Ostrum
ASSET MANAGEMENT

FUNDING YOUR
TOMORROW

ENERGY TRANSITION FOR GREEN GROWTH ACT

06.29.2020

An affiliate of: NATIXIS INVESTMENT MANAGERS

EDITORIAL

ADDRESSING CLIMATE CHANGE IS A KEY COMPONENT OF OUR COMPREHENSIVE CSR APPROACH

2015 was a real turning point in the fight against climate change, with the signature of an ambitious agreement to restrict the global rise in temperature to 2°C out to 2100 and press on with efforts to move towards an increase of only 1.5°C.

These pledges were adopted by 195 countries in a move that affected all business sectors across the board, and they now have to adapt or even rethink their business models depending on the extent of their environmental footprint.

The financial sector is determined to build a more sustainable economy as reflected by current and ongoing market efforts by several participants and organizations to work towards a low-carbon economy.

Investors also all have a vital role to play in the transition towards a more sustainable economic and financial development model, by taking on board these climate dimensions in their investment decisions, as required by article 173 of the French Energy Transition for Green Growth Act. With this in mind, Ostrum Asset Management has embarked on several initiatives to factor in and address climate change in both its business operations and practices, which we encourage you to read about in this document.

Ostrum AM is very involved in market-wide initiatives and plays a regular part in working groups, or is a member of Boards. Our key priority is to meet the goals set out in 2015 as we pursue our role as a responsible investor.

In addition to collaborative engagements that Ostrum AM has supported every year for the past several years, the company also decided to take further action and played an active part in two other initiatives alongside the main financial market bodies:

- The Taxonomy Practitioners' Group launched in December 2019;
- Taking part in drafting the white paper "Coal Best Practices Guide" launched in 2019 and published in February 2020.

We hope you enjoy the read!

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1. SUPPORTING THE ENERGY TRANSITION

1.1 REMINDER OF CHALLENGES OF ENERGY TRANSITION FOR GREEN GROWTH ACT

The French Energy Transition for Green Growth Act, signed in 2015, marks a major step forward in France and requires financial stakeholders to take firm commitments to promote the climate and combat climate change, with the aim of cutting back greenhouse gas emissions by 40% out to 2030 and by 75% out to 2050, as compared with figures in 1990.

Article 173 makes this act the first national law worldwide to either encourage (for investors managing less than €500 m) or require (in the case of institutional investors and asset managers) disclosure of how they manage climate risks and more broadly speaking how they incorporate environmental, social and governance aspects into their investment policies. Article 173 thus requires that asset managers and investors:

- Disclose how they incorporate environmental, social and governance criteria into their investment policies;
- Provide qualitative and quantitative reporting on climate risk exposure;
- Report annual carbon footprint figures for assets held;
- Outline how they support compliance with the international goal of keeping climate change to a maximum of 2°C and how they contribute to the energy and ecological transition.

Article 173 is therefore a key legislative innovation for responsible investment, as it formalizes institutional investors' requirement to disclose their climate risk management policies and the carbon components of their portfolios. This move clearly acted as a trigger for the various financial players right across the size spectrum, inciting them to take a stand to support the climate and better align their investment choices with the goals set out in the Energy Transition for Green Growth Act.

This report outlines Ostrum AM's responsible investment initiatives, with the aim of providing fully transparent information for the regulator, and first and foremost for our clients and all our stakeholders.

1.2 RESPONSIBLE INVESTMENT AT OSTRUM AM

Ostrum Asset Management has been actively involved in sustainable development and socially responsible investment initiatives for more than 35 years[1] and the company takes on board non-financial dimensions in our analysis of issuer quality, providing our clients with responsible investment solutions that address the specific aspects of their own ESG[2] (Environmental, Social, Governance) philosophies and goals.

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

We take a **comprehensive and integrated** ESG approach, factoring E, S and G risks into our company valuations, while identifying opportunities in our growth scenario and our quality and risk assessment.

We are convinced that companies that take on board ESG criteria boast stronger results 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 targeted responsible approach to drive long-term performances and promote value-added for our clients.

1.3 OSTRUM AM'S CLIMATE CHANGE POLICY

Following on from the commitments made by the Paris financial marketplace at the COP21 event in 2015, Ostrum AM is committed to actively contributing to the crucial fight against climate change and supporting the transition to a low-carbon economy. Ostrum AM took additional steps to bolster its efforts in 2019, following the declaration from the Paris financial center on July 2, 2019 for a low-carbon economy, in terms of both its own policies and its involvement in initiatives organized by the financial community.

THE PILLARS OF OUR CLIMATE COMMITMENT

1. Strengthening our **coal exclusion policy;**
2. **Maintaining constant dialogue** with financial market authorities and executives in companies that we invest in, with a view to raising awareness of the risks and opportunities of climate change for their business models;
3. **Integrating ESG criteria** into all our analyses;
4. **Developing a product range** that successfully addresses our clients' climate policies i.e. portfolio with controlled carbon impact, targeted exclusions, products that contribute to the energy transition, etc.

[1] Ostrum AM was created by the separation of Ostrum AM's fixed-income and equity investment management operations into a separate subsidiary on October 1, 2018 (registered on the Paris Trade and Companies Register under number 329 450 738, previously Natixis AM).

[2] Non-financial criteria i.e. E for environmental, S for social and G for governance. These criteria are taken on board on a par with standard financial criteria.

