Ostrum
ASSET MANAGEMENT

Enhancing your power to act

REPORT ON ENERGY TRANSITION FOR GREEN GROWTH ACT

Article 173

April 2021

An affiliate of: NATIXIS INVESTMENT MANAGERS

EDITORIAL

ADDRESSING CLIMATE CHANGE CHALLENGES 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 the Paris agreement and its ambitious goals 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 transition to a low-carbon economy.

Investors also all have a vital role to play in this 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 (Ostrum) has embarked on several initiatives to address climate challenges and factor in this aspect in both its business operations and practices, as outlined in this document.

Ostrum AM has pledged to bolster its climate policy by taking priority action on coal. The company has also confirmed its goal of making individual and collective engagement a key plank in its fight against climate change, while also developing the financing of a low-carbon economy via green bonds. Ostrum AM is involved in various market-wide initiatives and regularly takes part in working groups.

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[1] and a strong advocate of responsible investment, we particularly strive to provide our clients with responsible products that take on board environmental, social and governance aspects. We work to ascertain the potential impact of these dimensions on our fundamental issuer analysis and their risk profile and ensure that they contribute to the long-term responsible performance of our products and ultimately drive our clients' performances.

Each client is unique, so we also offer products that address their specific individual ESG (Environment, Social and Governance) strategies and philosophies. ESG criteria are obviously vital and add an extra dimension to our business, but the extent to which they impact our investment universe and portfolio construction must adapt to comply with clients' needs and requirements.

In the last quarter of 2020, the combination of fixed-income and insurance-related investment management teams at Ostrum AM and La Banque Postale AM within Ostrum, was an opportunity to reiterate our climate goals for this new entity, as we set fresh targets to better tackle environmental challenges.

We hope you enjoy the read!

[1] *Source: IPE ranking*

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1. REMINDER OF THE CHALLENGES OF THE 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 investors managing less than €500m or require institutional investors and asset managers to disclose 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.

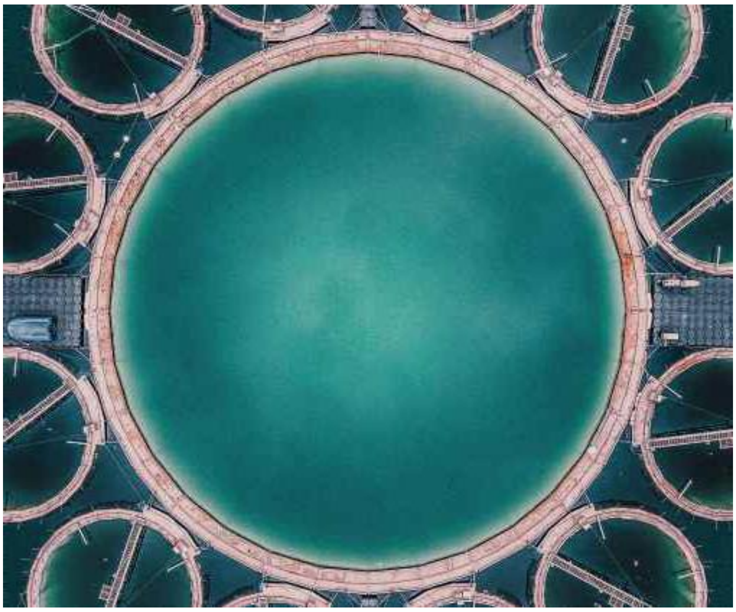
Following on from the commitments made by the Paris financial marketplace at the COP 21 event in 2015, Ostrum AM is committed to actively contributing to the crucial fight against climate change and supporting the transition to a low-carbon economy. Ostrum AM took additional steps to bolster its efforts in 2019, following the declaration from the Paris financial center on July 2, 2019 for a low-carbon economy[2], in terms of both its own policies and its involvement in initiatives organized by the financial community.

[2] https://financefortomorrow.com/app/uploads/2019/07/Press-Release_Declaration-of-the-Paris-Financial-Center_07022019.pdf

2. OSTRUM AM'S CLIMATE POLICY

OUR INVESTMENT PHILOSPHY

Ostrum Asset Management draws on its investment expertise to enhance the impact of its clients' commitments as they act together to support European citizens' life plans, health and retirement. Ostrum AM has been committed to sustainable development and responsible finance for more than 35 years[3].



Our role is to inform and support our clients, while positively influencing issuers and playing our part in work by the financial market.

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

Our responsible asset management approach is the result of extensive efforts over a number of years, and is built on specific initiatives to support the climate, applied by our investment teams on their respective asset classes with specific their features on a daily basis, primarily involving three aspects: integration, engagement and exclusion.

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 climate challenges. We work to ascertain the potential impact of these dimensions on our fundamental issuer analysis and their risk profile and ensure that they contribute to the long-term responsible performance of our products and ultimately drive our clients' performances. Each client is unique, so we also offer products that address their specific individual ESG strategies. 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' specific requirements.

[3] via capital operations that led to the creation of Ostrum AM on October 1, 2018

PILLARS OF OUR CLIMATE COMMITMENT

1. Strengthen our sector exclusion and divestment policy, which excludes sectors and companies that do not comply with certain fundamental standards of responsibility, primarily our coal withdrawal policy.

2. Develop a low-carbon emission financing strategy.

3. Provide responsible and active investment management services for our open-ended funds that support our clients' climate policies.

4. Dialogue with companies and promote engagement both for companies whose shares we hold in our portfolios, as well as bond issuers, with a view to raising awareness on risks and opportunities arising from climate change in their business models.

5. Contribute to work with market-wide bodies and industry organizations to support financial market initiatives to combat climate change.

6. Ensure the necessary resources in terms of both organizational set-up and tools to address climate challenges.

3. OUR SECTOR POLICY TO COMBAT CLIMATE CHANGE

3.1 SECTOR POLICY

Reducing greenhouse gases is a crucial tool for combating climate change, and this can only be possible by staging the energy transition and thereby reducing our dependency on fossil fuels and developing a low-carbon society. Ostrum AM's goal is therefore to step up this transition by supporting issuers in their transformation by drawing on our sector and divestment policies.

Ostrum AM ramped up its coal exclusion policy in 2019, halting investment in companies that derive more than 25% of their revenue streams from coal-fired energy generation or coal production (vs. 50% in 2018), while definitive divestment is slated by June 2021.

In 2020, we took fresh measures to bolster our policy by taking pledges on dialogue and exclusions with a view to stepping up our withdrawal from coal for the companies we invest in. This policy has been effective since January 1, 2021.

