

• **ESG POLICY**

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- **1. SCOPE FOR APPLICATION**

Apart from our exclusion policies – sector-based or standards-based (excluding regulatory) – all aspects of our ESG Policy apply to all funds managed by Ostrum Asset Management i.e. open-ended funds, dedicated funds and mandates.

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● 2. INTRODUCTION

Ostrum Asset Management strives to take all ESG dimensions on board in investment decisions, as we roll out our responsible strategy by drawing on:

- An extensive sector and exclusion policy i.e. regulatory, sector and discretionary,
- An integration policy across all our asset classes,
- An engagement policy that is applied both individually across all our asset classes via ongoing dialogue with bond issuers and an active voting policy for our equity investments, and collaboratively as Ostrum Asset Management sets out official positions on various issues.

Ostrum Asset Management has been a signatory to the Principles for Responsible Investment (PRI)¹ since 2008. The company has been persistently lauded for the quality and ambition of its approach to responsible investment, receiving excellent scores with A/A+ for all asset classes under management for all modules where we are assessed.

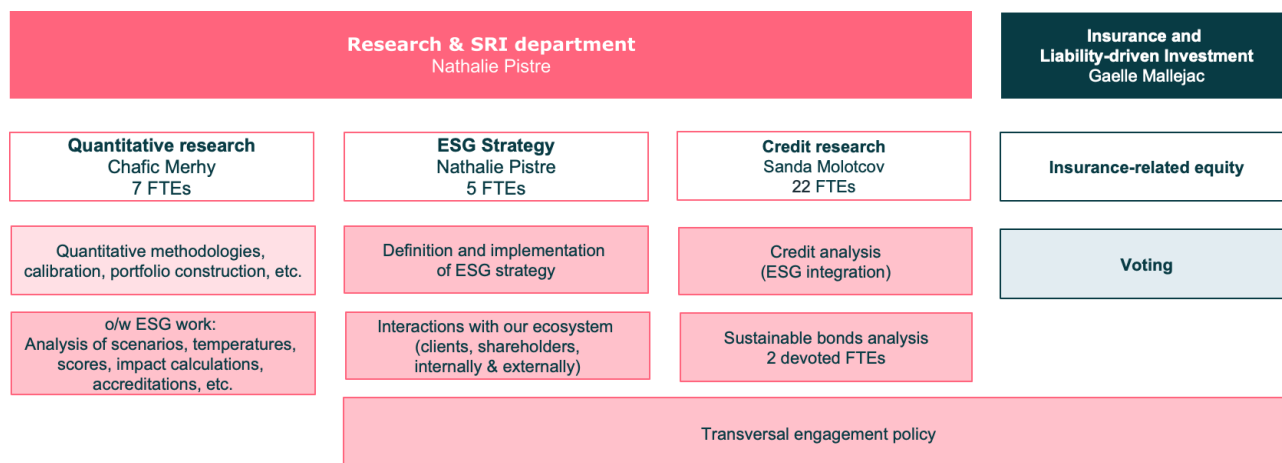
¹ The rating scale ranges from A+ (highest) to E (lowest). Following a detailed reporting exercise, the Principles for Responsible Investment award a score based on the 6-level scale for each applicable module and the peer group median is also announced to provide some context for results from a relative standpoint. The “Strategy and Governance” Module is applicable to all signatories; other modules are applicable if they cover a category equal to or above 10% of AuM. Refer to our full PRI Transparency Report for further details on Ostrum AM’s ESG reporting, available on the PRI website.

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- **3. OSTRUM ASSET MANAGEMENT'S SRI² ORGANIZATION**

² Socially Responsible Investment (SRI) involves systematically and transparently incorporating environmental, social and governance (ESG) criteria into financial management (source Novethic)

Ostrum Asset Management developed its SRI and Research department with a view to setting up a robust, devoted inhouse organization to structure our policies and investment services as regards SRI. This division is part of the Portfolio Management department and works in close cooperation with the various Portfolio Management teams, particularly as regards investment processes, the engagement policy and our sector approach.



Source: Ostrum Asset Management, 2022

The Research and SRI department is divided into three teams:

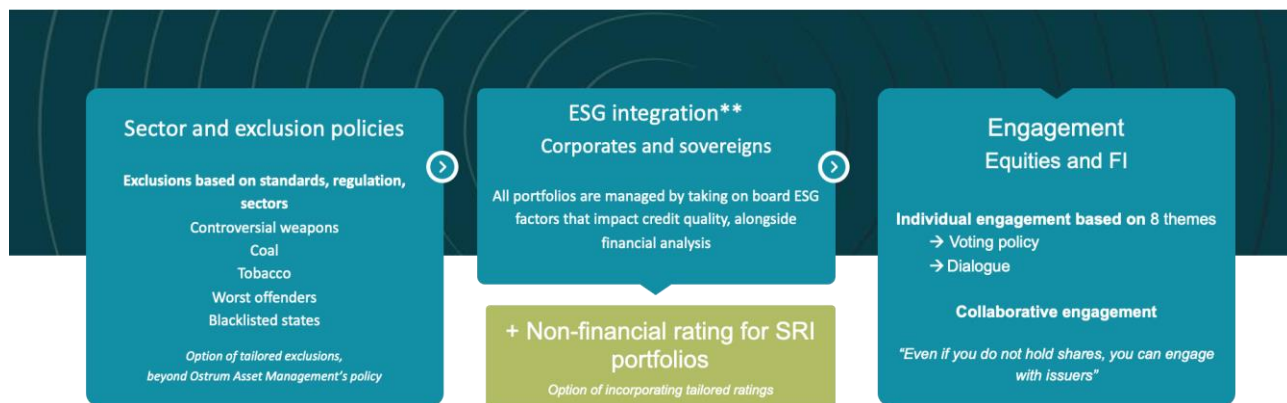
- **Credit research:** this team is responsible for issuer credit analysis with incorporation of ESG criteria. ESG and climate-related aspects are systematically integrated into their analysis when they are deemed to be material, drawing on a stringent analysis framework. Specialist analysts are devoted to our sustainability bonds expertise and enhance our approach on this area covering green bonds, social bonds and sustainability bonds, etc. The team is also in charge of dialogue with companies.
- **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:** the ESG Strategy team is in charge of overseeing all ESG/SRI/climate themes across the company, as well as managing cross-company requirements, and a number of other major themes.

The team draws on its market watch to conduct analysis to 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 contributes to responses and manages requests from regulators in particular.

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- **4. OSTRUM ASSET
MANAGEMENT'S ESG
APPROACH**

Our responsible investment approach draws on three complementary dimensions:



³ Source: Ostrum Asset Management, 2021

Our impact financing strategy and our engagement and voting policy round out these three components.

** Integration of ESG dimensions involves including ESG matters in analysis and investment decisions. Incorporation of ESG factors does not necessarily mean that investment vehicles seek to drive a positive ESG impact.

4.1 SECTOR AND EXCLUSION POLICIES APPLIED TO OUR ENTIRE INVESTMENT UNIVERSE

Ostrum Asset Management is a responsible asset manager and as such, its business 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 number of sector and exclusion policies that apply to our entire investment universe, as shown below.

CONTROVERSIAL WEAPONS

Exclusion of issuers involved in the use, development, production, sale, distribution, stockpiling and transfer of chemical weapons, biological weapons, nuclear weapons (outside the Non-Proliferation Treaty), depleted uranium weapons, anti-personnel mines and cluster bombs

WORST OFFENDERS

Exclusion of all companies, listed or unlisted, which are proven to contravene accepted international standards (the United Nations Global Compact principles and OECD guidelines for multinationals), that seriously contravene human rights, labor rights, business ethics and environmental protection.

COAL

Exclusion of issuers:

- that develop new coal projects
- that have not set out a coal phase-out strategy in line with the Paris Agreement in 2021.

We will monitor the credibility of these exit plans and their funding, and engage and dialogue extensively with companies on this issue.

- that 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%.

BLACKLISTED STATES

Ostrum Asset Management complies stringently with current regulation and does not invest in:

- countries under US or European embargo, which would contravene current restrictions;
- countries 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.

TOBACCO

As part of our work to define a responsible investment universe, Ostrum Asset Management set out an exclusion policy for tobacco in 2018 and 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 due to its particularly negative social, societal and environmental effects.

Source: Ostrum Asset Management, 2021

All our sector and exclusion policies can be viewed on our website in the [CSR and ESG publications section](#).

Exclusion policies are designed to apply to all open-end funds for which Ostrum Asset Management is delegated financial investment manager. For dedicated funds and mandates, Ostrum Asset Management will apply this new policy (unless clients request otherwise) to take it on board in future portfolio management. Where necessary in the case of delegated management, it will inform the delegated manager.

Some aspects of the ESG policy will apply automatically to devoted funds and mandates without requesting client consent. Regulatory exclusions will automatically apply to new acquisitions and investments, while for the Worst Offenders and Controversial Weapons policies, this will apply to new acquisitions only.

Controversial weapons

Ostrum Asset Management decided to extend the scope for its controversial weapons exclusions in 2021 and take our approach beyond the pledges already set out to comply with the Ottawa Treaty (1993) and the Oslo Convention (2008) on anti-personnel mines and cluster bombs.

Ostrum Asset Management now excludes from its investments all issuers involved in the use, development, production, sale, distribution, stockpiling and transport of anti-personnel mines and cluster bombs, chemical weapons, biological weapons, nuclear weapons (outside the Non-Proliferation Treaty), and depleted uranium weapons.

We define issuer involved in weapons production as any manufacturers of finished weapons and companies producing crucial components specifically designed for these weapons.