2019 KEY MILESTONES

- **A doubly demanding coal exclusion policy**

We now exclude issuers that derive more than 25% of their revenues from coal production or coal-fired energy vs. 50% previously.

- **Improving climate and carbon assessment for our portfolios**

In 2019, Ostrum AM launched an initiative to look **into carbon measurement in its portfolios**, which had thus far been based on the Carbone4 method. The goal for 2020 is to take on board a new methodology aligned with IPCC temperature scenarios for all our client portfolios.

We also set up a working group to enhance and clarify our policy for exiting from the coal industry, with the aim of assessing issuers' willingness to move out of this segment, as well as their progress in aligning with the Paris Agreement and IPCC recommendations.

- **Increasing the share of financial products with a positive climate impact**

The overall value of green bonds in our portfolios almost doubled to over €4 bn in 2019. We also supported progress in the energy transition by investing in new infrastructure.

➔ **+88% green bonds in 2019**
➔ **€4.38 bn in AuM in green bonds** (vs €2.33 bn in 2018), primarily invested in:
  - Renewable energy
  - Green buildings
  - Green transport
  - Energy distribution

- **ACTIVE ROLE IN MARKET-WIDE DIALOGUE**

Ostrum Asset Management plays an active role in market-wide initiatives and is involved in dialogue on the climate, taking part in discussions on coal and the taxonomy project, as well as its commitment to collaborative initiatives to support SDG 13 on the climate (cf. chapter III).

2. A RESPONSIBLE INVESTOR

2.1 EXTENSIVE INSIGHT INTO ESG CHALLENGES

A clear insight into environmental, social and governance issues is a useful and vital additional source of information for an asset manager.

An understanding of the current and future trends that are set to shape our economic and financial system, an insight into ESG challenges inherent in each business sector, and the ability to factor in forthcoming regulatory changes are essential in managing our business operations, so we obviously work to assess non-financial aspects that may affect issuers and create both risks and opportunities.

In our role as a responsible asset manager and in keeping with our fiduciary responsibility, we are committed to analyzing these challenges and their potential impact for issuers, so that we can take them on board in our investment decisions and our shareholder practices.

Ostrum AM's teams right across the company work to understand these complex challenges and their potential effects on issuers' businesses.

INTEGRATED ESG RESEARCH

SOLID SOURCES

- ESG data sources selected by portfolio management teams
- Wide range of sources to analyze ESG, ranging from direct contact with companies to specialized ESG data and analysis providers

COMPANY-WIDE EFFORTS

- 100% of our analysts are in charge of analyzing non-financial dimensions and assessing their impact on issuers
- ESG ambassadors have been singled out in each portfolio management team to coordinate our approach

FOCUS

ESG KNOWLEDGE SHARED WITH PORTFOLIO MANAGEMENT TEAMS

- Our portfolio management operations are all built on an integrated ESG analysis to conduct business
- Ongoing training ensures high degree of ESG knowledge

CLIMATE

INCLUDING AND INTEGRATING CLIMATE CONSIDERATIONS

- **Specialized training**: climate change issues for asset managers, carbon accounting
- **Systematic inclusion of climate theme** during discussions with management teams at companies where Ostrum AM invests

Ostrum AM's teams use a wide range of qualitative and quantitative ESG data that are selected for their relevance, wide coverage and complementarity to derive an integrated and useful ESG analysis. Alongside these various sources of information, teams also have direct and regular communication with companies' management.

Our full range of investment management operations are thus assessed using our proprietary ESG analysis process, which reveals the potential effects of non-financial aspects on each issuer's risk profile and performance.

TECHNICAL RESOURCES

SERVICE PROVIDER	SCOPE	DESCRIPTION
ISS - OEKOM	Voting Platform Exclusion Controversial Weapons	- Provision of voting platform (platform to submit votes to account holders) - Analysis of so-called non-core securities: decision on votes to be taken depending on scope and applying voting policy provided to them - Vote exercised on so-called non-core securities (apart from countries where voting process is administratively difficult) - "Core" and "non-core" votes sent to account holder - Analysis of corporates based on our exclusion policy on controversial weapons
SDG INDEX	Sovereign - ESG	Analysis of ESG criteria for instruments issued by SSA (Sovereigns, Supranationals and Agencies)
BEYOND RATINGS	Sovereign - Carbon	Analysis of carbon criteria for instruments issued by SSA (Sovereigns, Supranationals and Agencies)
TRUCOST (change in service provider at end 2019)	1) Corporate - Carbon 2) Corporate - 2DA 3) Corporate - Green Bonds (+ social / sustainable bonds)	1) Analysis of carbon criteria for corporates / issuers 2) Analysis of securities based on climate change scenarios (1.5°C, 2°C, etc.) to assess if aligned on Paris Agreement 3) Assessment of green bond aspect of bond issued by a corporate and flag enhanced by number of pieces of data on green bond and its issuer
CDP	Corporate - Carbon	Requested by some clients (data re-used for consolidated data report on client's total assets)
SUSTAINALYTICS	1) Corporate – ESG 2) Exclusion Worst Offenders	1) Analysis of ESG criteria of instruments issued by corporates 2) Analysis of corporates based on our worst offenders exclusion policy
BLOOMBERG	Green Bonds Flag	Confirmation of green bond profile for issued bond
CARBONE4	ESG data + Mirova Index	Carbone4 data restated by Mirova (external data processed, etc.) then entered into internal IT systems

2.2 EXCLUSION POLICIES ARE A FIRST STEP IN NON-FINANCIAL ANALYSIS

As part of its Corporate Social Responsibility policy, Ostrum Asset Management defines sector exclusion policies with the aim of:

- meeting the goals and pledges outlined by Ostrum Asset Management to comply with its responsible asset management strategy;
- complying with national and international regulation;
- fulfilling Natixis' commitments.