Ostrum Asset Management no longer invests in companies that:

- develop new coal capacity (including infrastructure developers), with effect as of January 1, 2021 for investments and with a six-month timescale for divesting holdings in companies concerned under normal market conditions;

- have not set out a transition plan by 2021 to exit the coal sector in alignment with the Paris Agreement. Ostrum Asset Management will undertake extensive individual engagement efforts with any companies that did not already have a withdrawal plan in 2020 to inform them of this. We will monitor the credibility of these exit plans and their funding. Investments based on this criterion will cease as of January 1, 2022, with a six-month timeframe to run down existing positions under normal market conditions. Ostrum AM will engage and dialogue comprehensively with companies as it applies this measure;

- 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.

Coal issuers that are not ruled out on the basis of previous criteria are excluded as of January 1, 2021, if they exceed the threshold of 20 million tons of thermal coal production on an annual basis and 10 GW in installed capacity. Similarly, Ostrum Asset Management no longer invests in companies with a coal share of power generation of more than 30%. These three thresholds equate to limits set out by the 2019 Global Coal Exit List (GCEL). Similarly, divestment from companies concerned will be conducted within six months under normal market conditions.

All these exclusion thresholds will be reviewed by end-2021.

At the latest, Ostrum Asset Management will phase out coal exposure by 2030 for OECD countries and 2040 for non-OECD countries, with no possible exceptions.

For more details on our coal policy, visit our website.

We made updating our coal policy the priority for 2020. For 2021, we have decided to focus on further bolstering our climate strategy as we take our approach a step further: we therefore plan to look at highly polluting sectors, particularly oil and gas.

3.2 CONTROVERSY MANAGEMENT POLICY

Ostrum AM monitors for controversies on a permanent basis via our proprietary inhouse research set-up and information from our specialist providers:

Within the company, our Research department comprising around twenty analysts and portfolio manager-analysts from both Credit and Equity closely monitors issuers and in most cases pre-empts severe controversies before they become highly material. They dialogue on a daily basis with portfolio managers during the Morning Meeting as well as during devoted committee meetings (e.g. sector reviews) and via specific profiles for each issuer. Ostrum AM has also developed an inhouse system to transmit alerts on severe controversies based on information from our data providers on our investment scope, with a view to warning the Portfolio Management department in real time and making sure that we do not miss a controversy due to its sudden occurrence e.g. major environmental accident that highlights a flaw in an issuer’s risk management where the market had been unaware.

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

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

Our controversy management policy therefore not only identifies events with actual materiality, but also controversies in areas of ethics.

For more information on this policy, visit our website.

4. OUR STRATEGY FOR FUNDING A LOW-CARBON ECONOMY

4.1 SUSTAINABLE BONDS

Ostrum AM significantly ramped up its sustainability bond exposure and expertise in 2020.

Assets under management for GSSS[4] bonds across the ensure Ostrum AM[5] scope came to €14.9bn at end-2020 with 405 issues:

- 311 green bonds (€11.6bn);
- 50 sustainability bonds (€1.9bn);
- 44 social bonds (€1.4bn).

78% of our GSS bonds exposure comprises green bonds, with 12.5% for sustainability bonds and 9.5% for social bonds.

Ostrum AM can draw on the expertise of two specialist analysts and its proprietary methodology to assess and analyze sustainable bonds.

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

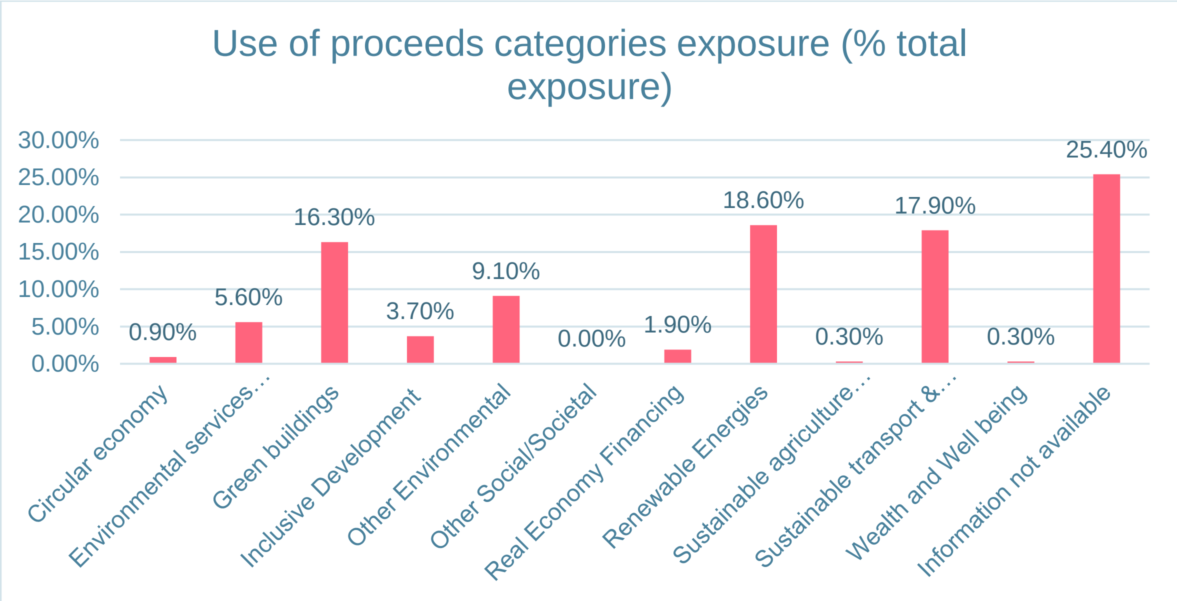
- Assessment of the issuer's environmental and climate strategy and how the green bond fits with this approach. This provides an overview of the issue's consistency with the issuer's transition goals;
- Analysis of the instrument's structure, in terms of transparency on allocation of proceeds, the degree of materiality and the effective impact of the projects to be funded.