Issuers that are proven to be involved in this business will be systematically excluded: there is no minimum exclusion threshold or any exception to this policy.

We draw on specialist non-financial data providers in our identification for controversial weapons and our teams' expertise (analysts, portfolio managers and members of the ESG Strategy team) in charge of monitoring and updating the list of issuers covered by our sector and exclusion policies. Where necessary, our experts also check the reliability of data provided by external providers via a Controversial Weapons committee, which will meet at least once per year.

In addition to extending the direct exclusion scope, Ostrum Asset Management also reserves the right to exclude issuers in the Defense sector or issuers involved in other sectors that are not directly covered in the examples mentioned above if they support the dissemination of weapons that may lead to unnecessary or unjustifiable suffering to fighters or indiscriminately affect civilians, in line with the United Nations' principles.

In this event, Ostrum Asset Management will conduct its own investigations for our Controversial Weapons committee and engage directly with issuers to dialogue on the question where necessary.

[View our Controversial weapons policy \(in CSR and ESG publications\)](#)

Coal sector policy

Ostrum Asset Management rolled out an initial coal exclusion policy in 2018 before adding to its pledges in 2019. In late 2020 and again in mid-2021, we took fresh measures to bolster this strategy, setting out a timetable for application to all open-ended funds we manage, as well as all mandates and dedicated funds, unless clients request otherwise.

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)⁴. Similarly, divestment from companies concerned will be conducted within six months under normal market conditions.

Additionally, as of 2022, Ostrum Asset Management no longer invests in companies that have not set out a coal phase-out strategy in line with the Paris Agreement in 2021. We monitor the credibility of these exit plans and their funding. Investments based on this criterion ceased as of January 1, 2022, with a six-month timeframe to run down existing positions under normal market conditions. Ostrum Asset Management will engage and dialogue extensively with companies as it applies this measure.

This policy applies to all open-ended funds we manage, mandates and dedicated funds, unless clients decide otherwise.

[View our Coal sector policy \(in CSR and ESG publications\)](#)

Oil and Gas

In 2021, Ostrum Asset Management further strengthened its climate commitment and supports the energy transition as it announced a new oil and gas sector policy for early 2022. The main principles of this have already been announced.

As of 2022, Ostrum Asset Management will no longer conduct any fresh investments in companies that derive more than 10% of their production from these activities and that produce more than 10 million barrels of oil equivalent. This policy also covers companies that work right along the Upstream production value chain i.e. that are involved in exploration, development, and operation. Ostrum Asset Management may review this threshold and reduce it further in the future.

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

Ostrum Asset Management intends to fully withdraw from unconventional 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 Asset Management 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.

[Link to key principles of our Oil & Gas sector policy](#)

Tobacco

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 due to its particularly negative social, societal and environmental effects. This policy has been effective since June 30, 2018⁵.

[View our Tobacco sector policy \(in CSR and ESG publications\)](#)

Blacklisted states

Ostrum Asset Management complies stringently with current regulation and does not invest in:

- countries under US or European embargo, which would contravene current restrictions;
- countries 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.

⁴ German NGO Urgewald has drafted a list of companies (parent companies and subsidiaries) involved in the coal value chain. <https://coalexit.org>.

⁵ Since June 30, 2018, our open-ended funds have no longer invested in tobacco, bar the most affected funds where positions will be gradually and fully phased out by 2021 with a view to protecting unitholders and as outlined in the funds' prospectuses. In view of their specific features, funds of funds and index funds are not covered by the tobacco sector exclusion scope.

Worst Offenders (controversy management)

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 and business ethics, as well as environmental protection.

In late 2019, Ostrum Asset Management developed an inhouse procedure and set up a Worst Offenders committee, comprising 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.

We draw on specialist non-financial data providers in our identification of controversies and our teams' expertise (analysts, portfolio managers and members of the ESG Strategy team) in charge of monitoring and updating the list of issuers covered by our sector and exclusion policies. Where necessary, our experts also check the reliability of data provided by external providers via a Worst Offenders committee, which meets at least once per year.

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, while active dialogue measures are also undertaken.

This policy applies to the purchase ban on all portfolios and the disposal on all open-ended funds.

[View our Worst Offenders policy \(in CSR and ESG publications\)](#)

4.2 INTEGRATING ENVIRONMENTAL, SOCIAL & GOVERNANCE DIMENSIONS (ESG) ACROSS ALMOST 100% OF OUR ASSETS UNDER MANAGEMENT

We resolutely believe that ESG dimensions can impact the analysis of issuers' risk profiles and performances, so here at Ostrum Asset Management, we take ESG aspects on board **across almost 100% of assets analyzed**⁶.

We firstly screen to exclude the worst offenders from our investment universe using our various exclusion policies (further details are provided above), then our investment teams systematically assess whether non-financial factors can impact development and sustainability for each underlying issuer, as they consider both the risks and opportunities, as well as the likelihood that material events will emerge.