Ostrum Asset Management does 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.

- Some exclusion policies are applied to **all our funds** i.e. **weapons** and **exclusion of blacklisted states**.
- Our **exclusion policies on coal, tobacco and worst offenders** are applied to **all our open-ended funds**, and we engage with our clients to follow our policies via dialogue, voting and engagement initiatives.

Lastly, we are also able to offer **our clients specific exclusions**, in accordance with their requests and recommendations.

OUR EXCLUSION POLICIES: updated regularly to match our engagement goals

CONTROVERSIAL WEAPONS

In accordance with the Ottawa Treaty and the Oslo Convention signed by several countries, including France, Ostrum Asset Management excludes from its portfolios all companies involved in the use, stockpiling, production, sale and transfer of anti-personnel mines and cluster bombs.

BLACKLISTED STATES

Ostrum Asset Management does not invest in countries under US or European embargo or identified by the Financial Action Task Force (FATF) as presenting severe deficiencies in their anti-money laundering and combating the financing of terrorism set-up worldwide.

WORST OFFENDERS

Ostrum Asset Management is committed to excluding from its investment scope all equities, bonds and any other 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,
- environmental protection,
- business ethics.

COAL

Since 2019, we have excluded issuers that derive more than **25%** of revenues from coal production or coal-fired energy generation. We had previously applied this policy with a threshold of 50%.

Ostrum Asset Management also excludes from its investment scope companies that primarily produce, transport and sell coal derived using aggressive mountain top removal[3] methods.

TOBACCO

As part of its continuous efforts to enhance its responsible investment policy universe, Ostrum Asset Management applies a sector exclusion policy to the tobacco industry.
Ostrum Asset Management pledges to halt support for the tobacco sector, which is one of the worst offender sectors and runs contrary to the United Nations Development Program's Sustainable Development Goals[4] due to its particularly negative social, societal and environmental effects.

SCOPE OF APPLICATION FOR EXCLUSION POLICIES

	POLICY	SCOPE OF APPLICATION	DETAILS
Regulatory exclusions	**CONTROVERSIAL WEAPONS**	**Systematic application to all our funds** (open-ended funds + dedicated funds + mandates)	We have excluded all companies involved in the use, stockpiling, production, sale and transfer of anti-personnel mines and cluster bombs, in accordance with the Ottawa Treaty and the Oslo Convention signed by several countries, including France.
Regulatory exclusions	**BLACKLISTED STATES**	**Systematic application to all our funds** (open-ended funds + dedicated funds + mandates)	Ostrum Asset Management does not invest in countries under US or European embargo or identified by the Financial Action Task Force (FATF) as presenting severe deficiencies in their anti-money laundering and combating the financing of terrorism set-up worldwide.
Sector exclusions	**TOBACCO**	Systematic application to all **open-ended funds,** + **mandates and dedicated funds** unless client opposes this	Ostrum Asset Management pledges to halt support for the tobacco sector in its open-ended funds, which is one of the worst offender sectors and runs contrary to the United Nations Development Program's Sustainable Development Goals due to its particularly negative social, societal and environmental effects. On its other funds, Ostrum Asset Management encourages its clients to apply this policy in their dedicated funds and/or mandates where Ostrum AM is the financial manager.
Sector exclusions	**2019 UPDATE** **COAL**	Systematic application to all **open-ended funds,** + **mandates and dedicated funds** unless client opposes this	On all our open-ended funds, we exclude issuers that derive more than **25% of revenues** from coal production or coal-fired energy generation. We also exclude from our investment scope companies that produce, transport and sell coal derived using aggressive mountain top removal methods. On its other funds, Ostrum Asset Management asks clients whether they wish to apply this exclusion policy or not and factors in the decision in its future portfolio management policies.
Discretionary exclusion	**WORST OFFENDERS**	All **open-ended funds** (+ some dedicated funds and mandates on client request)	On our open-ended funds, we exclude all listed and unlisted companies that contravene the United Nations Global Compact and/or the OECD Guidelines for Multinational Enterprises. On its other funds, Ostrum Asset Management asks clients whether they wish to apply this exclusion policy or not and factors in the decision in its future portfolio management policies.