[4] Green, social, sustainability & sustainability-linked bonds: debt securities issued on the financial market and aimed to finance projects to combat climate change, support the energy transition, etc. or social projects.
[5] Former LBPAM scope (as at 12/31/2020) and former Ostrum (as at 02/17/2021)

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 green bonds by Ostrum AM.
The status for each rating can be one of three options:

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

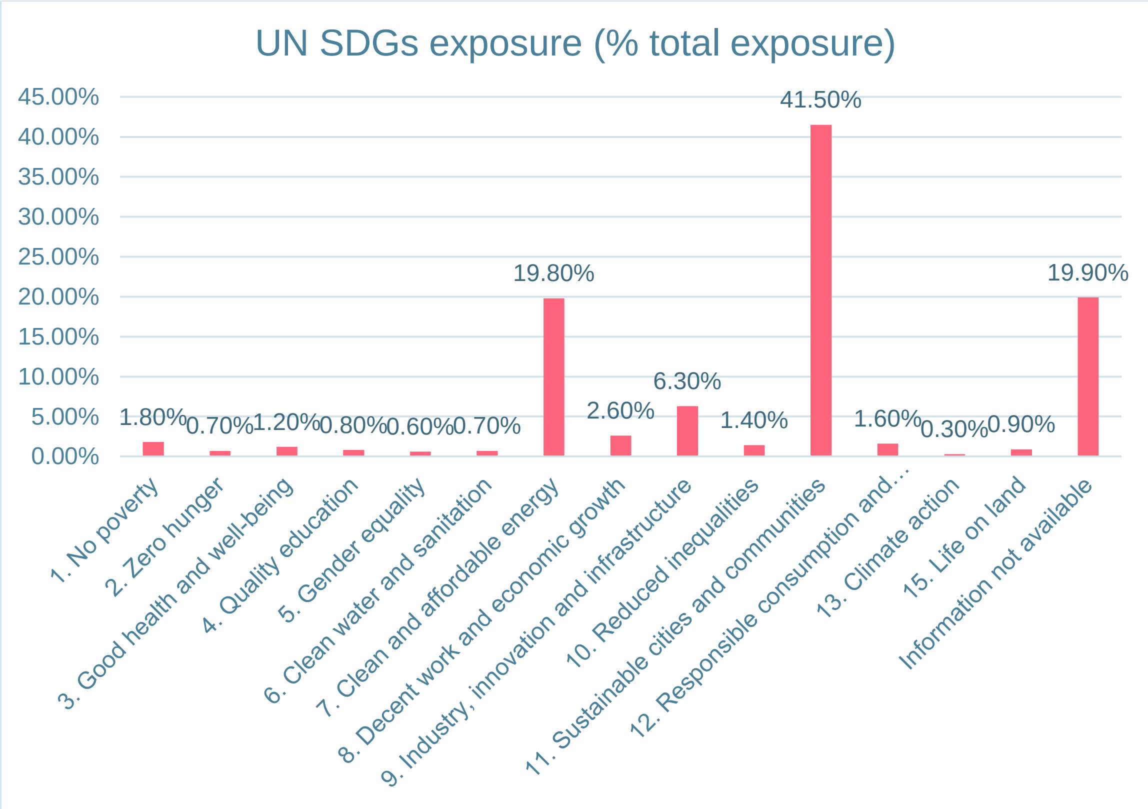
Each rating is reviewed at least once a year, and this may result in engagement efforts with the issuer in the event of insufficient reporting or lack of transparency in information disclosed.
Eligible projects for which funds are earmarked during the green bond issue are mapped on the basis of our sustainable themes, the Sustainable Development Goals and the Greenfin accreditation criteria.
Projects financed are mostly renewable energy projects, green buildings and sustainable transport and mobility.
Refer to the chart below for further details:



Source: Ostrum AM, 12/31/2020

By funding these GSS bonds, we are able to contribute to several UN Sustainable Development Goals[6], and particularly SDG number 11 (Sustainable cities and communities), SDG 1 (Clean and affordable energy), and SDG 9 (Industry, innovation and infrastructure).
Refer to the chart below for further details:

[6] https://www.un.org/sustainabledevelopment/sustainable-development-goals/



Source: Ostrum AM, 12/31/2020

Ostrum AM is also a member of the Green Bond Principles and the Social Bonds Principles[7] and we are regularly involved in financial market working groups.

4.2 SRI ACCREDITATIONS

We are taking steps to bolster our SRI accreditation policy.

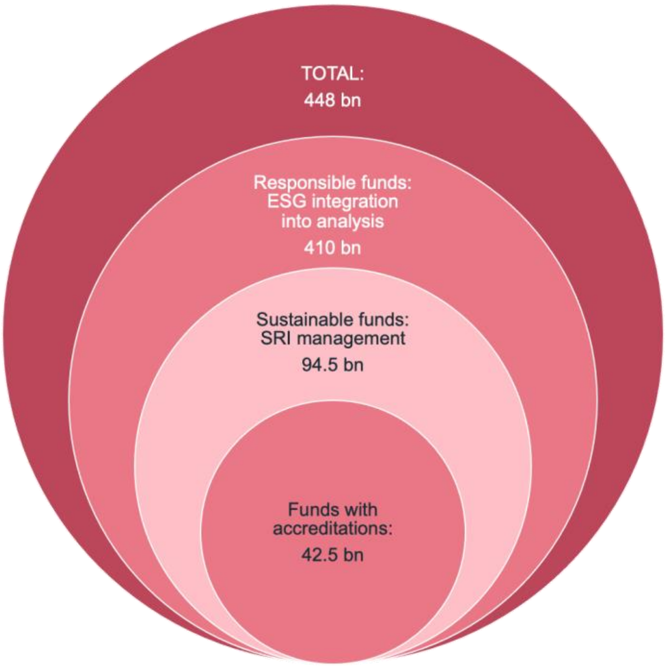
We aim for 98% of AuM in our open-ended funds to achieve the SRI accreditation[8] by end-2022.
Funds that achieve the SRI accreditation must transparently disclose certain aspects of their environmental performances, particularly in terms of the portfolio's carbon assessment. This requires the development of an indicator on direct (scope 1) and indirect greenhouse gas emissions resulting from energy use required for developing a product (scope 2) in the portfolio, in metric tons of CO_2 equivalent.

Other relevant indicators may also be added, in particular the WACI – or weighted average carbon intensity – which compares average emissions with a company's revenues.
Funds that carry SRI accreditations cover very varied business sectors and primarily target the portfolio's ESG quality as well as process transparency. Investors can opt to support a specific sector or theme, such as renewable energy, the just transition or the fight against climate change.
As at December 31, 2020, we had achieved the SRI accreditation for 25 of our open-ended funds, equating to €42.5bn or 9% 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 dedicated funds on investor request.

[7] https://www.icmagroup.org/events/PastEvents/GBPAGM2020/

[8] 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.

5. ACTIVE AND RESPONSIBLE INVESTMENT MANAGEMENT



Source: Ostrum AM, 12/31/2020

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

- Responsible funds: 91.6% of our AuM are screened for ESG criteria. We systematically incorporate E, S and G dimensions into our analysis across most of our asset classes, apart from asset-backed securities;
- Sustainable funds: 21.10% of our AuM incorporate ESG guidelines into the management process;
- Funds with accreditations: 9.50% of our AuM are in funds with accreditations from independent accreditation organizations;
- Green, social and sustainable bonds[9]: 3.32% of our AuM are invested in green, social and sustainable bonds.

