sector, by development a cross-company ESG strategy

CSR & Communications department

- Ildentifies all of Ostrum AM's impacts on its stakeholders
- Defines and coordinates implementation of a CSR action plan

Risk department

Informs senior management of Ostrum AM's overall financial and operational risk management set-up

Permanent Control

- Ensures the effectiveness and consistency of the entire control, risk management and regulation set-up
- Drafts the company's annual control plan. These controls cover compliance with the SRI accreditation in particular

Equity investment management

Applies the voting policy at shareholder meetings where social, environmental and governance matters are discussed

Committees / Working groups

Sector exclusion committee

- Decide and approve exclusion lists for various sectors involved
- Analyze requests for exceptions to these lists

Worst Offenders (WO) committee

Approves work by the WO working group, which analyzes companies/ controversies when it has received alerts from portfolio management or data suppliers

CSR committee

- Ensures consistency between CSR policy and Ostrum AM's individual commitments
- Ensures correct application of ESG and climate policies in Ostrum AM's funds and mandates
- Meets every quarter

Operational Risk committee

- Steers the operational risk management set-up
- Approves the operational risk map
- Meets every quarter

Financial Risks, ESG and Performances committee

Analyzes risk indicators that are specific to each major group of financial risks. Now covers non-financial dimensions, particularly ESG and climate risks

TCFD working group

- Analyzes Ostrum AM's policy and organization in light of TCFD recommendations
- Ensures implementation of the action plan to best address the framework set by the TCFD

1.1. ESG AND CLIMATE DIMENSIONS SUPERVISED BY THE BOARD OF DIRECTORS

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. By way of example, in 2021, each board meeting included a presentation of past and forthcoming changes in our CSR and ESG policy.

COMPOSITION OF THE BOARD OF DIRECTORS

- **Tim Ryan,** 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
- **BPCE,** represented by **Sophie Debon,** Head of Products and Solutions Retail Banking & Insurance/Products & Solutions Groupe BPCE
- **Véronique Sani,** Chief Operating Officer at Natixis
- **Pierre Ernst,** General Secretary and member of the management board at LBPAM
- **Bertrand Cousin,** CEO of Corporate & Investment Banking and member of the management board at La Banque Postale
- **LBPAM Holding,** represented by **Emmanuelle Mourey**, CEO of La Banque Postale Asset Management
- **Christiane Marcellier,** Chair and Founder of JD4C Conseil
- **Sarah Russell,** Member of the Supervisory Board and Chairman of the Audit Committee of The Currency Exchange Fund NV, The Netherlands; Member of the Board of Directors, and Chairman of the Audit Committee of Nordea Bank Abp, Finland.

1.2. ESG AND CLIMATE DIMENSIONS SUPERVISED BY THE EXECUTIVE COMMITTEE

COMPOSITION OF THE EXECUTIVE COMMITTEE

- **Philippe Setbon,** Chief Executive Officer
- **Mathieu Cheula,** Deputy Chief Executive Officer
- **Guillaume Abel**, Head of Development
- **Rémi Ardaillou,** Head of Risk
- **Ibrahima Kobar**, Chief Investment Officer
- **Gaëlle Malléjac,** Head of Insurance and ALM Solutions
- **Emmanuelle Portelle,** Head of Permanent Control
- **Julien Raimbault,** Head of Operations & Technologies
- **Sylvie Soulère Guidat,** Head of Human Resources

ESG AND CLIMATE DIMENSIONS SUPERVISED BY THE EXECUTIVE COMMITTEE

Our CSR and ESG policies are advocated at the very highest level of the company by the Executive Committee, while our climate policy forms an integral component of Ostrum AM's ESG policy and our CSR strategy.

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

New policies and changes on the Climate are approved by the Executive Committee following a proposition from the Portfolio Management department.

Philippe Setbon, Chief Executive Office of Ostrum Asset Management, is also vice-chair of the French asset management association (Association française de la gestion financière or AFG), which has made sustainable finance a key priority. The organization is committed to looking at the main challenges facing the asset management industry, including sustainable finance and climate-related issues.

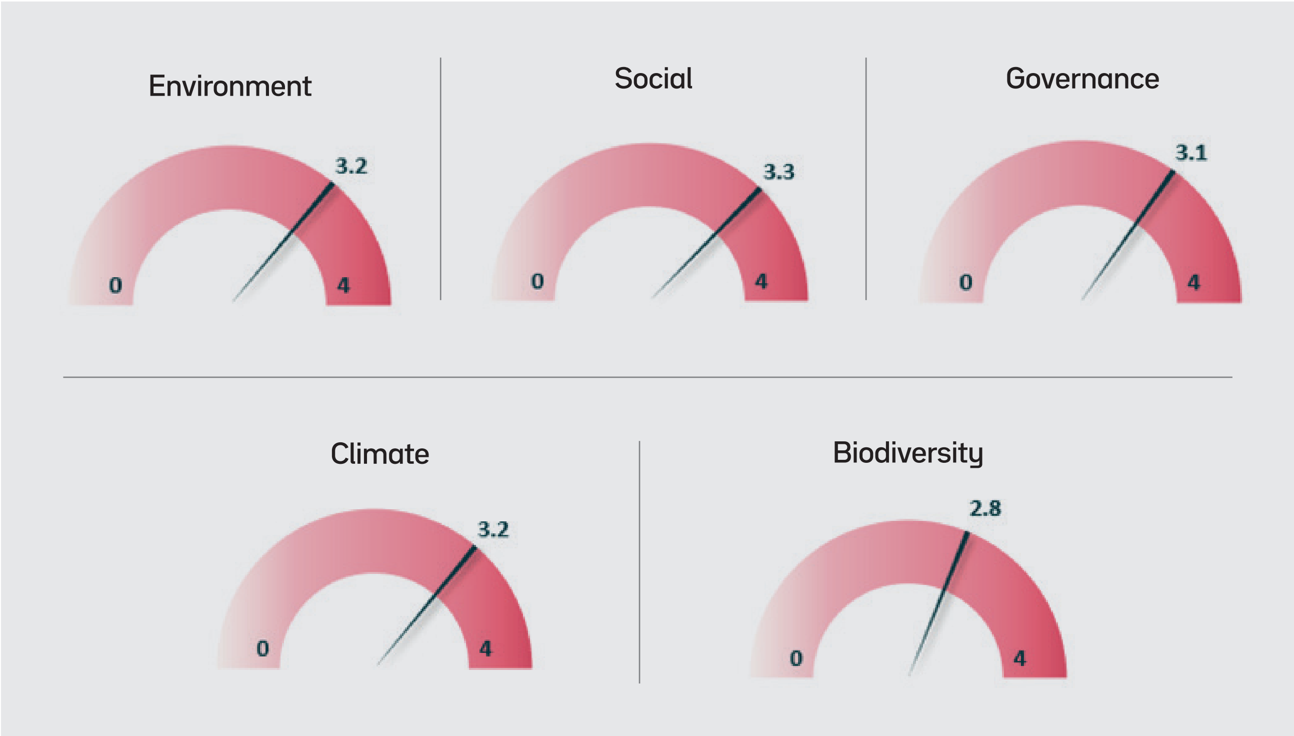
During his term as vice-chair, Philippe Setbon has taken part in a number of conferences devoted to ESG and the climate.

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

1.3. OUR BUSINESSES' ORGANIZATIONAL SET-UP ON THE CLIMATE

ORGANIZATIONAL SET-UP FOR CSR AT OSTRUM AM

The CSR division at Ostrum AM houses two FTEs[1] and is part of the broader Communications & CSR department, which reports directly to the CEO. Its role 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.

Ostrum AM's 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:

- engaging our staff;
- informing our clients;
- dialoguing with issuers;
- supporting financial market initiatives;
- having a positive impact on our ecosystem.

OSTRUM AM'S SRI ORGANIZATIONAL SET-UP

ESG – and the climate in particular – play a key role for the Research and SRI teams.

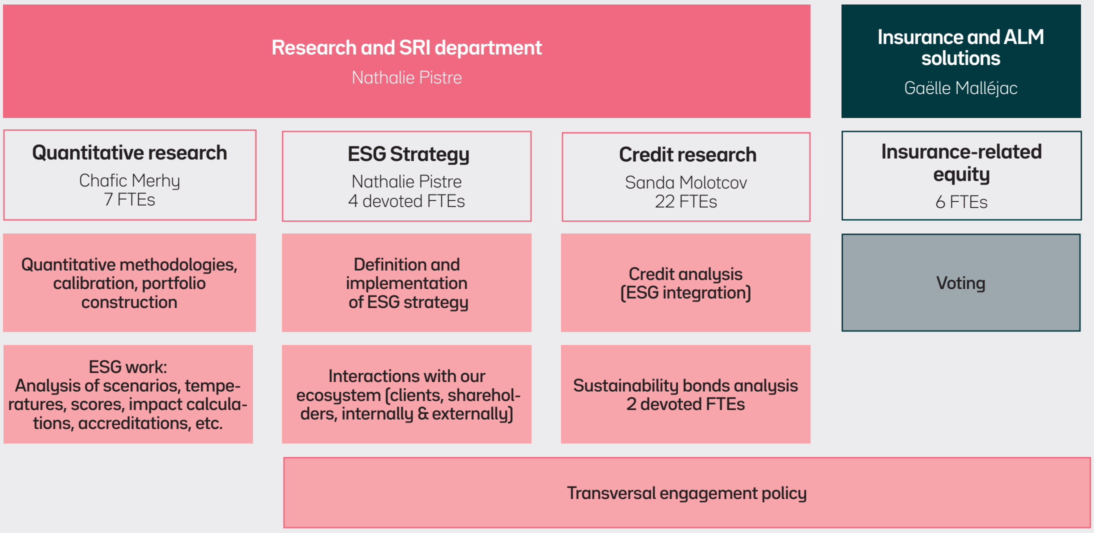
Ostrum AM is actively committed to the fight against climate change and to the transition to a low-carbon economy. One of our key priorities is to consistently develop products and solutions that address our clients' climate policies e.g. portfolios with limited carbon impact, targeted exclusions, products that support the energy transition.

The Research and SRI department is responsible for this range of initiatives – credit research with their in-depth insight into issuers, quantitative research, which 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.

1. FTE: Full-time Equivalent i.e. work performed on a full-time basis in line with legal working times.

SRI AT OSTRUM AM

The chart below outlines the duties undertaken by the Research & SRI department and its interactions with the Insurance and Liability-driven investment department on our voting and engagement policy.



The SRI and research 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. Further details on this analysis are provided in section III. Two analysts are devoted to our sustainability bonds expertise and enhance our approach on this area covering green bonds, social bonds and sustainability bonds, etc.
- **Quantitative research:** this division is in charge of quantitative methodologies, portfolio calibration and construction, as it incorporates strong ESG and climate dimensions, including analysis of scenarios, temperatures, scores, impact calculations, accreditations, etc.
- **ESG Strategy:** we decided to set up a cross-business ESG Strategy team in 2020 with a view to further bolstering our responsible investment approach, although it is crucial to bear in mind that the entire Portfolio Management department at Ostrum AM plays a key role in ESG integration. The ESG Strategy team comprises four FTEs and is particularly in charge of overseeing these subjects as well as managing all cross-company ESG requirements, and a number of other major themes.
    - The team draws on its market watch to conduct analysis and put forward proposals for ESG 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 it manages requests from regulators in particular.
    - The team has a specific focus on defining our climate policy, and conducting work while coordinating input from the various experts depending on the issue at hand. For example, the team recently put forward a new coal exclusion policy as well as key focuses for engagement that directly involve the climate (see section III), while further exclusion policies are also undergoing consideration. The team also coordinates work to align our portfolios with climate goals.

PERMANENT CONTROL

The permanent control program is built on a set-up within the Permanent Control department involving the Compliance, Internal Control and IT Systems Security and Business Continuity 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 are conducted effectively by Ostrum AM's business lines;

- regulatory and contractual engagements are met

Internal control therefore develops an annual control plan for the company, setting out control targets and guidelines on how frequently they are carried out. The following controls among others can be conducted on:

- compliance with SRI investment rules as part of the SRI accreditation criteria and their transparency with 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 Law on Energy and the Climate.

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 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.

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 organizing yearly tests.

RISK DEPARTMENT

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

1) Operational risk

The Risk department updates senior management on our operational risk management program for the company as a whole.

An operational risk map is presented and approved once per year, with the aim of qualifying and presenting areas of risk. Climate/social and environmental aspects are also incorporated into these various risks mapped.