2.3 NON-FINANCIAL ANALYSIS METHODOLOGY

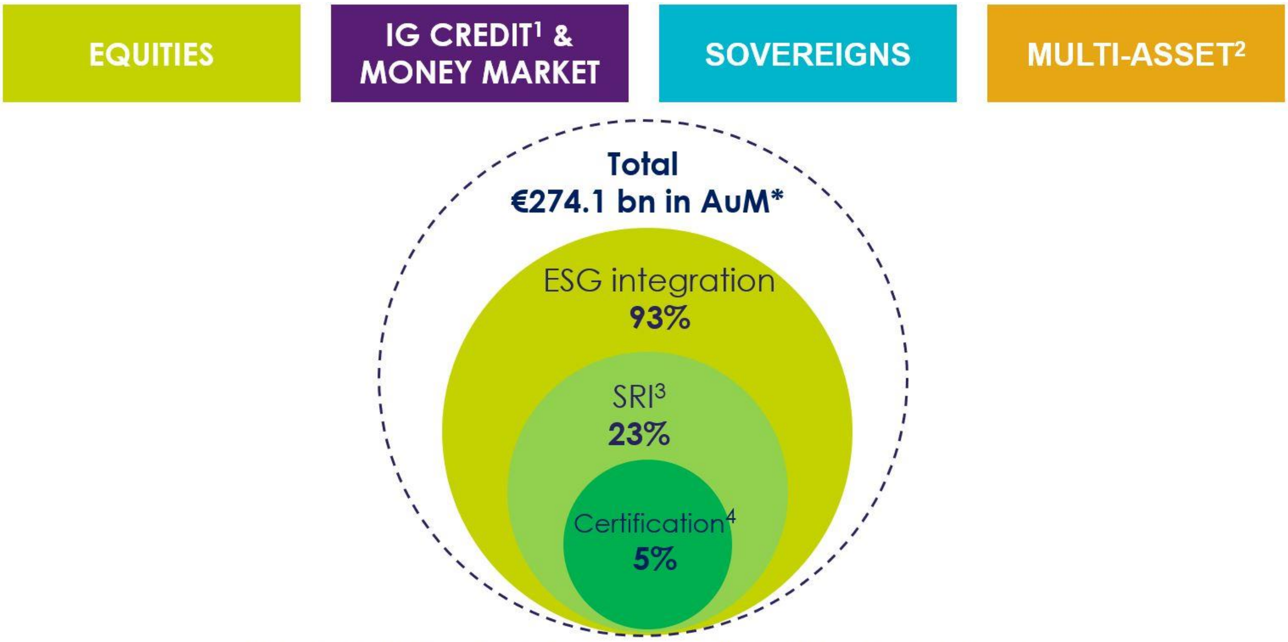
➔ **93% of our AuM include ESG dimensions.**

We systematically screen for E, S and G dimensions in our **analysis** across almost all our asset classes, excluding high yield, convertibles and ABS.

Therefore:

- **Close to 100% of equities AuM** incorporate ESG criteria,
- **100% of our emerging and develop market sovereigns AuM** include ESG criteria,
- **More than 90% of credit AuM** are covered by integrated financial and non-financial analysis and work is currently under way on certain areas of expertise and strategies,
- **Active ESG management across more than 20% of our AuM**
    - **taking on board ESG criteria in management process.**

[3] Mountain top removal mining is a type of open-pit mining that makes extensive use of explosives and modern mechanical methods with better performances at a lower cost than more traditional mining techniques.
[4] To find out more about the Sustainable Development Goals: http://www.undp.org/content/undp/fr/home/sustainable-development-goals.html



Strategies: Best In Class, Positive screening, Best In Universe, Negative Screening, etc.

**Source: Ostrum AM at 12/31/2019 excluding real assets & private debt, ABS, high yield and convertibles.*
[1]IG - Investment Grade, i.e. bonds with a rating of AAA to BB-.
[2]Multi Asset: investment with several financial asset classes
[3]SRI: Socially Responsible Investment, which involves systematically including environmental, social and governance (ESG) criteria in financial management in a traceable way.
[4]Fund that has received an SRI or Greenfin certification

Ethical behavioral is extremely important here at Ostrum AM, and as an asset manager, we take our commitments and duty of transparency to our clients very seriously. In 2019 Ostrum AM therefore ramped up its initiatives to provide extensive non-financial analysis and offer clients data on their portfolios' situations.

We therefore conduct non-financial analysis systematically across our various asset classes as follows.

2.3.1 INCORPORATING ESG CRITERIA INTO EQUITIES MANAGEMENT

Here at Ostrum AM, our portfolio teams managing equities assets pledged to display consistently high-quality ESG dimensions in portfolios as part of our responsible approach: this means a much higher ESG score for its portfolio than for the benchmark.

Our analysts conduct ESG screening for companies in our portfolios using our proprietary method, built on a twofold analysis process, screening for quantitative and qualitative aspects. We use our own proprietary indicators based on non-financial data reported by companies for the quantitative portion, while the qualitative aspect is built on the outcome of our analysts' meetings with companies' management teams.

Our investment strategy involves focusing on high-quality stocks with robust growth in order to safeguard the risk-return ratio over a five-year investment timeframe. Growth is a prerequisite as equities cannot sustain long-lasting performances without earnings growth, while quality in this case means quality of the business (solid business model, intensity of competition, competitive advantages, market share, innovation), management quality (vision, ability to appropriately allocate capital, experience) and a solid balance sheet. Non-financial or ESG aspects obviously add to and round out our quality assessment, as environmental risks related to a company's products and services can be seen as a liability that can dent the balance sheet, while in our view, social risks are a sign that the business is shaky. Lastly, governance and management are obviously connected.

2.3.2 INCORPORATING ESG CRITERIA INTO CREDIT RESEARCH

The Credit Research team at Ostrum Asset Management continued its 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 of credit analysts systematically incorporates non-financial elements into its analyses when they are considered to be material, i.e. having 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 the Ostrum AM 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.

To ensure consistency in analysis and fairness in the assessment of issuers, an analysis framework has been set out to round out these various research aspects, combining:

- An "issuer-by-issuer" approach so that each analyst can identify non-financial material aspects, and hence the strengths and weaknesses of each issuer with regard to specific ESG aspects.
- A sector-wide approach that is set out and shared by all analysts.