5.1 INTEGRATED MANAGEMENT

We wholeheartedly believe that ESG dimensions can impact performance analysis for issuers and their risk profiles, so we take **ESG aspects on board across almost all our assets we analyze[10].**

We firstly screen to exclude the worst offenders from our investment universe using our various exclusion policies (explained 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.

[9] Debt security issued on a financial market and designed to finance projects to combat climate change, support the energy transition, etc. or social projects.
[10] Source: Ostrum AM at December 31, 2020.

We systematically take on board ESG factors – including the climate – 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 the various specific criteria and how they affect our overall assessment of issuers. Systematic and individual integration ensures that our approach is impactful.

5.1.1 FIXED INCOME

We include ESG criteria in all our main bond and fixed income investment processes by reviewing all the relevant ESG factors in our fundamental analysis of issuers.

5.1.1.1 Credit issuers

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

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

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

Governance is systematically assessed and incorporated in the "Management, Strategy and Governance" section that features in our analysis reports. Social and environmental aspects are addressed at each stage – in terms of the industry, the business model and financial analysis – and are then integrated into the credit analysis score.
NB: in our investment universe, a third of "avoid" issuers have received this score as a result of governance aspects, reflecting our belief in the fundamental importance of ESG criteria in assessing a company's future risk profile.

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

- **Issuer by issuer approach**

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.

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 CO_2 emissions in Europe, nitrogen oxide emissions in the United States and fuel consumption in China. This kind of new regulation involves additional R&D spending, extra costs related to new components to be incorporated, potential fines, etc.

- **Sector-based approach**

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

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

We have therefore set out specific ESG issues that are not material for the moment or even in the medium term, but that are poised to become material in the long term. We monitor these aspects for change, providing a key advantage in our approach and setting our proprietary credit research apart from the crowd.

Our sector risk mapping leads to output such as devoted sector reviews summing up the key risks and opportunities:
1. Integrated Utilities, 2. Regulated Utilities, 3. Automotive, 4. Energy – Oil & Gas, 5. Telecoms, 6. Transport, 7. Metals & Mining, 8. Capital goods, 9. Chemicals, 10. Banks, 11. Pharmaceuticals, 12. Real Estate, 13. Media & Entertainment and 14. Consumer & retail.

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

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

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

Source: Ostrum AM, 2021

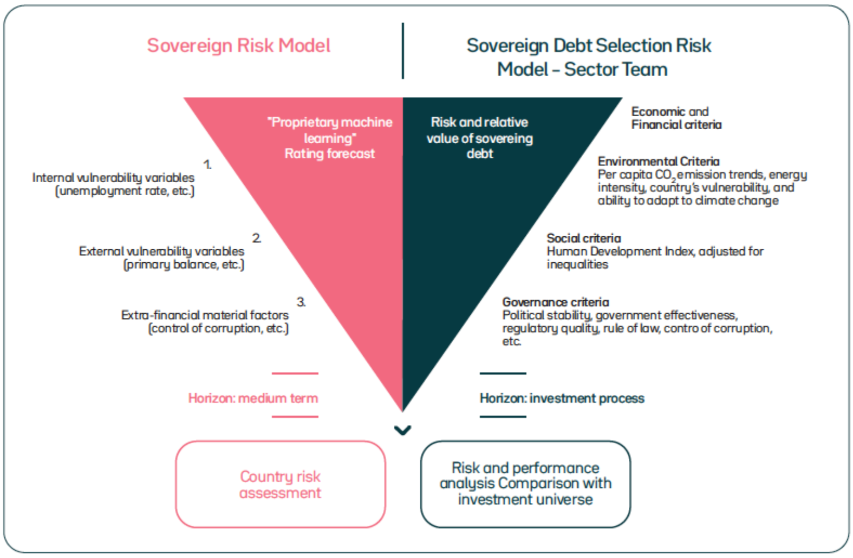
We therefore systematically incorporate qualitative and quantitative ESG aspects into our issuer analysis in terms of both risks and opportunities if they have a material impact on the company's sustainability.

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 CIGAL research knowledge database. This online information platform is available for all Portfolio Management staff.

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

5.1.1.2 Sovereign and quasi-sovereign issuers

Material non-financial factors are systematically taken on board and directly incorporated into portfolio construction via the country risk assessment. This process takes place in two stages.



Source: Ostrum AM, 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, CO_2 emissions, etc. Source: World Bank and UN Development Program.

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

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

The SDS team produces 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 (financial risks, such as macroeconomic and regulatory, as well as non-financial).

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

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

5.1.2 EQUITY PORTFOLIO MANAGEMENT

ESG practices are deemed to be an integral component of a company's overall quality in equity portfolio management. Ostrum Asset Management's Equity Portfolio Management team factors in ESG criteria to pinpoint a company's or a sector's risk, while also identifying any opportunities. Our teams also engage with companies to discuss these aspects.

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

The Equity Portfolio Management team at Ostrum AM seeks to invest in high-quality growth companies: this assessment is based on meetings with these companies' management. ESG aspects 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 fragile. Lastly, governance and management are obviously connected. ESG dimensions therefore provide essential building blocks for our portfolio construction on a par with quality, upside and overall portfolio growth.
Our portfolio managers will therefore exclude companies with ESG shortcomings or harboring ESG risks.

Additionally, at the request of our clients on certain investment mandates – for example with specific binding 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 additional goal i.e. an ESG score for the portfolio surpassing the ESG score for the first four quintiles of the index: this goal is also included in the French SRI[11] accreditation's requirements.

5.2 SRI INVESTMENT PROCESS

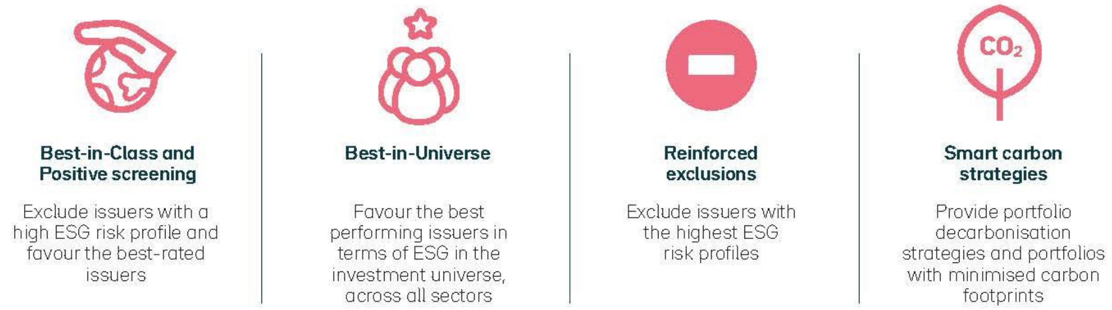
In addition to ESG integration on our various asset classes, we also offer our clients specific SRI products and co-construct customized strategies with them to adapt to their ESG goals.