We systematically take on board ESG factors when assessing risk and analyzing issuers' fundamentals.

Each investment management team strives to outline the most appropriate ESG screening system by assessing the materiality of specific criteria and how they affect our overall assessment of issuers. The systematic and individual aspects of this approach dovetail neatly to make our strategy impactful.

A shared ESG integration approach for Credit and Equities

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

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.

We take a qualitative approach, drawing on our portfolio management teams' extensive insight and their strong capabilities on assessing material aspects that can positively or negatively affect issuers 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 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 ESG integration process is a combination of an "issuer by issuer" approach and a sector-based approach.

Issuer by issuer approach

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

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

⁶ Source: Ostrum Asset Management at December 31, 2020

For example, we have ascertained that material environmental issues are generally related to two risks i.e. environmental “accidents” (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 i.e. regulation on CO₂ emissions in Europe, nitrogen oxide emissions in the United States and fuel consumption in China. This kind of new regulation involves additional R&D spending, extra costs related to new components to be incorporated, potential fines, etc.

Sector-based approach

We regularly organize ESG workshops with 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 research apart from the crowd.

Our sector risk mapping leads to output such as devoted sector reviews summing up the key risks and opportunities:

- Integrated Utilities
- Regulated Utilities
- Automotive
- Energy – Oil & Gas
- Telecoms
- Transport
- Metals & Mining
- Capital goods (Diversified Manufacturing, Construction Machinery/Building materials)
- Chemicals
- Banks
- Pharmaceuticals
- Real Estate/REITs
- Media & Entertainment
- Consumer & Retail

ESG Materiality Scores

In 2018, credit research at Ostrum Asset Management decided to adopt a new measurement scale to ascertain the intensity of ESG risks and opportunities for companies’ credit profiles. This proprietary scale provides an ESG materiality score for each issuer.

In 2022, we hit a fresh milestone as we adopted a shared ESG integration approach for both equity and credit. By applying this approach, we can assess both the implications of ESG factors for companies’ credit profiles and their repercussions for their overall business franchise, which we define as companies’ ability to safeguard their revenues over the long term, tackle potential disruption in the sector and/or address risks progressively as they emerge.

The definition of our proprietary ESG Materiality Scores has therefore changed accordingly:

- we acknowledge that there are major risks (-) or opportunities (+) in terms of ESG factors for the company’s business;
- the extent of their impact can vary from minor (ESG1) to severe (ESG3);

- and we will assess the extent of the impact based on management’s ability and willingness to detect, adapt or address change, and the time it has to do so.

Extent of impact of E, S and G factors on business franchise			
	Significant	Moderate	Low
Impact Opportunity	ESG3+	ESG2+	ESG1+
Risk	ESG3-	ESG2-	ESG1-

The table should be interpreted as follows: a materiality score of ESG2+ means that among the various E, S and G components we have identified, we think that (i) opportunities outweigh risks and (ii) the extent of the impact is moderate for the company’s franchise.

In detail, this means:

		Implications for Equity and Credit investors
ESG3+	<p>Non-financial factors drive positive structural changes in the industry – can even be considered as disruptive and</p> <p>Company’s strong positioning within the industry and management’s clear determination and ability to adapt should support the company’s long-term success. We therefore expect the company to post higher growth than the industry as a whole.</p>	<p>Equities with most upside exposure in long term.</p> <p>Credit should be less sensitive given the long-term timeframe.</p>
ESG3-	<p>E, S and G dimensions may be disruptive for the sector or company within a certain period of time, leading to a hefty negative impact for the company and its franchise.</p> <ul style="list-style-type: none"> • If we expect these disruptive effects to sometimes materialize over a long time period, management may lack the determination/skills to adapt. • If the disruptive factor is more likely to emerge over a short time period (for example 2-3 years), management may not have the time or ability to adapt, even if has the skills. The ensuing risk is already incorporated into the Ostrum Asset Management proprietary credit score. • If the disruptive factor is imminent (such as litigation risk), this would also lead to a High Event Risk in our credit score. 	<p>ESG3- implies that the company’s franchise is at a high risk over the long term and equity investors will therefore most probably exclude the company from their investment universe.</p> <p>Credit investors expect to differentiate short-term exposure from long-term exposure.</p>
ESG2+	<p>Non-financial factors lead to positive secular changes for the industry (most often niche industries). Additional growth for the company will either come from its own positioning in the industry, or the industry’s positioning itself.</p> <p>For example, only part of the company’s activity is likely to benefit from positive trends in the industry and/or management’s ability and determination to adapt are only partial. Consequently, the potential for future improvement in the company’s franchise is lower than ESG3.</p>	<p>Sensitive information for the company’s shares.</p> <p>Favorable support for the quality of the credit profile, but not a decisive factor on spreads.</p>