Our teams have identified and set out the ESG challenges that specifically affect each business sector and segment.

This landmark project mobilized our entire team of credit analysts, as we rolled out this approach across all our teams in Europe, Asia and the United States. ESG challenges are regularly reviewed and updated to take account of all changes and news that are specific to each business sector and can affect the short, medium and long term, with a view to keeping our approach constantly relevant.

In 2019, Ostrum AM also launched a new scale for assessing material ESG risks and opportunities, the **ESG Impact score**. In order to improve the transparency and comparability of ESG risks and opportunities across issuers, the Credit Research team implemented this new assessment scale that is available to all investment staff via our inhouse platform. The score enables staff to monitor all changes for each issuer, while the assessment is also systematically supported by a qualitative analysis on each of the three E, S and G dimensions, which are detailed in dedicated reports written by our analysts for each individual issuer.

ESG IMPACT MEASUREMENT	RELEVANCE OF ESG ASPECTS FOR BUSINESS SECTOR OR COMPANY	IMPACT OF ESG ASPECTS ON COMPANY'S CREDIT PROFILE
ESG 0	Not relevant	
ESG 1	Relevant	ESG aspects are relevant for the company or industry, but their impact on credit is low
ESG 2	Relevant	(i) Either the direct impact is limited (ii) Or ESG risks/opportunities are significant but the company is managing them actively, so the impact on credit is limited
ESG 3	Relevant	ESG aspects can be a crucial component of the fundamental score, or they are combined with other aspects

ESG aspects thus systematically and naturally affect our qualitative and quantitative credit risk assessment for issuers, and highlight both risks and opportunities.

2.3.3 INCORPORATING ESG CRITERIA ON SOVEREIGN ISSUERS

On sovereign and quasi-sovereign issuers, material non-financial aspects are systematically taken on board and directly included via the assessment of country risk as we build portfolios. This assessment involves two stages:

- ***Sovereign risk assessment model***

Our quantitative engineers recently 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 and 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 based on the following:

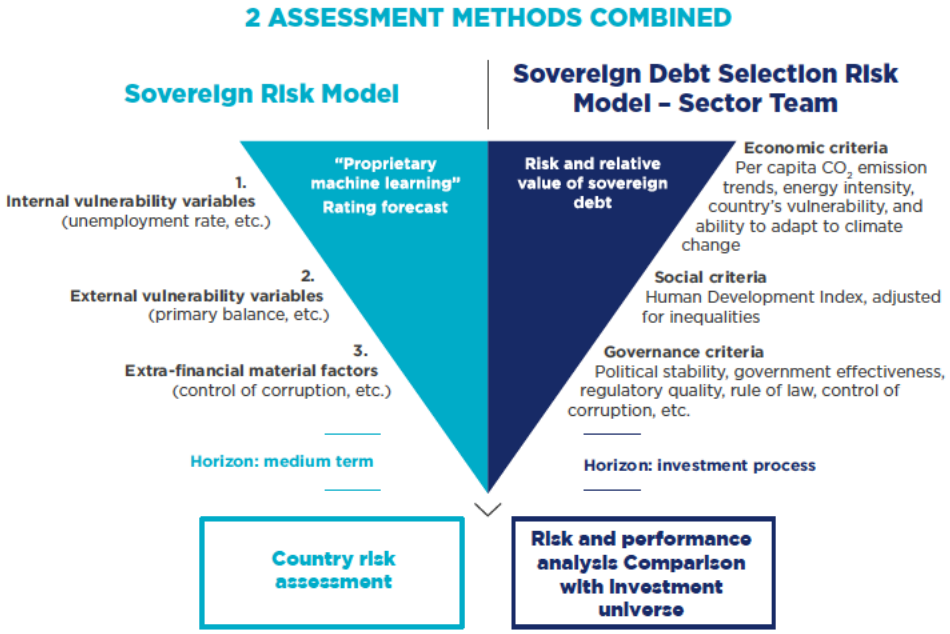
- Economy: internal vulnerability variables, such as unemployment, and external factors such as primary balance. Source: Standard & Poor's;
- Non-financial material aspects: ESG variables such as control of corruption. Source: World Bank and UN Development Program.

- ***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 as well as risk factors (financial risks, such as macroeconomic and regulatory, as well as non-financial), thereby analyzing E, S and G aspects for each individual country:

- Environmental aspects are assessed on the basis of CO2 emissions per inhabitant (source World Bank), energy intensity (World Bank) and States' vulnerability to climate change and ability to adapt (ND-Gain Index);
- Social aspects are analyzed using the Inequality-adjusted Human Development Index (United Nations Development Program);
- Governance is assessed using the World Bank's Worldwide Governance Indicators (WGI) i.e. political stability, government effectiveness, regulatory quality, rule of law, voice and accountability, and control of corruption.

The SDS team uses some variables that are similar to the sovereign risk model, which it rounds out with analysis and interpretations from the portfolio management teams discussed during SDS sector committees and used to determine the investment timeframe, particularly the timeframe for a country's assessment downgrade. By combining financial and non-financial aspects, the Sovereign Debt Selection team develops assessments on euro area sovereign debt for each maturity (1-3; 3-7; 7-15; 15+ years) and gives them a rating (-2, -1, 0, +1, +2).