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

- **best-in-class, positive screening and best-in-universe strategies** are applied across some of our **open-ended funds**, which are set to apply for accreditations;
- **tailored strategies** are co-developed with our clients for their **dedicated funds or mandates** to better address their ESG philosophies.

[11] 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.

Our strategies are tailored to best suit our clients' needs:



Source: Ostrum AM, 2020

For the implementation of these SRI strategies, we draw on external data suppliers selected for the quality of their approach and their extensive scope of coverage.

We draw on the **SDG Index**, published by the SDSN (Sustainable Development Solutions Network) – a worldwide initiative from the United Nations and Bertelsmann Stiftung related to the Sustainable Development Goals – for **sovereign issuers.**
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 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 issuers, local authorities, agencies guaranteed by these states and supranational entities.
We have selected Sustainalytics for companies (for credit issuers and equities), which has been a world leader in ESG analysis and non-financial scoring for more than 25 years, providing access to more than 9,000 companies with an ESG score. Sustainalytics produces extensive qualitative research, in addition to stringent research on controversies. This research is based on a structured, objective and transparent methodology to give an overall score out of 100 that we use in the construction of some of our SRI portfolios: details are also available to all our fixed income and equity investment teams.
Since we combined some of our business operations, we have also applied the **GREaT methodology**, a proprietary LBPAM model that analyzes companies on their sustainable development challenges.
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 four cornerstones:

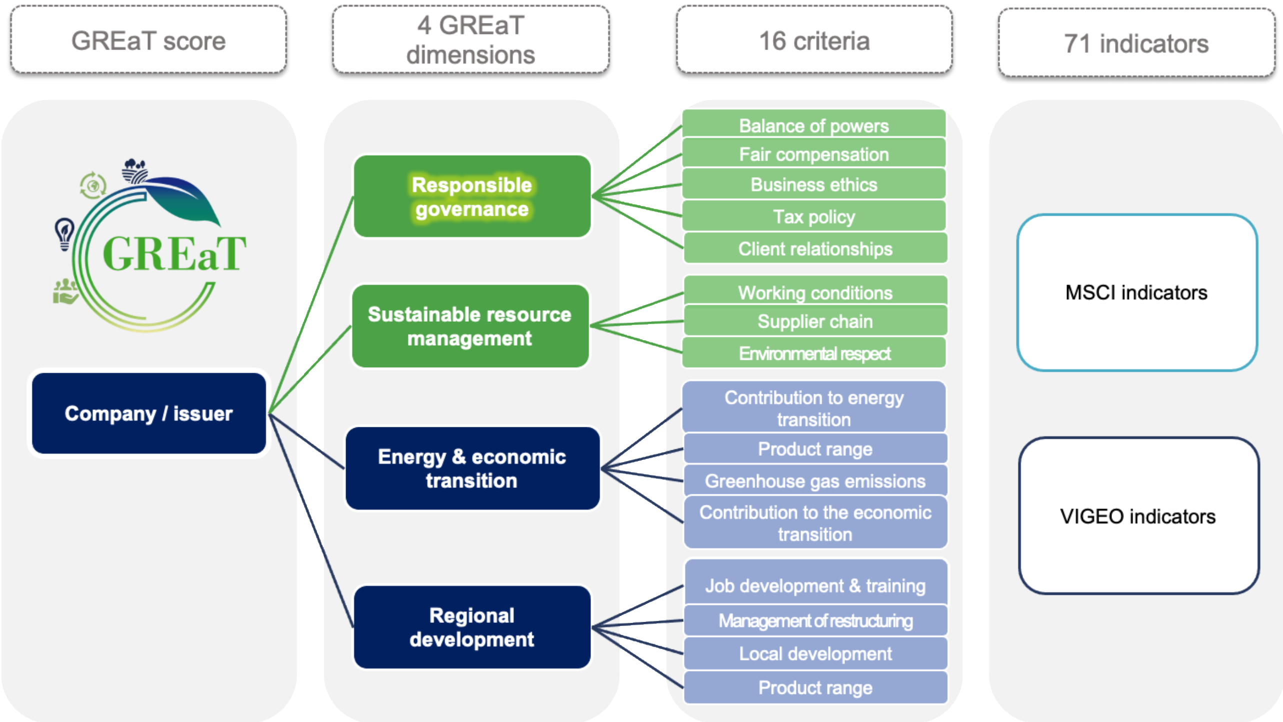
1. Responsible governance: this dimension is aimed at assessing the organization and effectiveness of powers for each issuer (for example for companies: measuring the balance of powers, executive compensation, business ethics and tax practices);

2. Sustainable resource management: for example this aspect is a way to analyze each issuer's environmental impacts and human capital, including the quality of working conditions, and management of supplier relationships;

3. The economic and energy transition: this aspect assesses each issuer's strategy in supporting the energy transition, including its strategy to reduce greenhouse gases and its response to long-term challenges;

4. Regional development: this aspect measures each issuer's strategy on the provision of basic services.

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



- *Source: Ostrum AM, LBPAM, 2021*

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 all our asset classes.

5.3 SUPPORTING OUR CLIENTS IN THEIR CLIMATE STRATEGY

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

Aligning our investments with a 1.5°C scenario:

We outline our methodology for calculating the temperature of our portfolios and their alignment with climate scenarios in our TCFD report, and this is an area for dialogue with our clients. In some of our investment mandates, we adjust our portfolios to ensure closer alignment with climate scenarios of 2°C or 1.5°C. We are not yet able to provide this information across all our investments.
Progress on this area is part of our roadmap for 2021, as we also seek to be transparent with our clients on the methodology we use.

Focus on our methodology:

Before calculating the temperature for a portfolio, Ostrum AM draws on Trucost's expertise to estimate the issuer's carbon emission trajectories. Trucost provides an estimate of carbon emission paths for issuers over the past six years as well as a projection for the next six years. The company's climate impact is then assessed depending on how its trajectory aligns on the various climate change paths.

Trucost draws on two approaches recognized by the Science Based Targets Initiative (SBTI). View our TCFD report.

Once the best approach has been identified and applied to an issuer, Trucost calculates the differences between the company's emissions and figures required by the chosen scenario across the trajectory's 12-year duration, to derive a positive or negative figure. If the resulting difference is positive, the company is in line with the selected scenario. Conversely if it is negative, the company has not aligned on this scenario. The company is therefore deemed to have aligned on the climate scenario where it has the smallest emission difference in absolute terms.