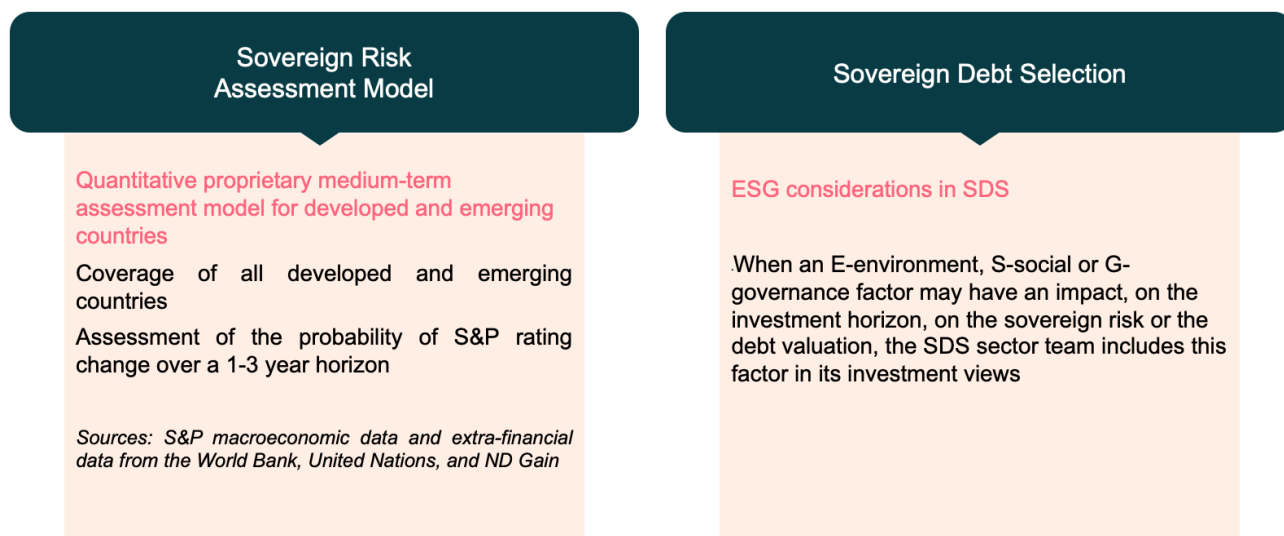
		Implications for Equity and Credit investors
ESG2-	<p>E, S or G factors are likely to fuel negative changes for the industry or company in certain period of time, leading to an erosion in the franchise.</p> <p>Management has the willingness, ability and/or advantage of having time to adapt, and/or the diversification of activities helps partly offset risks, etc.</p> <p>Consequently, the company's franchise will very probably suffer, but will not be dented. The erosion of the franchise is already taken into consideration in the fundamental credit score.</p>	<p>Equities will very probably suffer from continuous pressure.</p> <p>Credit will suffer from pressure during certain periods of the credit cycle, alongside other negative catalysts.</p>
ESG1+	<p>Non-financial factors, while favorable to sector trends, should only materialize in the long term, and only have a moderate impact (sometimes even small) on the company's long-term outlook.</p>	<p>Not a game changer for the performance for Equities and Credit.</p>
ESG1-	<p>Non-financial factors, while not very favorable to sector trends, should only materialize in the long term, and only have a moderate impact (sometimes even small) on the company's long-term outlook. A very long-term timeframe gives management enough time to adapt if necessary.</p>	<p>Not a game changer for the performance for Equities and Credit.</p>

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 pay very close attention to this analysis, particularly when the issuer has an ESG materiality score of 3, i.e. when ESG factors can play a crucial part in the fundamental score or when they combine with other aspects.

On sovereign and quasi-sovereign issuers

Material non-financial aspects for sovereign and quasi-sovereign issuers are systematically taken on board in portfolio construction and directly included via the assessment of country risk, involving two stages:



Source: Ostrum Asset Management, 2020

Sovereign risk assessment model

Our quantitative engineers have 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 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: internal vulnerability variables, such as unemployment, and external factors such as primary balance. Source: Standard & Poor's;
- Non-financial aspects: ESG variables such as control of corruption, political stability, CO₂ emissions, etc. Sources: 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 bottom-up 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 and flows – as well as risk factors i.e. financial risks, such as macroeconomic and regulatory, as well as non-financial.

The sovereign risk model is input for 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.

ESG in Equity Portfolio Management

ESG practices are deemed to be an integral component of a company's overall quality. Our analysts/portfolio managers therefore analyze a company's or a sector's risk, while also identifying any opportunities related to ESG. Our teams engage with companies to discuss these aspects.

The equity portfolio management team thus seeks to ward off any potential risks via ESG considerations. ESG analysis is a key way to single 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 also offer an opportunity for the equity portfolio management team to ascertain opportunities (new markets, technologies, etc.) and companies that harbor growth potential.

Various approaches used:

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

We use our GREaT non-financial scoring method (see page 22) 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 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.

- Use 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.