2.4 A BESPOKE RANGE OF SRI SOLUTIONS

Beyond the integration of ESG criteria for almost all asset classes, Ostrum AM has also rolled out an SRI management approach across 23% of its assets under management. As longstanding responsible management experts, we are able to provide our clients with tailored SRI and ESG products across all asset classes and work with them to build bespoke strategies that best meet their ESG strategies.

Strategies are suited to meet each individual client's needs:

Best-in-Class and Positive screening

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

Best-in-Universe

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

Reinforced exclusions

Exclude issuers with the highest ESG risk profiles

Smart carbon strategies

Provide portfolio decarbonisation strategies and portfolios with minimised carbon footprints

Further developing our SRI accreditation policy:

In 2019, Ostrum AM received the SRI certification for 13 of its funds and mandates, equating to €12.9 bn, i.e. 4.7% of its assets under management. Ostrum AM also upgraded a €7.1 bn money market fund to socially responsible asset management, using a "best in class" approach that is rounded out by active "positive screening". The "Ostrum Sustainable Trésorerie" UCITS also gained accreditation this year.

2.5 RESPONSIBLE INVESTMENT TO ADDRESS OUR CLIENTS' NEEDS

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 ESG 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. 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.

Reporting milestones in 2019

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 full data reports, complying with regulatory requirements such as Article 173 of the French Energy Transition for Green Growth Act.

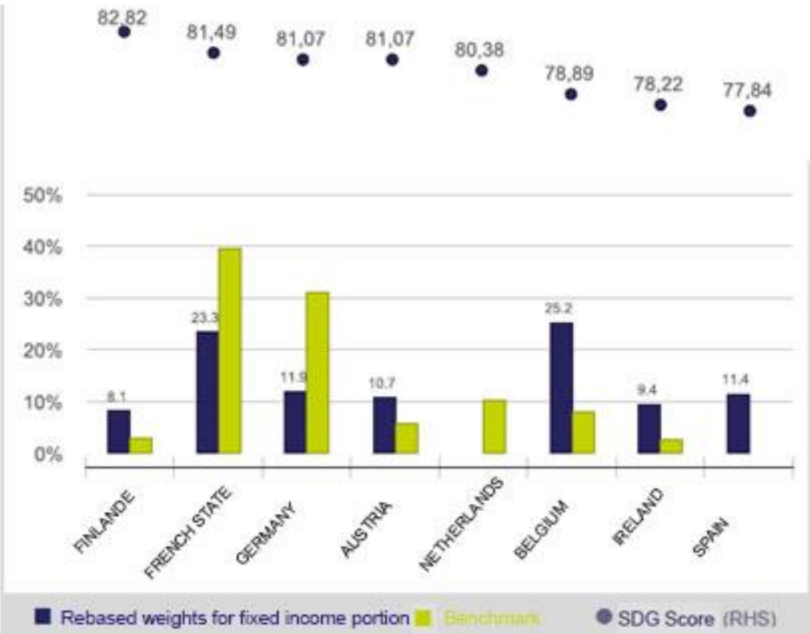
- **Our ESG rating for sovereign securities**

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 non-financial analysis of sovereign issuers.

The **SDG**, 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.

The SDG Index combines available data for all 17 goals, providing a score of between 0 and 100, where 100 is the highest score.

The chart below is presented to our clients in their reporting data, and provides an example of the breakdown of a portfolio's ESG performance as compared to its benchmark.



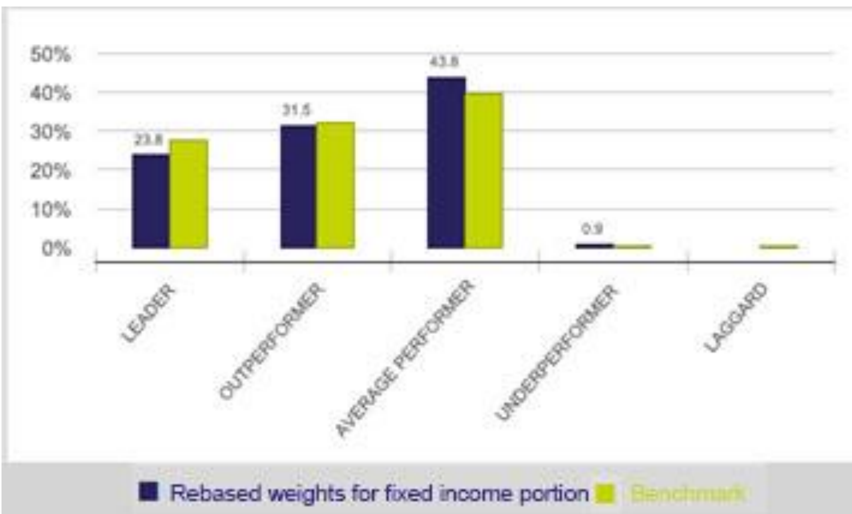
- ***Our ESG rating for corporate securities***

Ostrum AM has decided to call on an external service provider for non-financial analysis of corporate bonds, thereby enabling us to provide clients with detailed qualitative analysis.

Sustainalytics provides:

- ✓ An overall ESG score out of 100;
- ✓ A score for each aspect of E, S and G;
- ✓ Methodology to allow for score comparisons between the various business sectors and geographical regions;
- ✓ A rating within each sector, as issuers are ranked into five quintiles in terms of ESG criteria, ranging from the highest – Leader – to the lowest – Laggard. This sector-by-sector analysis is particularly suited to our credit management process;
- ✓ In-depth sections on any controversial aspects under way.