In the current mapping, climate risks are taken on board in a cross-dimensional way and affect various risks. They therefore naturally feature in risks of "Business interruption (IT systems, buildings, staff)" in the event of flooding or storms for example, as well as via data/information to be managed/incorporated 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 the definition or implementation of 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 analyzed and monitored through to resolution and may lead to recommendations by the Operational Risk department for implementation by 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. The department's teams are involved in developing exclusion lists and issuer watch lists: they update these lists in the control systems and monitor investments and divestments in accordance with Ostrum AM's policies and our clients' requirements. They are also responsible for approving ESG and SRI criteria in the management process, approving indicator calculation formulae, implementing second-level controls and monitoring compliance with investment constraints. Lastly, the Risk department takes part in due diligence on the selection of data providers, and helps define and roll out our inhouse framework for ESG risks. Non-financial risks are now incorporated in the Financial Risk and Performances committee, which is now known as the Financial Risk, ESG and Performances committee, where quorum includes a representative from ESG Research.

1.4. COMMITTEES AND WORKING GROUPS ON THE CLIMATE

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

- Sector committees;
- Worst Offenders committee;
- TCFD working group;
- Sustainable Finance committee;
- Financial risk, ESG and Performances committee;
- Operational Risk committee;
- ESG ONE

SECTOR COMMITTEES

These committees cover our sector policies, such as coal, weapons, tobacco and our oil & gas policy, which will be 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.

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.

WORST OFFENDERS COMMITTEE

Ostrum AM has developed an inhouse process and set up a Worst Offenders working group, in addition to a Worst Offenders committee. The Worst Offenders working group comprises representatives from credit analysis, Portfolio Management and the ESG Strategy department. It is tasked with analyzing 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.

The Worst Offenders committee comprises 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 Permanent Control department.

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

TCFD WORKING GROUP

The TCFD working group includes the Head of Research & SRI, her transversal ESG Strategy team, the Head of CSR, as well as a representative from the Risk department. It is tasked with analyzing Ostrum AM's policies and organization in light of the recommendations from the TCFD, and setting out the situation in a formal report. It is also in charge of launching initiatives to best address the reference framework set by the TCFD.

his group was set up in 2020 and meets six times per year.

CSR/SUSTAINABLE FINANCE COMMITTEE

The CSR committee became the Sustainable Finance committee in 2021. Its main roles are to ensure consistency between the CSR Corporate strategy and the way it is applied in our investment policies, pre-emptively identify CSR and ESG topics, prioritize and monitor CSR and ESG projects and share both guidelines and priorities with as many in the company as possible. This committee takes place on a quarterly basis and comprises business line heads from the Portfolio Management and Development departments' teams, HR, Risk and Compliance, IT, Communications and CSR. It is chaired by the CEO.

FINANCIAL RISK, ESG AND PERFORMANCES COMMITTEE

The Risk department updates senior management on our operational 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 overruns or anomalies observed over the period.

This committee now also covers non-financial dimensions, and aims to measure, consolidate and manage our ESG risks, particularly from a climate standpoint.

OPERATIONAL RISK COMMITTEE

The Operational Risk committee updates senior management on our operational risk management set-up for the company as a whole on a quarterly basis. It comprises members of the Executive Committee, heads of the various departments at Ostrum Asset Management and the Head of IT Systems Security.

It is led by the Head of Operational Risk and is designed 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.

ESG ONE COMMITTEE

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 prioritize and coordinate the various elements required to roll out Ostrum AM's ambitions on sustainable finance. This committee has a cross-company role and as such it brings together representatives of the main business lines and meets every other week. It provides regular updates to the Executive Committee and organizes ad hoc working groups, depending on its objectives. In 2021, a group devoted to climate risks and another on climate data were organized.

1.5. STAFF INCENTIVES AND AWARENESS

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 ESG training courses to all our staff in 2020, we decided to focus on biodiversity in 2021, and therefore rolled out two biodiversity modules:

1. **Mandatory training to introduce all our staff to the challenges of** biodiversity and natural capital for an asset manager to provide them with a shared foundation of knowledge and ensure a united approach to this topic:
   - understand the economic and financial impacts of loss of biodiversity;
   - understand the implications of these impacts for portfolios.
2. **A mandatory training course for all our portfolio managers and analysts,** as well as some of our risk and permanent control experts, product specialists and key account managers to gain further insight into both concepts and tools for assessing our biodiversity footprint:
   - identify best practices, measurement tools and investment risks and opportunities;
   - develop the resources to take a credible strategic approach on portfolios.

2019

- 19 PMs and analysts took PRI training (levels 1 and 2)

2020

- Training course on **ESG challenges and competitive and regulatory context**
  100% of staff
- Training course on **responsible investment and Ostrum's vision**
  100% of PMs, analysts and the Customer Experience department
- 4 training sessions on **exclusion policies, ESG integration (equities + credit research), collaborative engagement**
  Product specialists and analysts
- 1 meeting on the **Taxonomy**
  PMs, analysts and product specialists

2021

- Training course on **Challenges and regulatory context for biodiversity**
  100% of staff
- Training course on **ESG and biodiversity**
  100% of PMs and analysts
- Awareness session initiated by the Research & SRI department on **various themes**
  Mainly PMs, analysts and product specialists

INCENTIVES

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

A number of goals set out in our CSR action plan were sponsored by members of the Executive Committee and were included in their own personal goals and used for performance-related compensation.

We ascertained 21 areas for consideration as we defined CSR performance indicators on the basis of Ostrum AM's five key priorities:

- engaging our staff;
- informing our clients
- dialoguing with issuers;
- supporting financial market initiatives;
- making a positive impact on our ecosystem.

Achieving these goals represents 7.5% 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 on board when reviewing portfolio managers and analysts, depending on their department.

The criteria for equity analysts and portfolio managers are:

- the number of companies analyzed 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 and gas, etc.

The criteria for portfolio managers are:

- the success of fund accreditations depending on the schedule;
- the ability to develop portfolios and shift to article 8;
- the integration of investors' ESG policies for dedicated funds i.e. scores/exclusions etc.

In 2022, these various aspects will be tracked and taken on board in scores allocated to portfolio managers/analysts and used to ascertain their performance-related compensation.

1.6. TECHNICAL EXTERNAL RESOURCES

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

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

Our teams that cover climate aspects use data from the GCEL (Global Coal Exit List) for our sector policies with a climate dimension to ascertain which companies to exclude from our investments on the basis of our coal policy. Similarly, teams will base oil and gas approaches on data from the GOGEL (Global Oil & Gas Exit List) with a view to applying our future policy for the sector.

In addition to the information provided by Trucost that we mention above, we also rely on other data providers for climate indicators – MSCI and Vigeo – with certain of their indicators taken on board in the energy transition component of our ESG scoring model, GREaT[1].

Teams in charge of climate integration also sometimes look at data from external sources to round out their research, such as Climate Action 100+, Carbon Tracker and the Science Based Targets Initiative.

1. The GREaT non-financial scoring method relies on four dimensions: responsible governance, sustainable management of natural and human resources, energy transition, territories' development

The main external data sources we use are outlined in the table below.

SUPPLIER	SCOPE	DESCRIPTION
ISS OEKOM (https://www.issgovernance.com/library/iss-oekom_sustainability_solutions_assessment/)	Voting	▪ Provides voting platform (platform to submit votes to account holders); ▪ Analyzes and expresses most appropriate voting recommendations based on the voting policy designed and communicated by Ostrum AM; ▪ If no voting indications are provided by Ostrum AM, ISS exercises voting based on its best interpretation of Ostrum AM's voting policy; ▪ Sends votes to account holders.
SDG INDEX (https://www.sdgindex.org/)	Sovereign – ESG	▪ Scoring of ESG criteria based on achievement of states' sustainable development goals. Scoring is also used for Supranationals and Agencies.
TRUCOST (https://www.sdgindex.org/)	Corporate – CO_2	▪ Analyzes CO_2 criteria for corporates and sovereigns/issuers.
	Corporate - 2DA	▪ Analyzes company values based on climate change scenarios (1.5°C, 2°C, etc.) to assess if aligned on Paris Agreement.
	Corporate – green, social and sustainability-linked bonds	▪ Evaluation of green/social/sustainability aspect of bond issued by a corporate and flag enhanced by a number of pieces of data on the green bond and its issuer.
CDP (https://www.cdp.net/en)	Corporate – CO_2	▪ Provides CO_2 emissions reported by companies. ESG Research uses this data provider for certain clients, to assess the most impactful issuers in portfolios and calculate carbon footprints.
SUSTAINALYTICS (https://www.sustainalytics.com/)	Corporate – ESG Worst Offenders exclusion	▪ Provides alerts and related analysis for issuers that have breached international standards (covering the UN Global Compact, OECD Guidelines, ILO Guidelines). These data are used by ESG Strategy in assessing the exclusion of issuers involved in serious controversies – Worst Offenders – to support our clients.
BLOOMBERG (https://www.bloomberg.com/professional/solution/sustainable-finance/)	Green bonds flag	▪ Provides information to approve the bond's green, social or sustainability profile. This information can be used by ESSG Strategy to assess the proportion of these types of bonds in the portfolio.
URGEWALD Global Coal Exit List (GCEL) & Global O&G Exit List (https://www.coalexit.org/ & https://gogel.org/)	Corporate	▪ Provides a list of companies involved in the coal value chain (GCEL) and the oil and gas chain (GOGEL). These lists are used to assess issuers in both sectors and are also used as a basis for developing and drafting our sector policies and our exclusion list.
MSCI (https://www.msci.com/)	ESG indicators	▪ Provides ESG indicators some of which are underlyings for the GREaT score. This provider also offers qualitative ESG analysis on issuers, which can be used by research.
VIGEO (https://vigeo-eiris.com/)	ESG indicators	▪ Provides ESG indicators some of which are underlyings for the GREaT score. This provider also offers qualitative ESG analysis on issuers, which can be used by research.
Climate Action 100+ (https://www.climateaction100.org/)	Corporate – CO_2	▪ Provides data used by credit research to monitor progress by the highest-emitting companies on their climate pledges.
Science Based Target initiative (SBTi) (https://sciencebasedtargets.org/)	Corporate – 2DA	▪ Provides the names of companies that have set out science-based climate targets. This database is renowned in the sector and is used by research for issuer analysis.
Carbon tracker (https://carbontracker.org/?lang=fr)	Corporate – CO_2	▪ Provides data on capex alignment with climate scenarios for issuers in the oil, gas and electricity sectors and public services.

1.7. CONTRIBUTION TO DEFINING STANDARDS AND AWARDS

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 responsible investment practices and introducing standards for them.

In 2021, Ostrum AM was a signatory to:

PRI Principles for Responsible Investment www.unpri.org	Ostrum AM has been a signatory to the six Principles for Responsible Investment since 2008, which seek to promote responsible investment practices internationally. Signatory organizations must complete an annual questionnaire on their responsible investment practices and publish a follow-up report.
CDP www.cdp.net/fr	CDP is a not-for-profit charity, formerly known as the Carbon Disclosure Project until end 2012, that runs one of the largest global disclosure systems for investors, companies, cities, states and regions to manage their environmental impacts. It focuses investors, companies and cities on taking urgent action to build a truly sustainable economy by measuring and understanding their environmental impact. Ostrum 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 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 bn. Ostrum is an active 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. The IIGCC has a central role in executing world investor initiatives and works closely with other investor networks.
FIR FORUM POUR L'INVESTISSEMENT RESPONSABLE 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. Ostrum AM has been directly involved in the FIR since 2019.
United Nations Global Compact 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, labor, environment and anti-corruption and take actions that advance societal goals. Ostrum supported this initiative in 2019 via Natixis, which is a signatory to the compact
EFAMA www.efama.org/about/SitePages/Home.aspx	EFAMA is the voice of the European investment management industry and represents 28 member associations, 59 corporate members and 22 associate members. Ostrum is a member of the Stewardship, Market Integrity & ESG Investment standing committee. Ostrum AM is also involved in working groups on responsible investment and corporate governance.
afg association française de la gestion financière	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 devoted committee, of which Ostrum is a member. Philippe Setbon, CEO of Ostrum, is also vice-chairman of the *Association Française de la Gestion Financière*, while Nathalie Pistre, Head of Research and SRI, was appointed to the Sustainable Finance commission in 2021.
ICMA International Capital Market Association	The International Capital Market Association ("ICMA") is an international body 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. 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.
The Green Bond Principles The Social Bond Principles	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 appointed member of the Advisory Council of the Green Bond Principles and Social Bond Principles of ICMA.
TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES	The Task Force on Climate-related Financial Disclosures (TCFD) is a working group that aims to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change. Since 2020, Ostrum AM has issued a TCFD report to disclose the integration of climate risks into our overall strategy.