Our Quantitative Recherche team then gathers these data to calculate the temperature of any given portfolio: this involves calculating the average difference between each portfolio component and the scenario and subsequently weighting by their proportion in the portfolio compared to their enterprise value. This approach is based on the underlying assumption that holding 1% of a company's value is the equivalent to holding 1% of emissions and 1% of the gap.

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

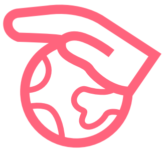
6. OUR ENGAGEMENT POLICY TO COMBAT CLIMATE CHANGE

Ostrum Asset Management has made engagement one of its key priorities for action. 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.

On the basis of areas for dialogue in 2020, Ostrum Asset Management has decided to identify and set out the main themes and areas in our assessment of companies' ESR policies and raise their awareness on their importance for us in our analysis as of 2021. **Four of the fifteen areas for engagement will focus on the climate and the environment.**

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.

In 2020, the main areas for dialogue as regards the environment with the 30 companies held in Ostrum AM's funds before the business combination that took place on October 30, 2020, were:



- **Energy transition (renewable energy, carbon footprint)**
- **Biodiversity (species and ecosystems)**
- **Waste management**

Collective initiatives to step up the fight against climate change:

Ostrum Asset Management pursues a consistent policy and with this in mind, we go beyond the individual engagement initiatives coordinated by our Portfolio Management teams.

Each year, we pledge to get involved in collaborative initiatives that resonate with our own convictions. Ostrum Asset Management has been actively involved in a raft of collective initiatives for several years to raise awareness among issuers, public authorities and regulatory bodies on the importance of environmental, social and governance challenges.
Since 2019, Ostrum AM has opted to contribute to initiatives focusing on the **UN's Ten Principles**, programs to promote the **Paris Agreement on Climate Change** and the **declaration from the Paris financial center in July 2019** for a low-carbon economy. Ostrum AM is unable to take part in all initiatives to address these key principles, and has focused on actions that target five Sustainable Development Goals, including **three** that cover the climate and the environment: the following: **SDG 13** (climate action), **14** (life below water) and **15** (life on land).

Ostrum AM supported the following initiatives targeting these SDGs in 2020:

► **Global Investor Engagement on Meat Sourcing** – Phase II

Date of support
01/09/2020

Geographical area targeted
United States

Lead organizations
FAIRR, Ceres

Sector
Food

Signatories
90 investors
$11.4 trillion in combined assets

In three key areas – greenhouse gas, water and land use – animal proteins have a severe environmental footprint. Meanwhile, the animal farming sector is very sensitive to the effects of climate change.

This engagement urges companies involved to display greater transparency, take on board sustainability factors, and set water and climate goals.
https://www.fairr.org/article/investors-press-fast-food-giants-to-move-faster-on-climate-and-water-risk-management-one-year-into-11-trillion-engagement/

► **The Need for Biodiversity Impact Metrics**

Date of support
03/12/2020

Geographical area targeted
Worldwide

Lead organizations
Mirova, AXA IM
BNB Paribas AM, Sycomore AM

Sector
Biodiversity

Signatories
22 signatories

Investors recognize a need to protect biodiversity as they cannot generate value for their clients without a healthy biosphere and they believe that they have a responsibility to promote conservation of our ecosystems. The financial sector has shown a steadily growing interest in the integration of environmental issues within investment processes.
However, they lack the tools to accurately and consistently measure these impacts.
This initiative urges data suppliers to encourage companies to provide the necessary information and develop a measure that captures negative physical impacts on biodiversity as well as positive impacts.
https://www.mirova.com/en/news/European-investors-rally-around-biodiversity

Open letter to EU leaders from investors on a sustainable recovery from COVID-19

Date of support
05/26/2020

Geographical area targeted
Worldwide

Lead organizations
The Investor Agenda (AIGCC, CDP, Ceres, IGCC, IIGCC, PRI and UNEP-FI)

Sector
Environment
Public policy

Signatories
183 investors
€12 trillion in AuM or advisory

The statement expresses solid support for the inclusion of climate related considerations in developing economic recovery programs. Economic and financial risks related to the climate as well as the vast investment opportunities offered by the world transition to a net-zero emission economy must be at the center of all decisions.

The recommendations for an investible and sustainable economic recovery from the COVID-19 pandemic are: prioritize human relief and job creation without locking in high carbon pathways; support the Green Deal and uphold the Paris Agreement; ensure that Member States ensure COVID-19 support addresses climate risk; prioritize climate resiliency and net zero emissions economic solutions; embed investor participation in recovery planning.
https://www.iigcc.org/resource/iigcc-letter-to-eu-leaders-from-investors-on-a-sustainable-recovery-from-covid-19/

Letter to meatpackers and processors on traceability of indirect suppliers in their Brazilian supply chains

Date of support
06/29/2020

Geographical area targeted
Brazil

Lead organizations
IISF
PRI
Ceres

Sector
Forestry

Signatories
More than 30 investors

Beef production is one of the main drivers for changing use in land in the Amazon. The main meatpackers (JBS, Marfrig and Minerva) play a key role in fighting against deforestation in the Brazilian beef industry. Yet despite investor demands, they do not trace their indirect suppliers and cannot guarantee that their supply chains are free from danger for deforestation.

This engagement initiative aims to combat Amazon deforestation, urging Brazilian meatpacking companies to more closely monitor their suppliers and supply chain (including cattle) and be more attentive to their role in deforestation (illegal and legal).
https://collaborate.unpri.org/

▶ CDP - Science-Based Targets (SBT) Campaign

Date of support
09/09/2020

Geographical area targeted
Worldwide

Lead organization
CDP

Sector
Cities, Climate, Water security
Forestry

Signatories
138 global financial institutions
$19.44 trillion in assets

Global carbon emissions need to reach net-zero by 2050 at the latest to limit warming to 1.5°C, as stipulated in the Paris Agreement.
Science-based targets provide companies with a roadmap for reducing their emissions at the pace and scale that the science tells us is necessary for a 1.5°C world.

The CDP Science-Based Targets (SBTs) Campaign, which we are a member of, offers CDP investor signatories the opportunity to play a key role in accelerating the adoption of science-based climate targets in the corporate sector, by collaboratively engaging companies on this matter. The campaign will target the most climate-relevant companies within the global investable market.
https://www.cdp.net/en/investor/engage-with-companies/cdp-science-based-targets-campaign

In 2020, Ostrum AM also pursued initiatives already under way, such as the Investor Decarbonization Initiative (Share action) and the Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies (Share Action).

All our individual and collective engagements, as well as our sector and exclusion policies (coal, tobacco, etc.), promote the achievement of certain Sustainable Development Goals. Goals related to the climate and biodiversity are also a means to ascertain sustainability risks, as required by European regulation (SFDR) and French legislation (Energy-Climate law).