Scores are available to all our bond and equities specialist teams, while clients also receive the chart below in their ESG data reports, providing a breakdown of their corporate bond portfolios using the Sustainalytics ranking.



Ostrum AM also provides a list of the ten best-ranking corporate issuers and the ten lowest-ranking, as well as their weighting in each overall portfolio.

The average portfolio score is therefore set out as follows:

Portfolio average score

	Fund	% Weighting	Index	% Weighting
Score moyen-Souverains (note SDG Index : 100 le meilleur)	80,1	22	81,0	30
Score moyen-Crédit (note SDG Sustainalytics : 100 le meilleur)	68,0	47	69,7	32

ESG SCORE FOR
YOUR FUND
BY BOND TYPE

WEIGHTING OF
ASSET CLASS
COMPARED TO
YOUR OVERALL
PORTFOLIO

- **Our ESG rating for Equities**

Ostrum AM's equity research team has developed a proprietary in-house ESG rating system for non-financial analysis of equity assets, based on **qualitative** data from meetings with issuers and **quantitative** data based on information reported by companies (source: Refinitiv, formerly Thomson Reuters).
Our team assesses each company covered on the basis of 40 quantitative indicators and 17 qualitative criteria: separate E,Sand G dimensions are assessed, with quantitative and qualitative indicators accounting for half of each of these three scores, which are then averaged to provide an overall **ESG Score**.

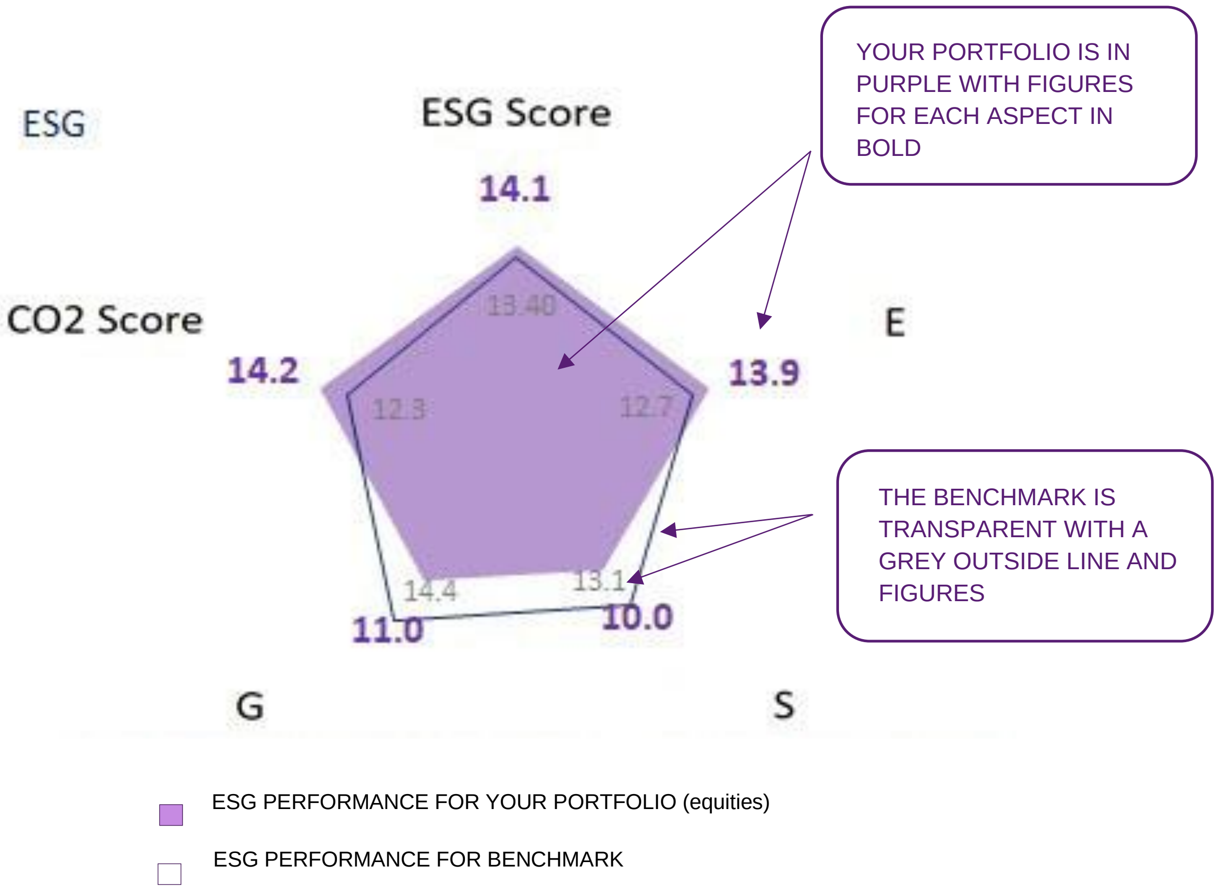
The **CO2 score** breaks down as follows:

- 1/3 for carbon intensity(emissions)
- 2/3 for the trend.

Each score is between 0 and 20, where 20 is the highest.

Scores for our E, S and G components take on board the following aspects:

- Environment: the E score reflects the company's environmental responsibility performances.
- Social: this aspect assesses companies' social responsibility to crucial stakeholders i.e. staff, clients and suppliers.
- Governance: we analyze each company's governance quality by assessing management, alignment of interests, tax responsibility, ethics and transparency.