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

Lastly, some of our equity portfolios also target an ESG score for the portfolio surpassing the ESG score for the first four quintiles of the index: this goal is also included in the French SRI⁷ accreditation's requirements.

⁷ The SRI accreditation is a French label set up by the Ministry for the Economy and Finance in 2016 with the aim of offering enhanced visibility for French-law investment funds complying with socially responsible investment principles.

4.3 SRI INVESTMENT PROCESS

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.

As well as our ambitious responsible finance approach rolled out across all these investment strategies, Ostrum Asset Management has also implemented SRI management on approximately a quarter of its 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:



Source: Ostrum Asset Management, 2020

As at December 31, 2021, we had achieved the SRI accreditation⁸ for 15 of our open-ended and dedicated funds, equating to €57bn or 12.8% of total assets under management. We are actively pursuing this program on our open-ended funds, and we also plan to achieve accreditations for mandates and other dedicated funds on investor request. We aim to achieve the French SRI accreditation on 98% of assets in our open-ended funds by 2022.

We draw on external data providers to implement these SRI strategies, selected for their high-quality approach and their broad scope of coverage.

We draw on the SDG Index **for sovereign issuers**, a worldwide initiative from the United Nations published by the SDSN (Sustainable Development Solutions Network) and Bertelsmann Stiftung related to the Sustainable Development Goals.

The Sustainable Development Goals, or SDGs, are 17 goals adopted by all United Nations member states to support international cooperation and strive towards sustainable development. The SDG Index combines

⁸ The SRI Accreditation does not guarantee results, but ensures compliance with specifications.

available data for all 17 SDGs to give an assessment on how each country is performing as compared with peers. We use these ratings for sovereign issues, local authorities, agencies guaranteed by these states and supranational entities.

For corporations, since we combined our business with certain activities at La Banque Postale Asset Management, we have also applied the **GREaT methodology**, a proprietary La Banque Postale Asset Management model that analyzes companies on their sustainable development challenges⁹.

In addition to consideration of Environmental, Social and Governance dimensions (ESG), the GREaT methodology measures engagement, responsibility, opportunities and risks for companies. This non-financial score for private sector issuers is based on several cornerstones:

- **Responsible governance:** this dimension is aimed at assessing the organization and effectiveness of powers for each issuer. For example for companies, this means measuring the balance of powers, executive compensation, business ethics and tax practices;
- **Sustainable resource management:** 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;
- **The 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;
- **Regional development:** this aspect measures each issuer's strategy on the provision of basic services for example.

Investments are therefore assessed on the basis of non-financial criteria with a score from 1 (high non-financial quality) to 10 (low non-financial quality).



**responsible
Governance**

Promote best **corporate governance practices**, business ethics and fiscal responsibility.



**sustainable
management
of Resources**

Manage **natural and human capital resources** in an efficient manner. Respect for, and promotion of, the rights of all stakeholders.



**Energy
transition**

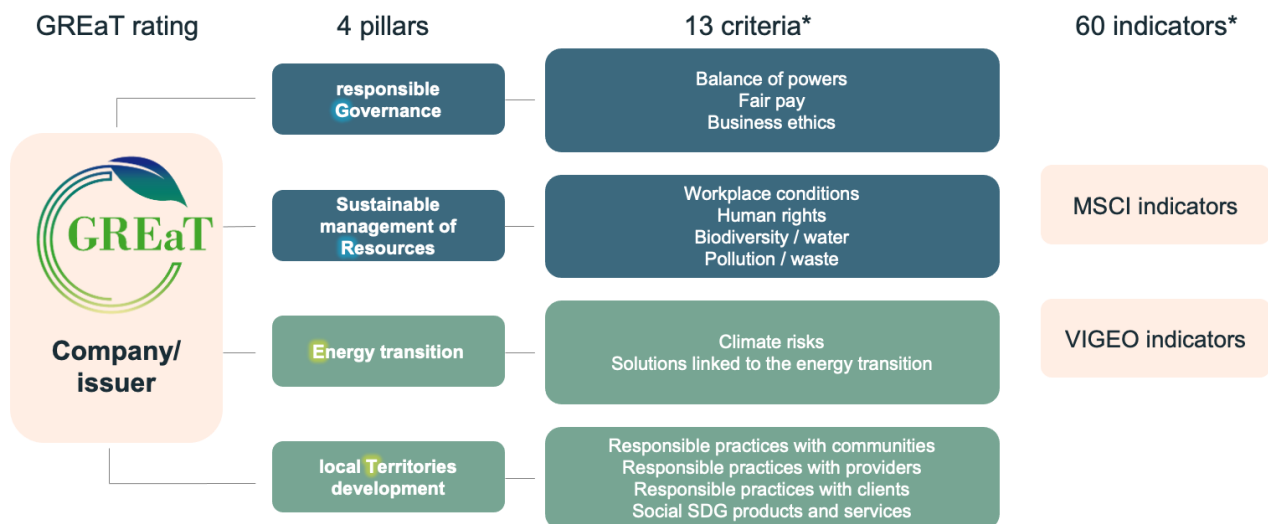
Finance business models oriented towards the **economy of the future and a low carbon economy**. Anticipating and promote solutions addressing climate change challenges.