7. CONTRIBUTION TO DEFINING STANDARDS AND AWARDS

Ostrum AM is also committed to applying and constantly honing its responsible investment policy by contributing to the development of ESG standards and ensuring their promotion. The company plays an active role in sector initiatives aimed at improving responsible investment practices and introducing standards for them.
In 2020, Ostrum AM was a signatory to:

PRI Principles for Responsible Investment

Ostrum AM has been a signatory to the six Principles for Responsible Investment since 2008, which seek to promote responsible investment practices internationally. Signatory organizations must complete an annual questionnaire on their responsible investment practices and publish a follow-up report.
https://www.unpri.org/

CDP

CDP is a not-for-profit charity, formerly known as the Carbon Disclosure Project until end 2012, that runs one of the largest global disclosure systems for investors, companies, cities, states and regions to manage their environmental impacts. It focuses investors, companies and cities on taking urgent action to build a truly sustainable economy by measuring and understanding their environmental impact.

Ostrum AM has been a direct signatory since 2018 and has taken part in the CDP survey since 2010 via its parent company, Natixis.

https://www.cdp.net

IIGCC
The Institutional Investors Group on Climate Change

The IIGCC has more than 230 members, primarily pension funds and asset managers across 15 countries, and with assets under management of more than €30 bn.
Ostrum is an active member of the Institutional Investors Group on Climate Change, a European body for investor collaboration on climate change, and the voice for investors who take steps to make a more prosperous and low-carbon future.
Ostrum takes part in the group in order to contribute to its various programs i.e. Policy Programme, Corporate Programme, Investor Practices Programme, Property Programme, Initiatives & collaborations: the IIGCC has a central role in executing world investor initiatives and works closely with other investor networks.
https://www.iigcc.org/

The French Social Investment Forum (*Forum pour l'Investissement Socialement Responsable*) was set up in 2001 by fund managers, specialists in environmental and social analysis, consultants, trade unions, university staff and citizens. Investors later joined in the initiative.
Ostrum AM has been directly involved in the FIR since 2019.
https://www.frenchsif.org/isr-esg/

The UN Global Compact is a call to companies and stakeholders to align strategies and operations with universal principles on human rights, labor, environment and anti-corruption and take actions that advance societal goals.
Ostrum AM was a signatory of this initiative in 2019 via Natixis.
https://www.unglobalcompact.org/

EFAMA is the voice of the European investment management industry, represents 28 member associations, 59 corporate members and 22 associate members.
Ostrum is a member of the Stewardship, Market Integrity & ESG Investment standing committee. Ostrum AM is also involved in working groups on responsible investment and corporate governance.
https://www.efama.org/about/SitePages/Home.aspx

The Association Française de la Gestion Financière brings together French asset management industry professionals and promotes their interests. The association also supports ESG issues through the work of a devoted committee, of which Ostrum is a member. Philippe Setbon (CEO of Ostrum) is also vice-chairman of the Association Française de la Gestion Financière (AFG).
https://www.afg.asso.fr/

ICMA is a not-for-profit membership association, headquartered in Zurich, and offices in London, Paris and Hong Kong, committed to serving the needs of its wide range of member firms active in the international debt capital markets. It has more than 500 members across 60 countries. Its objectives are to promote good relations among its members and to provide a basis for joint examination and discussion of questions relating to the international capital and securities markets and to issue rules and make recommendations governing their operations; and to provide services and assistance to participants in the international capital and securities markets.

In pursuit of these objectives, ICMA brings together members through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of the functioning of these markets.

https://www.icmagroup.org/

The Green Bond Principles (GBP) and the Social Bond Principles (SBP) are an initiative of the International Capital Market Association (ICMA) whose aim is to establish recommendations on transparency and disclosure and promote integrity in development of the green and social bonds market.
https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

In 2020 Ostrum AM took further action and played an active part in two other initiatives:
- The Taxonomy Practitioners Group, launched in December 2019 by the PRI;
- Participation in drafting the white paper "Coal Best Practices Guide" published by the AFG in February 2020. This guide on the development of a coal strategy (in French only) for 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.

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

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

Additionally, Ostrum AM is committed to working with market-place bodies and other asset managers by engaging in initiatives with a view to encouraging issuers and companies to correct any poor practices in terms of climate, environmental, social and governance aspects (details on commitments – section III).

Assessment of our ESG policy by third-party organizations

- **Principles for Responsible Investment**

Ostrum AM has been a signatory to the Principles for Responsible Investment (PRI)[12] since 2008. The company was once again lauded for the quality and ambition of its approach to responsible investment on this 12th anniversary of our commitment, receiving an A+ rating for strategy and governance, as well as A ratings all asset classes under management (see details below) for all modules where we are assessed.

	Module	Ostrum AM scores	Median scores for Peer Group
	Strategy & Governance	A+	A
Direct & active Ownership modules	Listed Equity Incorporation	A	A
	Listed Equity Active Ownership	A	B
	Fixed Income SSA*	A	B
	Fixed Income Corporate Financial	A	B
	Fixed Income Corporate Non-Financial	A	B

Source: Ostrum Asset Management's 2020 PRI assessment report.
* SSA: Supranational organizations, Sovereigns, Government Agencies, subnational entities.

- **Reclaim Finance**

Ostrum AM was applauded by Reclaim Finance for the quality of its new coal policy – highlighting the relevant nature of measures announced in terms of exclusion as well as dialogue and engagement – and achieved very strong scores in the Coal Policy Tool.

	Project	Developers	Relative threshold	Absolute threshold	Exit strategy
BEFORE	N/A	6	6	0	8
AFTER	N/A	9	8	8	10