Ostrum AM plays an active role in developing the responsible investment standards of the future across various industry groups and bodies and at a European level, supporting the promotion of CSR and ESG aspects and practices, particularly on the climate.

Ostrum AM is a member of the Association Française de Gestion Financière (AFG) Responsible Investment Committee and was involved in two AFG working groups in 2021 on developing guides on the Oil & Gas sector and on the application of Article 29 of the French law on Energy and the Climate.

We are also involved in work by the French Social Investment Forum (Forum pour l'Investissement Responsable or FIR)[1], which seeks to promote and develop responsible investment and best practices.

Ostrum AM is also actively involved in the ICMA – International Capital Market Association[2] – and is a member of several bodies and working groups:

- Advisory Council of the Green Bond Principles and Social Bond Principles Executive Committee;
- Social Bonds;
- Climate Transition Finance;
- Sustainability-Linked Bonds.

Ostrum AM is involved in the following working subgroups in the ICMA's Task Force on Sustainable Financial Products:

- Green CPs ;
- Green securitization ;
- Covered bonds ;
- Green repo.

In 2021, Ostrum AM took its responsible approach further as we joined the Coalition for a Just Transition[3] launched in June 2021 by Finance For Tomorrow. 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.

Ostrum Asset Management is also involved in various events on matters of responsible finance in general as well as more specific themes, such as the taxonomy and biodiversity.

We also collaborate with financial market bodies and other asset managers by getting involved in initiatives to encourage issuers and corporations to improve any inadequate practices on the climate, environmental, social and governance dimensions (see section III for more detail on engagements).

PARTICIPATION IN ROUND TABLES

Ostrum AM was involved in various ESG round tables and events in 2021 with a view to sharing our practices and convictions i.e. *Forum de l'Assurance,* ESG & Impact Investing Forum, round table for *l'AGEFI Hebdo*, BFM program, *l'Argus de l'Assurance*. We also published a range of opinion pieces.

We drew on the COP 26 event to raise awareness on the climate with various audiences via a range of media i.e. opinion pieces combining various experts' views, newsletter on the COP 26 event, videos on social media and talks on BFM.

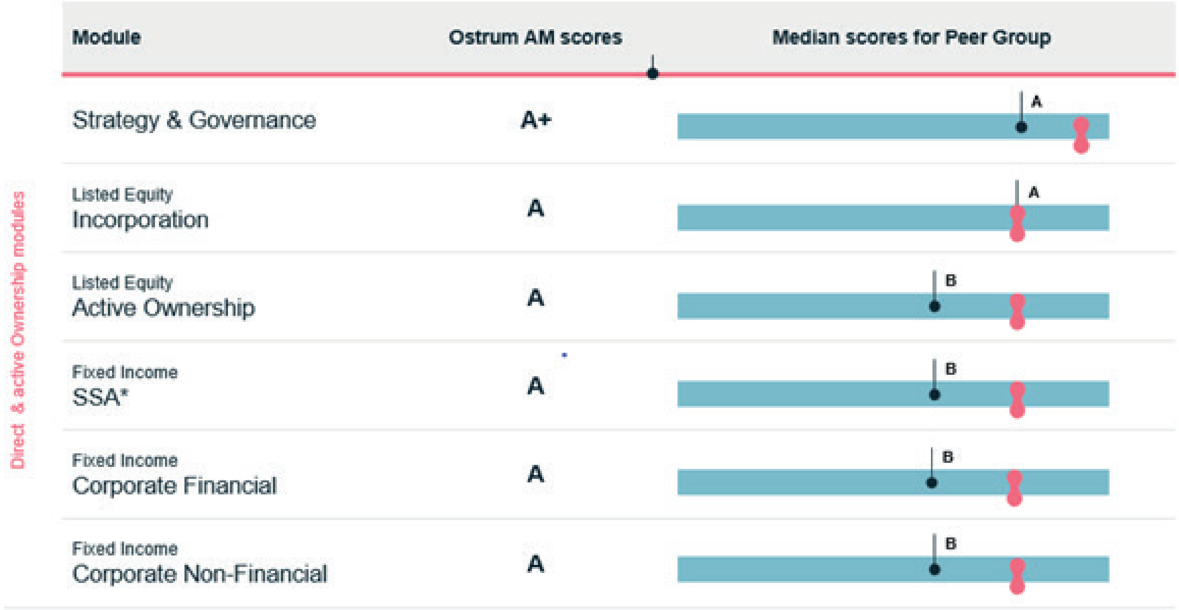
AWARDS AND RANKINGS

▪ Principles for Responsible Investment

PRI | Principles for Responsible Investment

Ostrum AM has been a signatory to the Principles for Responsible Investment (PRI)[4] since 2008. The company was once again lauded for the quality and ambition of our approach to responsible investment on this 12th anniversary of our commitment, receiving an A+ rating for strategy and governance, as well as A ratings all asset classes under management (see details below) for all modules where we are assessed. At this stage, the 2021 assessment has not yet been published.

1. https://www.frenchsif.org/isr-esg/ - 2. https://www.icmagroup.org/ - 3. https://financefortomorrow.com/transition-juste/ - 4. The rating scale ranges from A+ (highest) to E (lowest). Following a detailed reporting exercise, the Principles for Responsible Investment award a score based on the 6-level scale for each applicable module and the peer group median is also announced to provide some context for results from a relative standpoint. 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.



Source: Ostrum Asset Management's 2020 PRI assessment report
* SSA: Supranational, Sovereign, Agencies, subnational entities

Reclaim Finance

Ostrum AM was applauded by Reclaim Finance[1] for the quality of the new principles set out for our forthcoming Oil & Gas policy. We also achieved very strong scores in the Coal Policy Tool.

Reclaim Finance highlighted the relevant nature of measures announced in terms of exclusion as well as dialogue and engagement.

France	Asset Manager	Natixis - NIM - Ostrum
Projects		NA
Developers		9
Relative threshold		10
Absolute threshold		10
Exit strategy		10

1. https://reclaimfinance.org/site/

PART 2

STRATEGY: CLIMATE-RELATED RISKS AND OPPORTUNITIES WE HAVE IDENTIFIED AND THEIR IMPACTS

Over recent years, Ostrum Asset Management has made the identification of climate risks and opportunities one of its main priorities. Risk and Portfolio Management departments increasingly take on board these risks and opportunities in their work, as we develop a comprehensive view that focuses on physical and transition risks both for the companies we invest in and in our own operations. This can cover reputation, legal and regulatory, operational, strategic and market risks.

In 2022, we will take this approach much further as we draw on input from a data provider to pinpoint the physical and transition risks for the issuers that we invest in.

2.1. CLIMATE RISKS AND OPPORTUNITIES WE HAVE IDENTIFIED

We have carried out an extensive analysis of each sector to clearly identify all risks that may have a material impact, thereby covering all businesses in the companies that we have invested in (this process is explained in detail in the next section). This extensive analysis offers an overview of short-term risks, which are more visible as they affect our investments in the immediate future, while also pre-empting any medium- and long-term risks, which are sometimes more challenging to grasp.

Risks identified can be grouped into two categories: **transition risks** and **physical risks.**

TRANSITION RISKS

"Transition risks are the uncertain financial impacts (positive and negative) that result from the effects of setting up a low-carbon economic model on economic actors. Transition risks are characterized by a "radical" uncertainty on the nature of the low-carbon pathway (i.e. the pathway for reducing greenhouse gas emissions, which restructures the economy) and a more "usual" uncertainty on the methods for implementing this pathway in economic and social terms."[1]

Transition risks cover all impacts resulting from the transition to a low greenhouse gas economy. The Paris Agreement along with several carbon net zero goals encourage economic stakeholders to put forward reliable and high-performance transition paths. However, this transition involves risks and opportunities for companies.

PHYSICAL RISKS

"Physical risks are the uncertain financial impacts (change in average temperatures and rainfall, increase in frequency and severity of extreme climate events, etc.) that result from the effects of climate change on economic actors and on asset portfolios".[2]

There are two types of physical risks:

- **Acute physical risks**

Acute physical risks cover extreme weather phenomena, such as cyclones and floods that are aggravated by climate change. These acute risks are particularly dangerous in that they are difficult to project and truly anticipate. Unlike chronic physical risks that develop slowly over time, acute physical risks are damaging as a result of their intensity over a short period of time. It is therefore important for all organizations to map these weather phenomena, as their frequency and extent constantly continue to increase.

These phenomena can also have serious consequences on a company's business model. For example, damage to buildings can affect the operating cycle, preventing employees from working safely. As a consequence, companies must be able to swiftly mobilize significant budgets to spend on renovation.

Physical risks can therefore lead to interruptions in supply chains and affect production and sales, potentially

1. Definition by I4CE: https://www.i4ce.org/download/three-notes-on-the-management-of-climaterelated-risks-by-financial-actors/ 2.. Definition by I4CE: https://www.i4ce.org/download/three-notes-on-the-management-of-climaterelated-risks-by-financial-actors/

leading to penalties resulting from delays and thereby increasing the entity's financial risks.

- **Chronic physical risks**

Chronic physical risks are the effects of longer-term shifts in climate patterns, as well as rising temperatures, including rising sea and ocean levels, changes in rainfall (risk of water stress or floods), as well as cold and heat waves. The impacts of chronic physical risks will be increasingly visible as time goes on.

By way of example, companies and factories located in coastal areas can come under direct threat from rising sea levels, while electricity-generating companies are threatened by changing rainfall. The development of new areas of water stress also leads to a significant impact on operating costs in sectors that use high quantities of water, i.e. companies that generate hydraulic electricity and nuclear stations that require water for cooling purposes.

Ostrum AM has identified several major types of risks and opportunities on our businesses, both physical and transition i.e. regulatory, legal, risk related to market change, reputational, operational and strategic risk.

Regulatory risks and opportunities

Ostrum AM pays particularly close attention to **regulatory risks and opportunities,** which can have hefty short-term effects both for they companies we invest in and for our own operations.

Companies are exposed to a range of regulation related to carbon, energy and climate change, depending on their business sector and the regions where they operate. These are particularly major risks for the largest greenhouse gas-emitting sectors. European companies have been subject to the EU Emissions Trading System (ETS) since 2005. Meanwhile other types of carbon markets and taxes are also in place in Asia, Canada and some states of the United States. The quota/tax system has failed to prove its worth in the current environment as a result of excessively low prices. However, with CO_2 emission regulation expected to become more stringent, companies are taking a proactive approach to reducing their carbon footprint, with some beginning to stage their own internal carbon pricing i.e. setting a value on their own greenhouse gas emissions. Other legislation is regularly voted into force as a result of countries' pledges to reduce their CO_2 emissions.

It is interesting to look at the example of two sectors that emit particularly high levels of greenhouse gases.

- For oil and gas companies, the increase in carbon prices can significantly affect their accounts as a result of the drastic surge in costs. The environmental risks caused by accidents are still monitored, but carbon emissions and the energy transition are growing priorities for oil and gas companies, as well as their stakeholders. Since December 2019 and the first announcements by Repsol, European oil majors (Repsol, BP, Eni, Shell, Total) have stepped up their pledges to reduce their carbon footprint and align their businesses with the Paris agreement.

- In the automotive sector, Euro 6 regulation now curbs CO_2 emissions to 95 gr/km, and companies that fail to comply with this regulation are subject to very hefty fines that can amount to several hundred million euros for some carmakers.

However, this regulation is also a source of opportunity for these sectors.

- Oil and gas companies must demonstrate the resilience of their operations in a low-carbon world and demonstrate how they take climate considerations on board in their strategies. The transition to greener and renewable energies therefore harbors substantial commercial opportunities for these companies. However, this change in the energy mix may be a substantial market opportunity for this sector, but it will require major initial investment to stage this transition.

- Car parts makers can also benefit from regulatory changes. Growth in sales of SUV, along with the development of hybrid and electric vehicles have considerably fueled the diversity of automotive parts, which means parts makers can broaden their range of products and widen their margins on some new components.

As a company, Ostrum AM must also comply with all climate-related regulation, otherwise it could suffer drawbacks.

Legal risks and opportunities

Legal risks are also taken on board and are set to become increasingly crucial as climate awareness grows.

For example, several NGOs (including Notre Affaire à *Tous, la Fondation pour la Nature et l'Homme* (FNH), Oxfam France and Greenpeace France) supported by more than 2.3 million citizens in 2019 took the French state to court for failing to address the climate crisis and comply with its international, European and French commitments.

On February 3, 2021, the administrative tribunal of Paris handed down its ruling in the affair of the century, recognizing the French state's responsibility in the climate crisis. It ruled that the country's failure to comply with pledges to reduce greenhouse gases was illegal and declared that it was responsible for ecological damage. With this ruling, the court recognized the existence of ecological damage caused by a public entity, while this had previously been reserved to private individuals only.