- **ESG report**

Ostrum Asset Management also provides an ESG data report in its annual reports for funds covered by the Energy Transition for Green Growth Act. Fund investors therefore receive a carbon intensity report in addition to the information required to understand ESG integration on their funds.

3. ENGAGEMENT FOR OUR CLIENTS AND SOCIETY

Engagement lies at the very heart of Ostrum AM's responsible investment approach, as it develops constructive dialogue with issuers to support them in taking environmental, social and governance criteria on board in their strategies.

2019 KEY FIGURES

150
Companies targeted for **individual engagement** initiatives

approx.
1,000
meetings and contact with companies

including
500
meetings and conference calls
each year with Fixed Income issuers

6
new collaborative initiatives
that Ostrum joined in 2019

Source: Ostrum AM at 12/31/2019

3.1 ENGAGEMENT WITH OUR CLIENTS

3.1.1 ENGAGEMENT VIA OUR VOTING POLICY

Our dialogue and engagement 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, on a comprehensive voting universe according to a rigorous and demanding policy that addresses social and environmental issues, in addition to corporate governance aspects.

- **98.9%** participation rate in our voting universe
- **10,692** resolutions voted
- We took part in **729** shareholder meetings

3.1.2 ENGAGEMENT VIA DIALOGUE

Ostrum AM holds itself to the highest standards as an active and involved shareholder by engaging in constructive dialogue with its holdings. In-house teams have frequent contact with the largest issuers comprising Ostrum AM's main assets under management – or its core universe – to encourage them to adopt best ESG practices. This dialogue is based on continuous 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 that have been under-estimated, and share some best ESG practices with the company. These identified areas for improvement and any measurable progress expected are formally 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 rating accordingly.

Over the course of 2019, Ostrum AM engaged with 150 companies held in the funds it manages on behalf of clients, during over 500 meetings and discussions with the companies.

Issuer engagement is also part of our fixed income investment process, where we discuss all material ESG aspects, regardless of the issuer type.
Portfolio management teams at Ostrum AM hold around 500 meetings or conference calls with bond issuers (fixed income) each year as part of our due diligence 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, although we may also stage these analysis 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.

3.2 COLLABORATIVE ENGAGEMENT

Ostrum AM works alongside investors to support a raft of initiatives aimed at raising awareness among issuers, public authorities and regulatory bodies on the importance of environmental, social and governance (ESG) and corporate social responsibility (CSR) challenges.

2019 was marked by Ostrum AM's contribution to various initiatives that focus on the Ten Principles of the UN Global Compact, the Paris Agreement on Climate Change and the declaration from the Paris financial center in July 2019 for a low-carbon economy. During the year, we particularly focused on actions that target five of the 17 Sustainable Development Goals i.e. 3, 5, 13, 14 and 15, which address four themes: Good Health and Wellbeing, Gender Equality, Climate Action and Biodiversity.

OUR SUPPORT FOR INVESTOR STATEMENTS

Initiative Name	Type	Date of support	Lead Organization	Sector	Category	SDG
Investor Expectations on climate change for airlines and aerospace companies	Statement	12/19/2019	Climate Action 100+	Aerospace	Environment	13
Gender Equity in the workplace	Investor statement	10/08/2019	Mirova	Diversity	People	5
Tobacco Free Finance Pledge	Investor statement	09/18/2019	Tobacco Free Portfolios	Tobacco	People	3
Deforestation and forest fires in the Amazon	Investor statement	09/13/2019	Ceres	Forest	Environment	13, 14, 15
Investor Statement on Methane Emissions in Oil & Gas	Investor statement	07/29/2019	IIGCC/ICCR	Oil & Gas	Environment	13
WDI - Workforce Disclosure Initiative - phase II	Letter to targeted company	2019	Share Action	All sectors	People	8, 10

3.3 CONTRIBUTION TO DEFINING CSR/SRI[5] STANDARDS

Due to its leading position in the asset management industry and its commitment to responsible investment, Ostrum AM plays an important role in market-wide initiatives and groups to contribute to the co-construction of exacting responsible asset management standards.

[5] Socially responsible investment

To enhance harmonization and professionalization of the responsible investment industry, Ostrum AM contributes to structural discussions on CSR and ESG issues, particularly through an active presence in and contribution to the main dedicated professional bodies alongside sector peers.

FRANCE

INTERNATIONAL

CLIMATE AND ENVIRONMENTAL CHALLENGES

ACTIVE ENGAGEMENT

In 2019 Ostrum AM decided to take further action and played an active part in two other initiatives:

- The Taxonomy Practitioners' Group launched in December 2019
- Taking part in drafting the white paper "Coal Best Practices Guide" launched in 2019 and published in February 2020.

This guide on the development of a coal strategy (in French only) or asset management companies to support them in exiting the coal industry was driven by the French Asset Management Association (AFG, or Association Française de la Gestion financière). It provides a list of best practices to reduce exposure to coal investments in order to work together to contribute to a carbon neutral goal. This guide is designed to put forward strategies and support asset managers as they strive to comply with their commitments.

ADDITIONAL NOTES

Ostrum Asset Management
Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 27 772 359 euros – Trade register n°525 192 753 Paris – VAT: FR 93 525 192 753 – Registered Office: 43, avenue Pierre Mendès-France, 75013 Paris – www.ostrum.com

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