**local Territories
development**

Promote local development in all locations through **job creation, training, technology and knowledge transfer**, & sustainable relationships with suppliers.

⁹ We use the Sustainalytics ESG score (general ESG score out of 100) to develop some of our SRI portfolios.



Source: Ostrum Asset Management, La Banque Postale Asset Management, 2021

* Criteria and indicators liable to change

We draw on ratings allocated by the SDG Index, Sustainalytics and GREaT to derive an ESG score for our clients' portfolios and the benchmark.

For some open-ended funds and dedicated funds, this SRI management approach adds to our exclusion policies and the approach for integration of ESG dimensions that we apply systematically to almost all our asset classes.

4.4 FUNDING AN IMPACT ECONOMY

Ostrum Asset Management has significantly ramped up its sustainability bond exposure and expertise with sustainability, green, social and sustainability-linked bonds.

We can draw on the expertise of two specialist analysts and our proprietary methodology to assess and analyze sustainability bonds.

There is no single accreditation standard on the sustainability bond market, so it is crucial to develop an inhouse analysis methodology for these investments to ward off green-washing and social-washing risks and monitor any potential controversies.

Our non-financial analysis process for sustainability bonds here at Ostrum Asset Management is based on a proprietary scoring methodology that is specific to each instrument type, with two dimensions i.e. an issuer dimension and an instrument dimension:

- The issuer dimension involves analyzing the company's climate/environmental and/or social policy and how the issue fits with this approach.
- Instrument dimension:
 - For bonds with mandatory use of proceeds for eligible project categories (use of proceeds bonds), the Instrument dimension assesses the bond's climate/environmental and/or social impact. We also take on board aspects related to transparency on the use of proceeds, the degree of materiality of projects financed, as well as the quality of impact reporting.
 - For sustainability-linked bonds, the Instrument component assesses the issue's governance, the relevance of sustainability indicators and the ambition of the targets selected, commensurability of the instrument's structuring, and transparency and quality of indicator management.

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 Asset Management.

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

- "pre-scoring" for issues where the first 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, for example.

Eligible projects, for which funds are earmarked during the green, social or sustainability bond issue, as well as sustainability-linked bond indicators, are mapped on the basis of our sustainable themes, the Sustainable Development Goals and the Greenfin accreditation criteria where appropriate¹⁰.

"Green" projects financed are mostly renewable energy projects, green buildings and sustainable transport and mobility.

By funding these sustainability bonds, we are able to contribute to several UN Sustainable Development Goals and particularly SDG 11 (Sustainable cities and communities), SDG 7 (Clean and affordable energy), SDG 9 (Industry, innovation and infrastructure), SDG 8 (Decent work and economic growth), and SDG 10 (Reduced inequalities).

¹⁰ The Greenfin accreditation guarantees the green aspect of investment funds and is designed for financial stakeholders that seek to support the common good via transparent and sustainable practices. The accreditation has the specific feature of excluding funds that invest in companies operating in the nuclear and fossil fuel sectors.

Additionally, Ostrum Asset Management is a member of the ICMA Advisory Council of Green Bond Principles. We are involved in financial market working groups and also lead the Building and Construction working group in the Investors for a Just Transition coalition developed under the auspices of Finance for Tomorrow.

4.5 OSTRUM ASSET MANAGEMENT'S VOTING AND ENGAGEMENT POLICIES

Engagement

Ostrum Asset Management has made engagement one of its key priorities. The integration of ESG criteria is a growing area for dialogue with companies, and also offers us a much more extensive insight into the firms we invest in, as we support them in enhancing their ESG practices.

As of 2021, Ostrum Asset Management decided to identify the main themes and areas in our assessment of companies' CSR policies and raise their awareness on their importance for us in our analysis.

We have therefore singled out company-wide themes for engagement.

Some of these themes will be championed more by fixed income portfolio management teams and promoted by our credit analysts, while others will be advocated by our equity portfolio management teams.

Meanwhile, some themes will not be subject to specific engagement efforts from our portfolio management teams, as they are deemed to be mainstream and are already a key component of our constant dialogue efforts with companies and/or there is insufficient data on them at this stage to be able to engage with companies on these aspects. However, these themes can be highly significant in our analysis of companies' CSR policies, and we will pay close attention to them via our controversy management policy. Ostrum Asset Management will ensure that any issuers involved in any kind of controversy are assessed rigorously in accordance with applicable procedures.

We have identified the following engagement themes:



Source: Ostrum Asset Management, 2021

These areas for engagement contribute to fulfilling the sustainable development goals.