From a European standpoint, the Climate Law voted in 2021 puts an end to the protection for fossil fuel investments granted thus far by the Energy Charter Treaty. Many are unfamiliar with this treaty signed more than twenty years ago and giving investors the right to sue governments if they change their energy policies. By ruling in favor of the non-application of this treaty, the European Union firmly reiterated its support for the transition to a low carbon future.

NGOs are set to further call on the courts over the years ahead, pitting them against companies that fail to take sufficient action on climate-related impacts. It is crucial that we stay informed of these various legal actions with a view to curbing the impacts on our investments and therefore automatically on our reputation.

Risks and opportunities related to market changes

We also focus closely on **risks related to market changes** in our investments.

There has been increasing demand for products and services that emit lower greenhouse gases or are more responsible over recent years i.e. green buildings, clean vehicles, plastic-free packaging, etc. Companies now have every reason to adapt to this growing demand to curb market share losses and win over new clients.

Changing consumer behavior offers important examples of this trend, particularly in the food and beverages sector. Potential changes in regulation and consumer attitudes on food ingredients and labelling have prompted several companies to work on their formulations and the information disclosed on labels, while also investing in so-called greener ingredients.

Companies can also transform these changing trends into opportunities, with a number of companies successfully creating new markets and driving their margins. Additionally over the past ten years, most food companies have reviewed their strategies by introducing product and packaging innovations, involving products with protected designations of origin that provide both taste and nutritional value to address health and wellbeing goals. Despite a hefty additional cost initially, companies can leverage this process to develop customer loyalty and even develop more expensive products.

Reputational risks

Changing consumer preferences, stigmatization for sectors that are the biggest climate culprits, along with increasing concerns from stakeholders can all have a significant impact on a company's reputation, leading to risks. Trust from clients, suppliers, staff and shareholders is crucial in sustaining a company's business.

Looking at Ostrum AM **as a business, our brand can be affected if stakeholders – shareholders, clients, NGOs, staff – believe that the company does not live up to the standards that they expect in terms of climate risk management.**

Operational risks

Operational risks can involve both business operations (management, IT) and a company's infrastructure, particularly involving losses due to insufficient adaptation to climate change.

Here at Ostrum AM, operational risks are due to potentially tougher regulation that can require increased capex i.e. building standards leading to increasing renovation costs, vehicle fleets, surge in carbon prices for Ostrum AM's direct emissions, rise in cost of water. The increase in non-financial data volumes on physical and transition risks leads to an additional operational risk if this information is not updated or if it contains errors.

Physical risks identified for Ostrum AM involve risk due to extreme events, such as heatwaves, floods and other severe weather, which could affect the availability of our buildings, IT systems and/or skills, or lead to additional costs.

Strategic and commercial risks

Failure to take account of climate risks can lead to a significant fallout for a company's competitiveness and its market share. The climate is currently a prime concern for institutional clients, and their own increasingly important duty of transparency means that they must work with asset managers that successfully manage climate risk.

2.2. IMPACTS OF RISKS AND OPPORTUNITIES IDENTIFIED ON OSTRUM AM'S ACTIVITIES

The various climate risks and opportunities identified in our investments can impact our business activities, and all risks identified above may become material for Ostrum AM's investment management operations.

Climate risks may lead to issues in our various investment management operations. For example, fraud can decrease the value of a bond/share, thereby directly denting the issuer's value: or after a scandal, bonds may lose a considerable portion of their value, when previously they enjoyed a very solid rating and carried no credit risk.

Additionally, any funds paid out in the event of prosecution – fines, as well as damages paid out – may hamper a company's financial robustness and therefore increase its credit risk. The issuer's redemption capabilities may be affected, leading to a deterioration in the value of its securities and hence a negative impact on performance.

As mentioned above, climate risks can also lead to disruption in certain business sectors. Meanwhile, if companies do not successfully adapt to new trends, their profiles will lose some of their appeal for investors as their profitability dwindles. It is therefore crucial for Ostrum AM to identify these risks and thereby avoid losses, while also identifying opportunities, which are equally important.

Disruptions to production or sales resulting from physical risks may lead to a loss of value in the securities and increase financial risk for Ostrum AM.

Ostrum AM therefore closely monitors regulatory, legal, reputational and operational risks as well as risks related to market changes for companies we invest in and businesses where portfolio managers are considering investment: these risks could otherwise lead to direct financial losses for Ostrum AM.

Ostrum AM not only seeks to minimize potential defaults in its investments, but we also look carefully for opportunities. Companies that successfully develop new businesses or low-carbon solutions automatically generate new revenues e.g. renewable energy, clean fuels, etc.

Here at Ostrum AM, we adopt an ESG materiality analysis process to assess sector and/or specific risks as well as their likelihood of occurrence. We draw on this analysis to ascertain long-term trends that may disrupt certain business sectors, combining our research on ESG material dimensions with traditional financial analysis to establish a clearer vision of sustainability risks and issuer quality over the longer term.

We firmly believe that we have a fiduciary responsibility as an investment manager to take informed decisions and draw on all available information, including ESG aspects.

Additionally, Ostrum AM's reputation as an investor may be affected when controversies emerge on a security or if we invest in a company that displays poor ESG practices e.g. coal financing, weapons, etc.

NGOs also pay close attention to asset managers' funding practices.

2.3. ALIGNING OUR INVESTMENTS ON A 1.5°C SCENARIO

We outline our methodology for calculating the temperature of our portfolios and their alignment with climate scenarios in section IV.

We dialogue with our clients on these dimensions, while in some of our investment mandates, we adjust our portfolios to ensure closer alignment with climate scenarios of 2°C or 1.5°C. We are not yet able to provide this information across all our investments. However, we will pursue our work on this priority in 2022.

2.4. SUMMARY OF RISKS AND OPPORTUNITIES IDENTIFIED FOR OSTRUM AM

The table below outlines the way we view and manage the various risks outlined above. As stated in our introduction, this table is poised to change in 2022 as a result of input from our new data provider. We will therefore be able to take our identification of our issuers' physical and transition risks much further.

	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

PART 3

RISK MANAGEMENT: IDENTIFYING, ASSESSING AND MANAGING ESG AND CLIMATE RISKS AND OPPORTUNITIES

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 and Climate approach and focus on three areas i.e. integration, engagement and exclusion:

- Environmental, social, governance and climate risks are incorporated into our company assessments, while also identifying opportunities 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 – 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 the climate, applied by our investment teams on their respective asset classes on a daily basis. The entire company strives to promote an ambitious and relevant responsible approach to drive long-term performances and promote value-added for our clients.

Our investment philosophy also covers sustainability risks: see our sustainability risk policy de durabilité

1. Via capital operations that led to the creation of Ostrum AM on October 1, 2018

3.1. PROCESS TO IDENTIFY AND ASSESS ESG AND CLIMATE RISKS AND OPPORTUNITIES IN OUR INVESTMENTS

In this section, we will look at the various processes for identifying and assessing physical and transition risks, as well as climate opportunities on all our open-ended funds. These processes are also available for our 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 cause an actual or a potential material negative impact on the value of the investment.

3.1.1. IDENTIFYING AND ASSESSING VIA FUNDAMENTAL INHOUSE ANALYSIS

FOR FIXED INCOME

ESG criteria are taken on board in all our main bond investment processes by screening for relevant ESG criteria in our fundamental issuer analysis.

... ON CREDIT ISSUERS

Our ESG integration process is based on our conviction that material ESG factors (just like all material aspects) can influence an issuer's credit risk and therefore weigh on its fundamental rating.

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 credit analysts' 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 in 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.

NB: in our investment universe, a third of "avoid" issuers have received this score as a result of governance aspects, reflecting our belief in the fundamental importance of ESG criteria in assessing a company's future risk profile.

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

- ***Issuer by issuer approach***

Our team of credit analysts here at Ostrum Asset Management continued work to formally set out and further take on board ESG dimensions in their analysis and credit risk assessment for each credit issuer. Our team systematically incorporates ESG elements into its analyses when they are considered to be material, i.e. when they have an impact on the issuer's credit risk.

Each analyst is responsible for assessing the material nature of ESG criteria, as they draw on a vast range of information sources selected by Ostrum Asset Management's Portfolio Management team as a whole – both qualitative and quantitative aspects – as well as their own individual research and insight into issuers and their ESG challenges. Each analyst's own individual judgement is a crucial component and the review of all ESG input is vital in assessing the strengths and weaknesses of any given issuer in terms of a specific ESG dimension identified.

To ensure consistency in analysis and fairness in the assessment of issuers, an analysis framework has been set out. 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 resulting from changes in the regulatory framework that seeks to reduce environmental risks. Typical transition risk for a carmaker for example would be new air quality regulation. 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 mobilized 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 challenges that have a major impact for each individual business sector and segment.

We regularly organize 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 ten 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. We monitor these aspects for change, providing a key advantage in our approach and setting our proprietary credit research apart from the crowd.

Our sector risk mapping components comprise devoted sector reviews summing up the key risks and opportunities:

1. Integrated Utilities;
2. Regulated Utilities;
3. Automotive;
4. Energy – Oil & Gas;
5. Telecoms;
6. Transport;
7. Metals & Mining;
8. Capital goods;
9. Chemicals;
10. Banks;
11. Pharmaceuticals;
12. Real Estate;
13. Media & Entertainment;
14. Consumer & Retail.

We have therefore drawn on these sector reviews to develop a sector materiality guide. In addition to ESG materiality analysis by sector, this also includes two specific chapters that cover material impacts on the climate and on biodiversity.

▪ *ESG Materiality score*

In 2019, Ostrum Asset Management launched a new scale for assessing material ESG risks and opportunities to quantify its entire methodology – the ESG Materiality score – with a view to improving the transparency and comparability of ESG risks and opportunities across issuers and monitoring their development. This new materiality assessment scale is available to all our investment staff via our inhouse platform. Each assessment is also systematically supported by a qualitative analysis on each of the three E, S and G dimensions, detailed in dedicated reports written by our analysts for each individual issuer.

We measure the extent of ESG risks depending on the relevance of ESG criteria for the industry or the company itself: if ESG dimensions are relevant, we then assess their materiality on the company's risk profile.

We classify ESG materiality on the basis of the materiality scale outlined below:

- **ESG 0:** ESG aspects are not relevant for the industry or the company;
- **ESG 1:** ESG aspects are relevant for the industry or company, but their materiality is low on the company's credit risk;
- **ESG 2:** ESG aspects are relevant for the industry or company, direct materiality is limited, or ESG risks/opportunities are significant, but the company is managing them successfully so materiality for credit risk is limited;
- **ESG 3:** ESG aspects are relevant for the industry or company, ESG aspects are a crucial component in the fundamental credit score, either independently or when combined with other factors.

ESG information – including ESG assessments and impacts – is outlined on our inhouse platform CIGAL and accessible to the entire Portfolio Management department.

ESG materiality assessment	Relevance of ESG aspects for the business sector or company	Materiality of ESG factors on the company's credit profile
ESG 0	Not relevant	-
ESG 1	Relevant	Aspects are relevant for the industry or company but their materiality on credit is low.
ESG 2	Relevant	(i) Either direct materiality is limited (ii) or ESG risks/opportunities are significant, but the company is managing them actively, so materiality for credit is limited.
ESG 3	Relevant	ESG aspects can be a crucial component of the fundamental score or they are combined with other factors.

Source: Ostrum, March 2021

This analysis of ESG aspects thus systematically and naturally affects our qualitative and quantitative credit risk quality assessment for issuers, highlighting both risks and opportunities.

... SOVEREIGN AND QUASI-SOVEREIGN ISSUERS

Material ESG aspects for sovereign and quasi-sovereign issuers are systematically taken on board and directly included via the assessment of country risk.

This assessment involves two stages: sovereign risk assessment model and Sovereign Debt Selection (SDS) Sector Team. These two methods are presented in detail in section 4.

SOVEREIGN RISK ASSESSMENT MODEL

Quantitative proprietary medium-term assessment model for developed and emerging countries

1. Coverage of all developed and emerging countries
2. Assessment of the probability of S&P rating change over a 1-3 year horizon

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

SOVEREIGN DEBT SELECTION

Incorporating ESG considerations in SDS

When an E-environment, S-social or G-governance factor may have an impact on the investment horizon, on the sovereign risk or the debt valuation, the SDS sector team includes this factor in its investment views.

- ***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 in-house rating scale. We monitor risk assessment projections for any changes for each country (+/- rating category) and this innovative machine learning-type model provides additional information for portfolio managers. This system sits at the very heart of our investment process and is used in building our sovereign portfolios. It is based on the following aspects:

- **Economy: i**nternal vulnerability variables, such as unemployment, and external factors such as primary balance. Source: Standard & Poor's;
- **ESG material aspects:** ESG variables such as control of corruption, political stability, CO_2 emissions, etc.

Source: World Bank and UN Development Program.

- ***Sovereign Debt Selection (SDS) Sector Team***

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

The SDS team produces views on the relative value of government bonds for each country in the euro area to pinpoint sovereign debt where portfolio managers can take exposure for a defined period of time.

Members of the SDS team assess performance factors (views on spreads[1] and flows) as well as risk factors (financial risks, such as macroeconomic and regulatory, and non-financial).

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.

EQUITY PORTFOLIO MANAGEMENT

ESG practices are deemed to be an integral component of a company's overall quality. With this in mind, Ostrum Asset Management's analysts and portfolio managers pinpoint a company's or a sector's risk, while also identifying any ESG opportunities. Our teams also engage with companies to discuss these aspects.

The equity portfolio management team thus seeks to ward off any potential risks by taking account of ESG considerations. ESG analysis is a key tool in singling out any long-term trends that could disrupt certain business sectors, so incorporating ESG dimensions into traditional financial analysis enhances visibility on issuer quality over the longer term. These considerations enable the equity portfolio management

1. Differential or gap between two indices or rates

team to pick out any opportunities (new markets, new technologies, etc.) as well as companies that harbor solid growth potential.

ESG STRATEGY TEAM

Our ESG Strategy team constantly monitors the latest ESG and climate news and events, and follows company news, as well as regulatory changes. The team keeps the various Portfolio Management teams informed via a newsletter and dialogues directly with the departments in question.

The team oversees sector policies, works on the structure for our engagement policies, provides climate calculations for investors and identifies the necessary data and providers.

The team regularly receives various alerts from our analysts and portfolio managers, as well as our data providers: alerts on major controversies are provided by our data supplier every four months, and occasionally by Portfolio Management. These various alerts are analyzed in specific committees as outlined in section 3.

3.1.2. DRAWING ON OUR TOOLS AND INDICATORS TO IDENTIFY AND ASSESS

INDICATORS AND SCORES USED

Indicators and scores such as carbon footprint, carbon intensity, portfolio temperature and alignment with climate scenarios are key elements in our strategy to identify and assess risks and opportunities. These are outlined in detail in section IV.

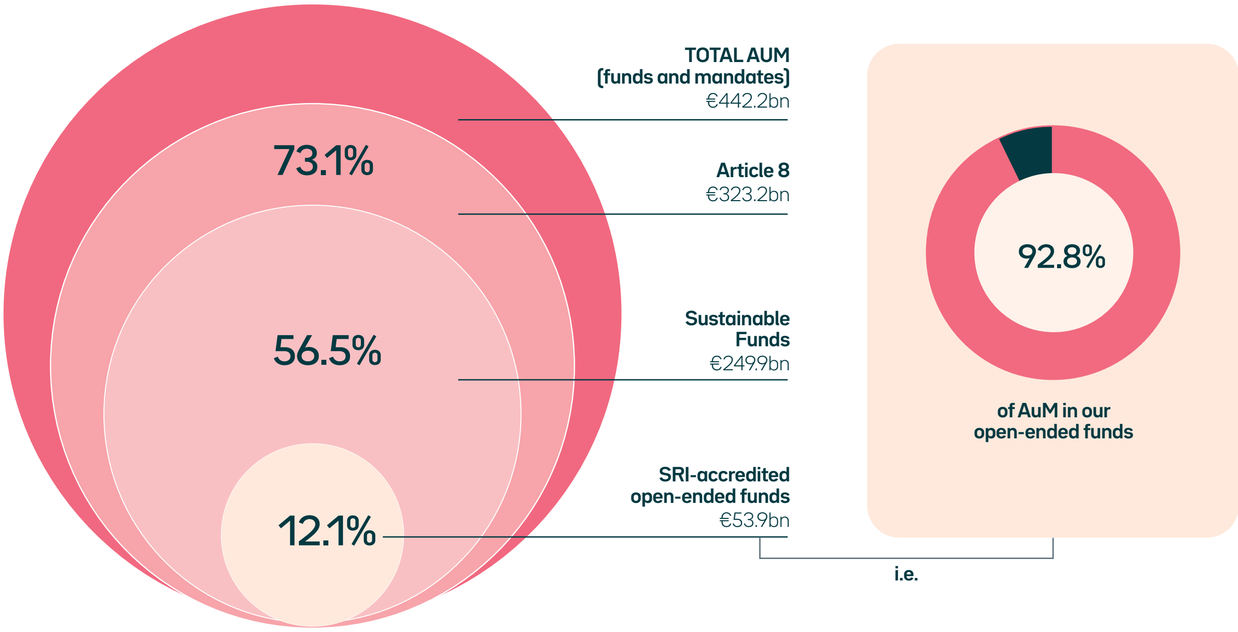
TOOLS USED

We also have a range of tools developed with this in mind:

- The "GREaT" methodology to score credit issuers;
- The SDG Index score used for the ESG rating on sovereign securities;
- Our Sovereign Risk Assessment model;
- Sovereign Debt Selection (SDS) Sector Team.

All these tools and indicators are outlined in detail in section 4.

3.2. MANAGING ESG AND CLIMATE RISKS IN OUR INVESTMENTS



€19.6BN

of our AuM in green, social and sustainability bonds

Source: Ostrum AM, 12/31/2021

Some key figures on ESG, SRI and our AUM are as follows:

- **SFDR Article 8 funds: 73.1% of AuM is classified as Article 8 i.e. €323.2bn in AuM, which breaks down as follows:**
  - **Sustainable funds, invested in companies that make a positive contribution to the transition to a more sustainable world: 77.3% of Article 8 funds;**
  - **Responsible funds, invested in companies with strong ESG risk management: 22.7% of Article 8 funds.**
- **Funds with accreditations: 92.8% of AuM in open-ended funds equating to** 13.5% of our total AuM;
- **Green, social and sustainability bonds[1]:** 4.5% of our AuM is invested in green, social and sustainability bonds, i.e. €19.6bn.

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. our extremely stringent exclusion policies, such as coal; our controversy management policy (Worst Offenders); screening for ESG criteria across almost 100% of our AuM; 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; 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 cause an actual or a potential material negative impact on the value of the investment.

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.

In our open-ended funds, our ESG and climate risk management approach is built on six key dimensions:

- Dimension 1: Different risk management approaches depending on asset class;
- Dimension 2: Sector and exclusion policies;
- Dimension 3: Controversy management policy;
- Dimension 4: Engagement and voting policy;
- Dimension 5: Strategy for funding a low-carbon economy;
- Dimension 6: SRI investment process.

3.2.1. DIMENSION 1: DIFFERENT RISK MANAGEMENT APPROACHES DEPENDING ON ASSET CLASS

IN OUR FIXED INCOME PORTFOLIO MANAGEMENT

... ON CREDIT ISSUERS

Our investment universe is firstly narrowed down by application of our exclusion policy and our controversy management policy (see paragraphs 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 Asset Management are centralized and instantaneously published in the research knowledge database in our inhouse platform. This online information system is available for all portfolio management staff.

Our portfolio managers closely monitor this analysis, particularly when an issuer has an ESG materiality score of 3, i.e. when ESG components can offer key input for the fundamental score, or when they are combined with other elements (cf. section 3.1.a).

Additionally, a number of money-market funds that have achieved SRI accreditations apply a "best in class" investment methodology. The criteria for this accreditation involve exclusion of the 20% of issuers with the lowest non-financial scores in their investment universe, with portfolio managers selecting issuers with the best ESG scores in each sector.

... ON SOVEREIGN AND QUASI-SOVEREIGN ISSUERS

Our portfolio managers apply the results of their country risk assessment to take informed decisions. This process involves two stages i.e. the Sovereign Risk assessment model and the Sovereign Debt Se-

1. Debt security issued on a financial market and designed to finance projects to combat climate change, support the energy transition, etc. or social projects.

lection (SDS) Sector team. These two methods are outlined in detail in section 3.1.1.

Material ESG factors are directly incorporated into portfolio construction via the country risk assessment, and while results are not systematically imposed, this model is a way for portfolio managers to identify major risks and take account of them in their investment decisions.

IN EQUITY PORTFOLIO MANAGEMENT

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

We use our GREaT non-financial scoring method to incorporate ESG factors into our fundamental analysis. This approach 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.

- **Incorporating ESG challenges into the fundamental qualitative analysis process**

The portfolio manager-analyst scores the ESG profile using the materiality scale after ascertaining and quantifying ESG dimensions that can affect the sustainability of the company's business model from a positive and negative standpoint, in both the short and long term.

Looking at companies in the equity universe that are also covered by Credit Research, ESG materiality outlined above is assessed under the responsibility of Credit Research in close cooperation with equity portfolio managers-analysts. This cooperation offers a comprehensive view of the materiality of ESG factors for a company.

This analysis kicks off by ascertaining the sustainability challenges that influence 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 benefit from opportunities and avoid/mitigate risks, via both existing procedures and the organizational set-up, and the practical steps that have been both set out and applied.

- **Using the GREaT quantitative score in assessing the discount rate used to value the company**

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

- **Incorporating the qualitative score resulting from a fundamental analysis of the company in the weighting of stocks in the portfolio**

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

3.2.2.DIMENSION 2: SECTOR AND EXCLUSION POLICIES

In addition to our exclusion policies on controversial weapons and blacklisted states (applied to all our funds) Ostrum AM has also developed demanding exclusion policies enabling it to exclude from its portfolios companies that have major climate risks. We do not support sectors or issuers that do not comply with certain fundamental responsibility principles, in keeping with our responsible investment approach and our fiduciary duty to 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.

Our exclusion policies on coal, tobacco and worst offenders are applied to all our open-ended funds, as well as mandates and dedicated funds, bar any requests to the contrary from our clients. We also engage extensively with our clients via dialogue, voting and engagement initiatives to support them in following our policies. We can also offer our clients specific exclusions on request to meet their needs and recommendations.

COAL

In 2021, we further ramped up our coal policy.

As of January 1, 2021, Ostrum Asset Management no longer invests in companies that develop new coal projects (including infrastructure developers). This policy applies with a six-month timescale for divesting holdings in companies concerned under normal market conditions.

Ostrum Asset Management also excludes from its investment scope companies whose business depends primarily on producing, transporting and selling coal derived using aggressive mountain top removal methods (MTR), used in the Appalachian Mountains, in the east of the United States.

From July 1, 2021, we lowered the thresholds in our coal policy. Coal issuers that are not ruled out on the basis of previous criteria are excluded if they exceed the following thresholds:

- 20% of energy generation revenue streams derived from coal or from coal production,
- 10 million tons of thermal coal production on an annual basis,
- 5 GW in installed capacity,
- a coal share of power generation of 20%.

These thresholds equate to limits set out by the 2020 Global Coal Exit List (GCEL). 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.

For further details on this policy, visit our website.

TOBACCO

As part of our ongoing work on defining our responsible investment universe, Ostrum Asset Management rolled out a tobacco exclusion policy in 2018. The company pledges to halt support for the highly controversial sector that runs contrary to the United Nations Development Program's Sustainable Development Goals due to its particularly negative social, societal and environmental impacts.

The tobacco sector is a major climate change culprit due to its heavy carbon footprint, its role in deforestation as well as the depletion of water resources and fossil fuel, and waste produced.

For further information on this policy, visit our website

OTHER

NB: Ostrum also follows other exclusion policies on controversial weapons and blacklisted states. For more details, visit our website

DEVELOPMENT OF OUR OIL AND GAS POLICY

In 2021, we further strengthened our climate commitment and support the energy transition as we set up a working group on oil and gas. At the end of the year, we announced a new oil and gas sector policy for launch in 2022.

Driven by its fiduciary responsibility as a leading investor, Ostrum Asset Management is taking further action to tackle the pressing climate emergency and announces the full withdrawal from unconventional and/or controversial oil and gas exploration and production businesses by 2030 i.e. businesses that rely on fracking operations – shale oil and gas, tight gas and liquids – or operations based on ultra-deep offshore drilling, drilling in the Arctic[1], as well as extraction of oil sands, coalbed methane, and extra-heavy oil.

In 2022, will roll out its oil and gas policy and will therefore no longer conduct any fresh investments in companies that derive more than 10% of production from unconventional or controversial activities and that generate more than 10 million boe.

This policy also covers companies that work right along the upstream value chain i.e. exploration, development and operation. Ostrum AM may review this threshold and reduce it further in the future.