Further details on the SDG and their application in our equity and fixed income investment operations, as well as our collaborative engagement program, can be found in our engagement policy.

[View our engagement policy](#)

Exercising shareholder voting rights

In keeping with our engagement efforts, Ostrum Asset Management encourages the companies that it invests in to develop their practices by voting at shareholder meetings for all investments in accordance with our active voting policy, as we consistently strive to meet the highest standards and take on board social and environmental questions. Ostrum Asset Management constantly endeavors to act transparently in its role as shareholder and has developed a platform summarizing our votes by company and by fund.

Engagement and voting are closely connected in equity portfolio management. Some of the areas set out in the policy also feature in the voting policy.

Our voting policy therefore does not reduce shareholders' interests to solely financial considerations.

We firmly believe that companies can only create value over the long term if they support all stakeholders' interests as well as the environment.

Ostrum Asset Management therefore paid particular attention to the following aspects in its voting policy in 2022:

- Defining an analysis framework for companies' climate strategies, which must allow for more objective analysis of resolutions on the climate put forward by both boards and shareholders, regardless of each company's specific features;
- Implementation of the "one share, one vote" principle. Despite the usefulness of steps to support long-term share ownership, shareholders must be treated equally to ensure that minority shareholders are not penalized.

[View our voting policy](#)



● **5. CONCLUSION**

We draw on our full range of exclusion and integration processes to develop our sustainability risk reports.

Pursuant to article 3 of the Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks, known as SFDR¹¹, we have issued our policy on the integration of sustainability risks.

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

We take on board these sustainability risks in the following ways:

- Our extremely stringent exclusion policies;
- Our controversy management policy;
- Screening for ESG criteria across almost 100% of the assets we manage;
- Non-financial aspects are systematically included in our issuer analysis where information is deemed to be material, i.e. having an impact on the issuer's credit risk;
- Our engagement policy.

We combine these various actions to single out any 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.

[View our policy on management of sustainability risks and adverse impacts](#)

Meanwhile climate-specific aspects are outlined in our TCFD report.

[View our TCFD report](#)

This ESG policy is therefore a consistent and comprehensive program aimed at engaging with issuers, informing our clients and supporting the transition to a more sustainable economy.

¹¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

The background is a solid teal color with several concentric circles of varying shades of teal and dark teal, creating a ripple effect. A small red dot is positioned to the left of the text.

● 6. APPENDICES

ESG and SRI dimensions developed considerably at Ostrum Asset Management throughout 2020, with a reinforced set-up as a result of an expanded inhouse team and a fresh committee structure.

6.1 APPENDIX 1: SUPERVISION OF ESG AND CLIMATE MATTERS BY OSTRUM ASSET MANAGEMENT'S EXECUTIVE COMMITTEE

Our CSR and ESG policy is promoted right across Ostrum Asset Management and supported by the executive committee. Our climate policy is an integral part of our ESG policy and our CSR strategy.

It is included in an action plan approved by the executive committee, with any corrective measures decided during meetings where necessary.

In particular, sector policies (support and exclusion), our engagement policy and our ESG and SRI roadmap are reviewed by the executive committee.

With this in mind, our new coal sector withdrawal policy was approved by the executive committee on the proposal of Portfolio Management. In 2020, members of the executive committee also attended an ESG training course.

6.2 APPENDIX 2: OSTRUM ASSET MANAGEMENT'S ESG / CSR COMMITTEES

We have set up a number of committees and working groups to address ESG matters here at Ostrum Asset Management.

Sustainable finance committee

The CSR committee became the Sustainable finance committee in 2021 and takes place on a quarterly basis. 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 the topics that require a project mode approach for review, prioritization and monitoring by the committee, follow up and approve all CSR/ESG initiatives and share both guidelines and priorities with as many in the company as possible

Sector exclusion committees

These committees cover our sector policies, such as coal, oil and gas, and tobacco. They arbitrate and approve exclusion lists covering the 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

In late 2019, Ostrum Asset Management developed an inhouse procedure and set up the Worst Offenders working group, as well as a Worst Offenders committee. The Worst Offenders working group comprises representatives from the Portfolio Management department and members of the ESG Strategy team, and 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 Compliance 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 will be placed on the Watch List and be carefully observed.

Minutes are sent out to all participants after each meeting.

Controversial weapons committee

Ostrum Asset Management overhauled its Controversial Weapons policy in 2021, and set up a Controversial Weapons committee, comprising – like the Worst Offenders committee – 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.

This committee can exclude companies that are not in the policy's direct exclusion scope, but contravene the United Nations principle on conventional weapons. Issuers in question will either be added to the exclusion list or closely monitored, depending on the recommendations from a working group.

Issuers in question can work right across the value chain (from development to transport/distribution), and can therefore belong to other industries that are related to weapons.

Decisions from this committee are recorded in writing and shared with participants.

ADDITIONAL NOTES

Ostrum Asset Management

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 48 518 602 €. 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.



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