This policy will apply to all open-ended funds managed by Ostrum AM, as well as mandates and dedicated funds, unless clients decide otherwise.

Ostrum AM intends to fully withdraw from non-conventional and/or controversial oil and gas exploration and production operations by 2030. This initiative will be a priority focus for our engagement – via dialogue and our voting policy – with the companies we invest in across our equity and bond portfolios. Ostrum AM 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.

3.2.3. DIMENSION 3: 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 Research department comprising around twenty analysts and portfolio manager-analysts from both Credit and Equity closely monitors issuers and in most cases pre-empts severe controversies before they become highly material. They dialogue on a daily basis with portfolio managers during the Morning Meeting as well as during devoted 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 severe 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.

WORST OFFENDERS POLICY

Ostrum Asset Management is committed to excluding from its investment scope all financial instruments from private issuers whose business is proven to contravene a range of fundamental responsibility standards. Issuers involved are all entities, whether listed or unlisted, that are proven to contravene the main principles of internationally established standards (United Nations, OECD) as regards human rights, labor rights and business ethics, as well as environmental protection.

This enables us to incorporate companies with unacceptable ethics shortcomings to feature in our exclusion list.

For more details on our policy, visit our website.

View Part I "Worst Offenders committee and working group" for more details on implementation.

ROLE OF THE 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,

1. Definition of the Arctic as outlined by the Arctic Monitoring and Assessment Programme (AMAP): https://www.amap.no/about/geographical-coverage. Ostrum Asset Management draws on data provided by the GOGEL (Global Oil & Gas Exit List) from NGO Urgewald.

details may then be passed onto the Executive Committee for a decision.

Decisions by these various committees are incorporated into our risk monitoring systems, particularly 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 on our open-ended funds: these controls block investments. Post-trade controls are also applied for prohibited issuers in order to manage their exit from our portfolios.

We apply regulatory exclusion lists for our investment mandates, while sector and worst offenders lists are developed in accordance with our clients' policies.

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

3.2.4. DIMENSION 4: ENGAGEMENT AND VOTING POLICY

Engagement sits at the very center of our responsible investment approach here at Ostrum AM.

Our engagement and voting policy is built on four cornerstones:

- An active and responsible voting policy;
- Constant dialogue with issuers via individual engagement as well as joint engagement initiatives across our various Portfolio Management teams;
- Collaborative engagement initiatives;
- Work on developing and promoting ESG standards, outlined in the governance section

SOME KEY FIGURES

- 149 meetings, including 100 with bond issuers;
- 312 individual engagement initiatives;
- 26% of engagement efforts involved the fight against climate change;
- 5 new collaborative engagements in 2021.

Source: Ostrum, March 2022

An active and responsible voting policy

The Equity Portfolio Management department is tasked with the voting process.

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".

For further details on our voting policy, visit our website.

Our dialogue efforts with companies in our investment scope are part of our broader role in exercising voting rights and conducting ESG research, and are based on a detailed assessment of each company's practices, which focuses in particular on sector challenges and takes on board potential areas for improvement. Ostrum AM exercises its voting rights at shareholder meetings across a comprehensive universe according to a rigorous and demanding policy, addressing social and environmental issues, in addition to corporate governance aspects.

Our report on the exercise of voting rights in 2021 shows our commitments taken in our voting policy and our sector policies. By way of example, we took a more stringent approach to requiring non-financial targets in executives' long-term compensation plans. We also took a stand on social and environmental dimensions, as we voted on climate resolutions for the companies we hold in our portfolios. We also incorporated the pledges set out in our coal policy into our voting decisions.

KEY FIGURES ON OSTRUM AM'S EXERCISE OF VOTING RIGHTS COVERED BY OUR VOTING POLICY

- 100% participation rate in shareholder meetings
- Of these 2,231 resolutions voted:
  - Ostrum approved 1,796 resolutions, i.e. 80.5%;
  - Ostrum disapproved 426 resolutions, i.e. 19.1%;
  - Ostrum abstained on 9 resolutions, i.e. 0.4%.

Source: Ostrum, March 2022

Individual engagement

Ostrum AM engages in constant dialogue with issuers to understand their practices. This also enables us to gather the information needed to ensure that each company displays the required quality, growth and ESG best practices to make them eligible for Ostrum AM's portfolios. Where this is not the case, Ostrum supports companies to enhance their performances in this area.

Ostrum AM holds itself to the highest standards as an active and involved shareholder: as part of its shareholder engagement strategy, it is committed to constructive dialogue with its holdings. In-house teams have frequent contact with companies in our portfolios to encourage them to adopt best ESG practices. This dialogue is based on extensive responsible investment analysis, which examines companies' practices in detail, determines the key issues related to their sectors and considers potential areas for improvement. This process particularly includes an assessment of issuers' ESG practices prior to the exercise of voting rights at shareholder meetings.

The aim is to draw each issuer's attention to any potential ESG risks that may have been overlooked or underestimated, and share ESG best practices with the company. These identified areas for improvement and any measurable progress expected are conveyed to the firm either verbally or in writing, with the aim of encouraging progress. Any changes are monitored over time to assess the issuer's development and adjust its ESG-based score accordingly.

Engagement with issuers is also a crucial component in our Fixed Income investment processes and we discuss all these material ESG dimensions, regardless of the type of issuer.

Portfolio Management teams at Ostrum AM hold meetings and conference calls with bond issuers (fixed income) as part of our due diligence prior analysis process. We embark on these dialogue efforts either before making our investments, or as part of our constant monitoring efforts for positions in our portfolios. Our overarching goal is to pre-empt ESG risks, including climate risks, although we may also stage these efforts in response to problems that have already affected the issuer i.e. specific controversial items. We systematically disclose the results to our investment teams.

Ostrum AM's engagement themes

We set out a shared engagement policy across both Equity and Fixed Income Portfolio Management in 2021, with eight themes and 15 areas for engagement.

The themes are as follows:

1. Support mitigation and adapt to climate change;

2. Limit the impact on the environmental ecosystem;

3. Promote human capital;

4. Enhance relationships with stakeholders;

5. Ensure consumer security and protect their data;

6. Safeguard business ethics;

7. Balance powers and compensation;

8. Improve data transparency.

Climate change is clearly one of our key themes, having become one of the most critical challenges facing our society for the decades ahead, requiring an extensive overhaul of our economies and all business sectors.

We have singled out several areas for engagement on this climate change theme:

- **Sub-theme 1: Reduce CO_2 emissions and achieve carbon neutrality out to 2050**
- **Sub-theme 2: Manage physical and transition risks**

In sub-theme 1, Ostrum Asset Management has decided to focus engagement actions in line with our coal exit policy.

We have taken a step-by-step approach to supporting the energy and ecological transition, as we focus particularly on engagement and will gradually increase pressure on issuers over time.

Looking to coal sector exit plans for example, we have set a timeframe of just a year to conduct our engagement initiatives and decide whether to maintain issuers in our portfolios i.e. issuer engagement is followed by an assessment of their ability to meet our criteria and the credibility of their sector exit plans. This then leads to a decision to maintain or remove these investments. We will divest our holdings in four issuers following these engagement initiatives as they have failed to implement the strategy and goals we pursue, or did not respond to our engagement efforts.

SOME KEY FIGURES:

- 312 individual engagement initiative including:
    - 100 with bond issuers
    - 30 covering Green, Sustainability and Social Bonds
- 40% of our engagements involve the fight against climate change (themes 1 and 2)
- 150 engagements address SDG 13

Source: Ostrum AM, March 2022

Collaborative engagement

Collaborative engagement consists of identifying controversial practices within an industry or group of companies and engaging in dialogue to appeal for increased transparency, and a change in practices where necessary.

We work with other responsible investors on engagement to enhance overall responsible investor influence, with the goal of driving specific, measurable and time-bound changes from issuers. In addition, we may embark on further engagement efforts to influence industry associations and/or public policies.

Ostrum Asset Management has been actively involved in a raft of collective initiatives for several years to raise awareness among issuers, public authorities and regulatory bodies on the importance of environmental, social and governance challenges.

Ostrum AM contributes to initiatives that focus on the UN's Ten Principles, programs to promote the Paris Agreement on Climate Change and the declaration from the Paris financial center in July 2019 for a low-carbon economy.

Ostrum AM is unable to take part in all initiatives to address these key principles, and has focused on actions that target Sustainable Development Goals 3 (Good Health and Wellbeing), 5 (Gender Equality), 13 (Climate Action), 14 (Life Below Water) and 15 (Life on Land).

We signed several new climate pledges in 2021:

- **New coking coal mine in Cumbria (IIGCC initiative):**

This initiative involves a letter to the Prime Minister of the United Kingdom urging him to challenge the recent decision to open a new coking coal mine in Cumbria and set out the timetable for the phase-out of all coal developments in the UK. It is for Ministers to decide how the effort to reach Net Zero should be allocated across the economy, but it is also important to note that this decision gives a negative impression of the UK's climate priorities. This decision also highlights the critical importance of local councilors and planning authorities considering fully the implications of their decisions on climate targets. In this regard, the letter urges discussion of the provision of guidance to local authorities.

- **2021 non-disclosure campaign (launched 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 2021, 87 different companies were specifically contacted by Ostrum AM. Only 31 of them disclosed details, pointing to success for 36% of engagement efforts.

- **Global Investor Statement to Governments on the Climate Crisis (Investor Agenda initiative):**

The statement delivers the strongest-ever investor call for governments to raise their climate ambition and implement robust policies in 2021 to back up this ambition and commit to meeting disclosure requirements on climate risks.

- **Science-Based Targets Campaign (launched 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.

- **Investors for a Just Transition (launched by Finance For Tomorrow):**

The concept of a Just Transition is required to minimize the social fall-out of the environmental transition and optimize the positive effects. This coalition has a threefold goal: encourage companies to incorporate the just transition into their environmental strategies by engaging regularly with them; promote best practices in business sectors that are most affected by the environmental transition; support collaboration between investors and corporations.

Engagement efforts are performed collectively with companies targeted. Ostrum AM meets with other members of the coalition during regular working groups in order to develop the engagement strategy and pinpoint key topics, sectors and companies across Europe. Ostrum AM leads the Building and Construction working group and addresses three challenges i.e. training, inclusion and sustainable urban development.

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

- Investor Decarbonization Initiative – Organization– Share Action;
- Investor Expectations on climate change for airlines and aerospace companies – Climate Action 100+;

- Global Investor Engagement on Meat Sourcing (Phase II) – FAIRR & Ceres ;
- Open Letter to EU leaders from investors on a sustainable recovery from Covid-19 – The Investor Agenda
- Letter to meatpackers and processors on traceability of indirect suppliers in their Brazilian supply chains – PRI, CERES & IISF ;
- Science-Based Targets (SBT) Campaign – CDP.

3.2.5. DIMENSION 5: OUR STRATEGY FOR FUNDING A LOW-CARBON ECONOMY

ENHANCING OUR GREEN/SOCIAL/SUSTAINABILITY BONDS STRATEGY

Ostrum AM significantly ramped up its sustainable bond exposure and expertise in 2021 i.e. green, social, sustainable and sustainability-linked bonds.

Assets under management for sustainability bonds came to €19.6bn at end-2021 across our entire scope via 599 issues:

- 405 green bonds (€14.5bn)
- 81 sustainability bonds (2,3 Mds €)
- 80 social bonds (2,2 Mds €)
- 33 sustainability-linked bonds (472 Mn €)

74% of our sustainability bond exposure comprises green bonds, with 12.1% for sustainability bonds, 11.3% for social bonds and 2.4% for sustainability-linked bonds.

Ostrum AM can draw on the expertise of two specialist analysts and its proprietary methodology to assess and analyze sustainable bonds. There is no single accreditation standard on the green bond market, so it is crucial to develop an inhouse analysis methodology for these investments to ward off green-washing risks and monitor any potential controversies. Our non-financial analysis process for green bonds here at Ostrum AM is based on a proprietary scoring methodology that breaks down into two dimensions:

- Assessment of the issuer's sustainable development strategy – environmental and/or social – and how the green bond fits with this approach, to ensure that the issue is consistent with the issuer's transition goals;
- Analysis of the instrument's structure, in terms of transparency on allocation of proceeds, the degree of materiality and the effective impact of the projects to be funded.

These two dimensions are analyzed via around ten quantitative and qualitative indicators with specific weightings depending on the importance of each aspect in our opinion. 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 as sustainability bonds by Ostrum AM.

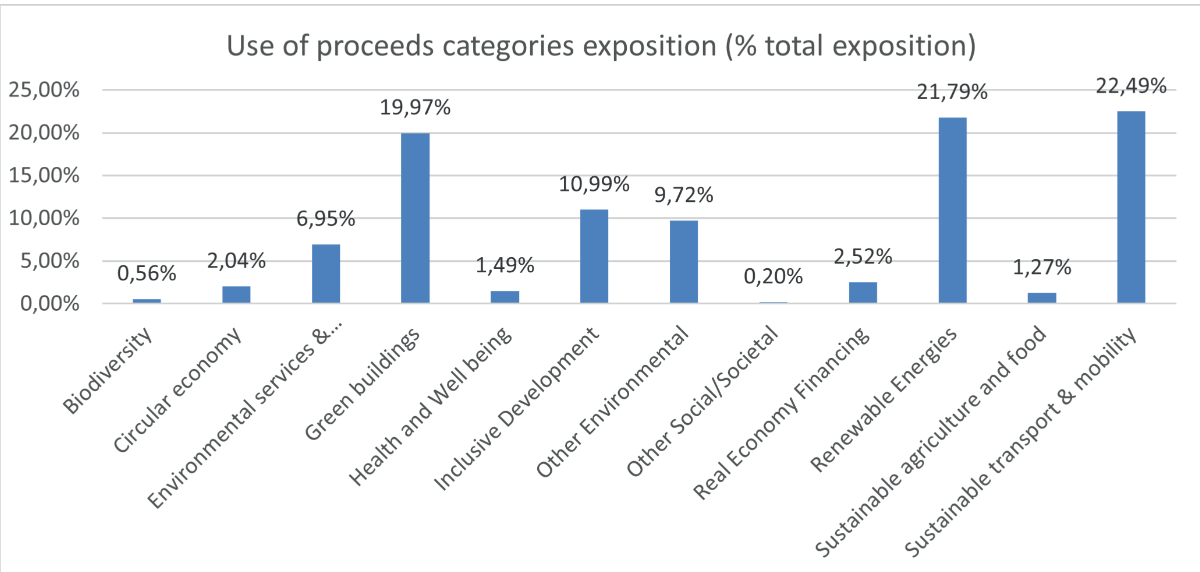
The status for each rating can be one of three options:

- "pre-scoring" for issuers 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 rating 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 green bond issue are mapped on the basis of our 12 sustainable themes, the UN Sustainable Development Goals and the GREENFIN accreditation criteria (for green bonds and the green portion of sustainability bonds).

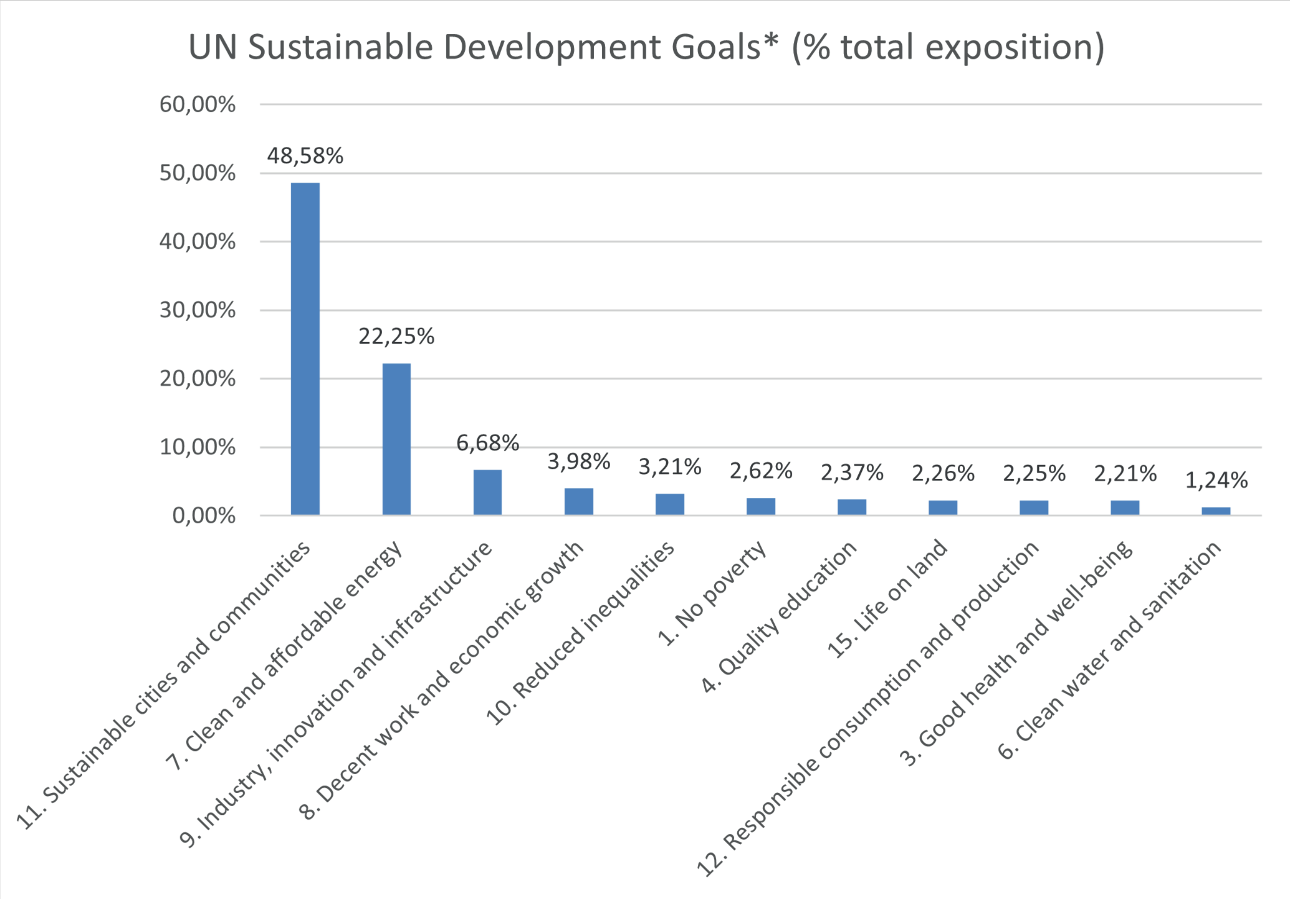
Projects financed are mostly renewable energy projects, green buildings and sustainable transport and mobility. Refer to the chart below for further details:



Source: Ostrum AM, December 2021

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, December 2021. *Only UN SDGs where exposure is strictly above 1% are represented in this chart.

Ostrum AM is also a member of the Green Bond Principles and the Social Bonds Principles and we are regularly involved in financial market working groups.

BOLSTERING OUR SRI ACCREDITATION POLICY

We are also taking steps to bolster our SRI accreditation policy and are aiming for 100% of AuM in our open-ended funds to achieve the SRI accreditation by end-2022.

Funds that achieve the SRI accreditation 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.

Funds that carry SRI accreditations cover very varied business sectors and primarily target the portfolio's ESG quality as well as process transparency. Investors can opt to support a specific sector or theme, such as renewable energy, the just transition or the fight against climate change.

We have decided to use the CO_2-eq intensity indicator by Trucost corporate as our primary measurement for the E dimension, i.e. volume of greenhouse gas emitted (CO_2-eq) per million dollars of revenues generated.

As at December 31, 2021, we had achieved the SRI accreditation for 25 of our open-ended funds, equating to €60bn.

We are actively pursuing this program on our open-ended funds and we also plan to achieve accreditations for mandates and dedicated funds on investor request.

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS (SDG)

Ostrum AM decided to focus on four of the 17 Sustainable Development Goals throughout 2020, homing in on SDGs 7, 13, 14 and 15, which concentrate on the climate.

▪ SDG 7 & 13

Looking to these two goals, we are committed to the fight against climate change via a range of initiatives such as strengthening our coal exclusion policy, pursuing stricter consideration of ESG criteria in non-financial analysis, and dedicated carbon reporting.

We will also focus on two areas for engagement related to these two goals:

- **Theme 1 : Reduce CO_2 emissions and achieve carbon neutrality out to 2050;**
- **Theme 2 : Manage physical and transition risks..**

Lastly, we also contribute to these SDGs via our collaborative engagements:

- **Investor Statement on Methane Emissions in Oil & Gas;**
- **Investor Expectations on climate change for airlines and aerospace companies**

▪ SDG 14 & 15

These two goals are reflected in our investments focusing on companies that have set these goals and promote support for life on land and below water. We take on board this aspect in our analysis of issuers' E, S and G criteria.

Two themes in our engagement policy will also focus on these two goals:

- **Theme 3 : Manage resources;**
- **Theme 4 : Safeguard health and biodiversity.**

We also contribute to these SDGs on climate change and biodiversity via our stringent exclusion policies i.e. our coal exclusion policy and our tobacco exclusion policy. Lastly, our Worst Offenders controversy management policy is also a way to limit risks on these goals.

▪ Other SDGs

We also support other SDGs that are not specific to the climate i.e. SDG 3 (Good health and wellbeing), SDG 5 (Gender equality), SDG 8 (Decent work and economic growth), SDG 10 (Reduced inequalities), and SDG 16 (Peace and justice, strong institutions). These themes are mostly addressed via our ESG analysis and our engagement.

3.2.6. DIMENSION 6: SRI 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.

Each client is unique, so 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 customized 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 73.1% 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	Best-in-Universe	Reinforced exclusions	Smart carbon strategies
Exclude issuers with a high ESG risk profile and favor the best-rated issuers	Favor the best performing issuers in terms of ESG in the investment universe, across all sectors	Exclude issuers with the highest ESG risk profiles	Provide portfolio decarbonization strategies and portfolios with minimized carbon footprints

Source: Ostrum AM, 2020

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.

MONITORING THE SRI ACCREDITATION AT THE RISK DEPARTMENT

- Risk control for our bond and money-market funds that either carry SRI accreditations or are undergoing the accreditation process draws on an inhouse system, which gathers input from Ostrum AM's info-centers. The tool calculates our ESG indicators on a daily basis, generates and files control reports, and flags any exceedances.
- Looking at accredited funds that apply the average method, the Risk department at Ostrum monitors their ESG performance and ensures that SRI-labeled funds post stronger ESG scores than the investment universe, after removing the worst 20% of scores from the universe. It also monitors indicators such as the eligibility ratio, the ESG coverage ratio (minimum 90% coverage), E, S, G and human rights impact indicators, CO_2 emissions, CO_2 intensity, etc. A discretionary analysis using positive screening also enables us to identify the most virtuous issuers and monitor changes in the distribution of ESG scores as compared with their weekly averages. For funds accredited by excluding the lowest 20% of scores, issuers in question are added to an additional exclusion list for the portfolio involved.
- Any exceedances in ESG indicators are detected and flagged to Portfolio Management the following day, applying the same alert and escalation procedure used for other regulatory and contractual investment constraints. Portfolio Management must in particular manage any exceedances identified as soon as possible, ensuring that they safeguard unitholders' interests.

3.3. PROCESS TO IDENTIFY, ASSESS AND MANAGE CLIMATE RISKS ON OUR OWN SCOPE

- By way of reminder (cf. section II), looking beyond our investments, we have also singled out climate risks on our own business scope i.e. transition, reputational and physical risks.
- Physical risk is monitored as a risk scenario in our business continuity plan. This program ensures swift resumption in critical operations in a scaled-back way, and involves technical and operational back-up solutions suited to each disaster scenario. This ensures that the company's services or other essential or important operational assignments are maintained temporarily in a scaled-back way where necessary. This is not only a regulatory requirement, but business continuity is a crucial strategic and business issue for Ostrum AM, and is vital in safeguarding its image in the event of a major crisis or an extreme shock.
- Transition and reputational risks are covered by three risks i.e. discrepancy in investment management compared with the prospectus, the sale of unauthorized products or provision of unauthorized businesses that are not compliant or not suited to clients' needs, and the risk of failure in portfolio management, either on ESG investments or voting policies. A risk management procedure ensures that first- and second-level controls and the relevant procedures are in place.

3.4. COMMUNICATION ON RISK MANAGEMENT

Communication with our clients via fund reports

Beyond our ESG integration process, Ostrum Asset Management is fully committed to transparency on the ESG and carbon assessments of its funds. So just as some of our clients must disclose ESG and carbon data on their portfolios, we also provide specific data reports, complying with regulatory requirements such as Article 173 of the French Energy Transition for Green Growth Act, SFDR, etc.

Reports and regulation

Ostrum AM is committed to making all its practices fully transparent and publishes all regulatory documents each year, along with resources that are useful for our various stakeholders. These documents can be viewed on our website i.e. voting and engagement policies, exclusion policies, report on exercise of voting rights, report on Article 173 of the French Energy Transition for Green Growth Act, sustainability report and CSR report. Link to the website

PART 4

GOALS, TOOLS AND INDICATORS USED TO ADDRESS ESG & CLIMATE RISKS AND OPPORTUNITIES

4.1. TOOLS USED

The GREaT methodology for assessing the responsibility of our investments

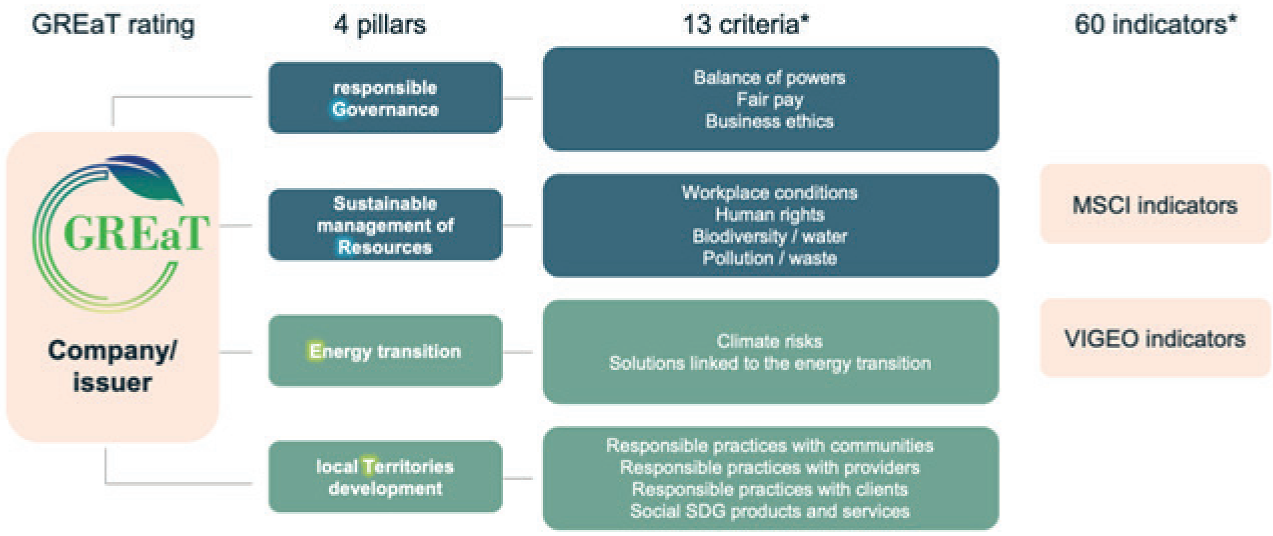
The GREaT methodology provides a practical response to issuer/company analysis on sustainable development aspects.

In addition to consideration of Environmental, Social and Governance dimensions, the GREaT methodology measures engagement, responsibility, opportunities and risks for companies.

This ESG score for private sector issuers is based on four cornerstones:

1. **Responsible governance:** this dimension is aimed at assessing the organization and effectiveness of powers for each issuer, for example for companies this involves measuring the balance of powers, executive compensation, business ethics and tax practices.
2. **Sustainable resource management:** for example this aspect is a way to analyze each issuer's environmental impacts and human capital, including the quality of working conditions, and management of supplier relationships.
3. **The economic and energy transition:** this aspect assesses each issuer's strategy in supporting the energy transition, including its strategy to reduce greenhouse gases and its response to long-term challenges.
4. **Regional development:** this aspect measures each issuer's strategy on the provision of basic services.

Investments are assessed on the basis of ESG criteria and are awarded a score of between 1 (strong ESG quality) and 10 (low ESG quality).



Source: Ostrum AM, LBPAM, 2021

Climate analysis is based on the E cornerstone of the GREaT approach, which translates each issuer's climate strategy in our universe into a score on a scale of 1 to 10, where 1 is the best score: the score for this dimension therefore directly affects the issuer's overall GREaT result.

This score is developed on the basis of two main aspects: climate risk management and the products and services range's contribution to the energy transition. This analysis is based on around 15 indicators collected from specialist ratings agencies.

Climate risk management:

- greenhouse gas emissions: this criterion is a way to assess an issuer's strategy on measuring and reducing direct and indirect greenhouse gas emissions resulting from its business operations, particularly by defining specific, time-bound greenhouse gas emission reduction targets that correspond to a scientific scenario and/or by adopting an officially recognized decarbonization method, such as the Science Based Targets. Companies that have clearly set out these aspects will achieve higher scores;
- holding high-carbon assets (fossil fuel reserves) and use of renewable energy in its business operations.

Products and services range's contribution to the energy transition:

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

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

Lastly, this systematic score is a way to assess how robust issuers' climate strategies are by analyzing their operations, thereby identifying companies that can turn pledges into action and transform their business.

Our ESG rating for sovereign securities

We draw on the SDG Index, published by the SDSN (Sustainable Development Solutions Network) – a worldwide initiative from the United Nations and Bertelsmann Stiftung – for our ESG analysis of sovereign issuers.

The SDGs, or Sustainable Development Goals, are 17 goals adopted by all United Nations member states to support international cooperation and strive towards sustainable development. They are a global call to action to all countries, whether developed, emerging or intermediate, to promote prosperity while safeguarding the planet. They recognize that putting an end to poverty must also go hand-in-hand with strategies to develop economic growth and address a series of social needs, particularly education, health, social protection and employment opportunities, while also combating climate change and supporting environmental protection.

SDG Index

For analysis of sovereign issuers, we rely on the SDG Index comprising external data published by the SDSN (Sustainable Development Solutions Network), a worldwide initiative from the United Nations, and Bertelsmann Stiftung that focuses on the 17 Sustainable Development Goals (SDG) defined by the UN. The SDG Index combines available data for all 17 SDGs to give an assessment on how each country is performing as compared with peers, with a score of between 0 and 100. This index tracks progress for each country in implementing the 17 UN SDGs and is available to all our portfolio management teams.

The primary role for this index is to help each country identify sustainable development priorities and roll out an action plan. It is also designed to support them in understanding their challenges and identifying any shortcomings that must be addressed to meet the SDGs by 2030. The index also enables each country to compare itself to the rest of its region as a whole, or with other similar countries that achieve similar scores. The SDG Index has developed different measurements for each SDG to reflect each country's position on a scale of 0 to 100 from worst (score 0) to best (score 100). The report from the SDG Index also outlines SDG dashboards for each country assessed. Each goal features as either green, yellow, or red to indicate respectively whether a country is at SDG achievement, is in a caution lane where challenges remain, or has major challenges that must be overcome in 2015.

The SDG Index draws on official data to assess these goals (communication from national governments and international organizations) as well as non-official data (collected by non-governmental bodies, such as research institutes, universities, NGOs and the private sector). It is also worth noting that half of the official data used is from three organizations i.e. the OECD, the WHO and UNICEF. Some of the main indicators analyzed by the SDG Index include maternal mortality rates, life expectancy, access to basic health services, access to electricity (% of the population), use of the internet, perception of corruption index, etc.

4.2. CLIMATE INDICATORS

Total carbon emissions

We use the Trucost tool for an overview of all scope 1 and 2 carbon emissions for companies, sponsored agencies and non-guaranteed agencies in our portfolios, drawing on these data to calculate total carbon emissions.

Total carbon emissions measure absolute metric tons of CO_2-eq (scope 1 + 2) that Ostrum AM is responsible for in its capacity as an investor. For example, if Ostrum AM's holding in a company equates to 1% of the company's total market capitalization, it holds 1% of the company and is therefore responsible for 1% of its carbon emissions (metric tons CO_2-eq). By calculating the emissions that Ostrum AM is "responsible" for on each position in the portfolio and combining them, we obtain the total carbon emissions for any given portfolio.

Carbon footprint

Once carbon emissions are calculated for a given portfolio, our teams 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 corporates, sponsored agencies and non-guaranteed agencies**

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 Quant team calculates the carbon intensity for each portfolio 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 authorities 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-eq emitted for 1 million of GDP.

Intensity figures obtained are allocated as follows:

- if the issuer is a supranational, carbon intensity is defined as the sum of sovereign values adjusted for their weighting in the supranational's "shareholding structure" (capital);
- if the issuer is a guaranteed agency, carbon intensity is the figure for the sovereign the agency depends on;
- if the issuer is a local authority, carbon intensity is that of the sovereign that the local authority depends on.

Portfolio temperature and alignment with climate scenarios

Before calculating the temperature for a portfolio, Ostrum AM draws on Trucost's expertise to estimate the issuer's carbon emission trajectories. Trucost provides an estimate of carbon emission paths 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 on the various climate change paths.

Trucost draws on two approaches recognized by the Science Based Targets Initiative (SBTI), covering the following:

- **The SDA approach** applies to eight consistent and high carbon intensity sectors where the IEA produces decarbonization paths i.e. electricity generation, coal production, oil production, natural gas production, steel and aluminum, cement, automotive 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 trajectory achieved is then compared to the figure calculated by the IEA for the sector in question and a scale is applied depending on the company's share in the sector's entire output. 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. This involves companies that have low carbon emissions or have contrasting businesses: these companies do not have a specific decarbonization trajectory. 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 on 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 differences between the company's emissions and figures required by the chosen scenario across the trajectory's 12-year duration. If the resulting difference is positive, the company is not in line with the selected scenario. Conversely if it is negative, the company has aligned on this scenario.

In sum, the company is deemed to have aligned with the climate scenario with which it has the smallest negative emissions gap in absolute terms. Once these data are collected, our Quantitative Recherche team can calculate the temperature of any given portfolio: this involves calculating the average difference between portfolio components and the scenario and subsequently weighting by their proportion in the portfolio compared to their enterprise value. This approach is based on the underlying assumption that holding 1% of a company's value is the equivalent to holding 1% of emissions and 1% of the gap.

The portfolio will be considered as aligning with the first scenario with which it has a negative gap.

4.3. OUR AIMS AND GOALS

... on our investments

We further supported and advised our clients on their ESG policies in 2021, addressing all requests for accreditations for dedicated funds. We also clearly and explicitly disclosed to our clients the methodology used to calculate the temperature trajectory for their portfolios.

We focused particularly on engagement in 2021, rolling out a joint policy across our equity and fixed-income departments, with specific features for each type of management. We pursue our goal of playing a pioneering role in the financial sector by promoting engagement on ESG themes in the credit business, as we feel strongly that we can support issuers and help make a difference on corporate practices.

We also continued to strengthen our climate strategy by implementing our ambitious approach to exit the coal sector and publishing our oil and gas policy in 2022. Here at Ostrum AM, we also strive to increase assets under management in the sustainability bond category.

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

... for our own scope

Beyond our investment goals, Ostrum AM also strives to reduce the carbon footprint 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 acted as a way to better understand our carbon emission sources and take the necessary steps to mitigate them.

Our 2021 carbon assessment on scopes 1, 2 and 3 amounted to 2,508 metric tons of CO_2-eq*. Greenhouse gases therefore came out at 7 metric tons of CO_2-eq per person as compared with an equivalent figure in 2020. Ostrum AM has been working on its office buildings, working methods and staff involvement to reduce the impact of our business operations.

Our remaining emissions are then offset by financing a project that avoids CO_2 emissions in line with our own use, as we compensate via sequestration.

In 2021, we decided to offset our CO_2 emissions by supporting the Marajó Amazon REDD project in Brazil.

This projects support SDG 8 (promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all), SDG 13 (take urgent action to combat climate change and its impacts) and SDG 15 (protect, restore and promote sustainable use of terrestrial ecosystems).

This project protected more than 86,000 hectares of biodiverse Amazonian forest and generated reductions of more than 2 million metric tons of CO_2-eq over 30 years. The project also offered revenues for more than 100 families (2,400 people) living in the region as an alternative to forestry, and provided training courses on alternative agriculture.

Ostrum AM has also rolled out a number of initiatives to encourage eco-friendly behavior and manage our resource use on a daily basis i.e. reducing the use of plastic cups, recycling cigarette ends, decreasing water and energy use, improving waste management via sorting, collecting and recovering, as well as almost eliminating the use of paper.

In 2022, Ostrum AM aims to further reduce its carbon footprint, while also pursuing our carbon compensation initiatives. We also intend to end the use of the most common single-use objects (plastic cups, take-away food containers, water bottles and coffee pods) and are looking into responsible digital initiatives.

GLOSSARY

- **TCFD :** Task Force on Climate-related Financial Disclosures
- **CSR:** Corporate Social Responsibility
- **ESG :** Environment, Social and Governance
- **KPI's :** Key performance indicator
- **FTE :** Full-time equivalent
- **SFDR :** European Sustainable Finance Disclosure Regulation

OSTRUM ASSET MANAGEMENT