Source: Ostrum AM based on Reclaim Finance data

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

8. DEVOTED ORGANIZATIONAL SET-UP AND RESOURCES

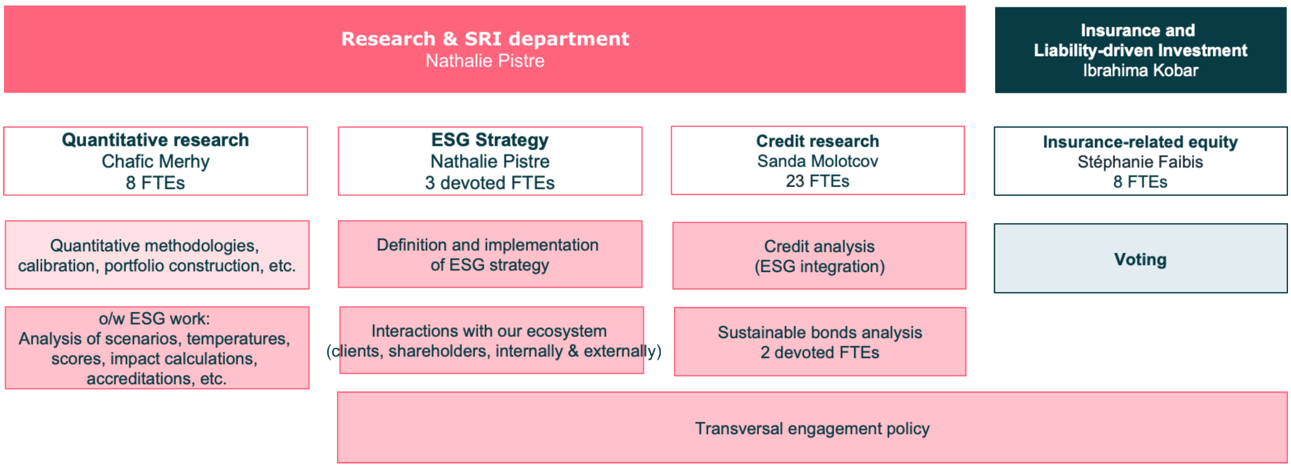
8.1 ORGANIZATIONAL SET-UP FOR GREATER INTEGRATION OF SOCIAL CHALLENGES

Sustainable investment is an integral component of our role as an asset manager, as it meets our strategic goals as a responsible company. Our ESR policy is defined as such:

Amplifying our commitment and our impact with:

- our clients
- our staff
- our issuers
- the financial market
- our ecosystem (the society we operate in)

In 2020, Ostrum AM made progress towards further structuring the organizational set-up for SRI with a view to better addressing social challenges. ESG and climate questions in particular play a key role for the Research & SRI department.
The chart below outlines the duties undertaken by the Research & SRI department and its interactions with the Insurance and Liability-driven equity investment department on our voting and engagement policy.



The SRI and research department is divided into three teams:

- **Credit research:** this team is in charge of issuer credit analysis with incorporation of ESG criteria. ESG and climate-related aspects are systematically integrated into their analysis when they are deemed to be material – i.e. with an impact on the issuer's credit risk – as part of a strict analysis framework. Further details on this analysis are provided in section 3. Two analysts are devoted to our sustainable bonds expertise and enhance our approach on this area covering green bonds, social bonds and sustainable bonds, etc.

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

- **ESG Strategy**: we decided to set up a cross-business ESG Strategy team in 2020 with a view to further bolstering our responsible investment approach, although it is crucial to bear in mind that the entire Portfolio Management department at Ostrum AM plays a key role in ESG integration. The ESG Strategy team comprises four FTEs and is in charge of overseeing these subjects as well as managing all cross-company ESG requirements, and a number of other major themes.
    - The team draws on its market watch to conduct analysis 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 manages requests from regulators in particular.
    - The team has a specific focus on defining our climate policy, and conducting work while coordinating input from the various experts depending on the issue at hand. For example, the team recently put forward a new coal exclusion policy as well as key focuses for engagement that directly involve the climate (see section III), while further exclusion policies are also undergoing consideration. The team also coordinates work to align our portfolios with climate goals.

8.2 STAFF INCENTIVES AND AWARENESS

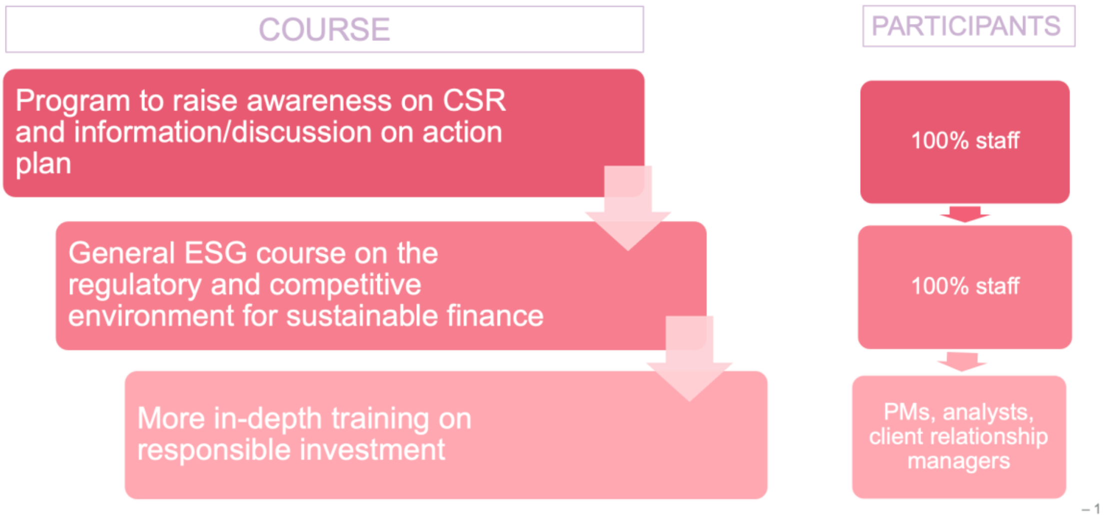
Sustainable finance lies at the heart of our strategy here at Ostrum AM, and we have ensured that all our staff – regardless of their business line – can develop their awareness of these key challenges and clearly understand the motivating factors behind our commitment and our ambition to bolster our expertise in this area in the current regulatory, environmental and social environment. All staff at Ostrum AM have therefore taken this training course.

Meanwhile, we further supported the development of all our portfolio managers', analysts' and all client-facing teams' expertise so that they can take on board ESG dimensions in their business lines and develop a clear insight into the most intricate aspects of this approach.

In 2020, we took three clear initiatives:

1. A program to raise awareness on Ostrum AM's CSR policy among all our staff, by identifying our impacts and our responsibility to our stakeholders: these information sessions also included a focus on ESG aspects.
2. A mandatory training course for all our staff covering a range of questions to better understand:
    - The political framework we operate in along with the related challenges – Green Deal – as well as regulatory aspects – the taxonomy – particularly during the post-Covid period that is just beginning;
    - The key terms and ideas in responsible finance e.g. ESG, SRI, best in class approach, best in universe approach, etc.;
    - The product range currently on offer and trends for the future e.g. fund accreditations, impact finance, etc.;
    - Our main challenges e.g. transparency and reporting.
3. A customized training course for our Portfolio Management staff and client-facing teams covering:
    - ESG portfolio management strategy processes;
    - Sustainable development challenges i.e. climate-carbon and biodiversity;
    - Current fund accreditations;

- Detailed approach to regulation: green businesses, green bonds, benchmarks;
- Ostrum AM's portfolio management strategies and goals.

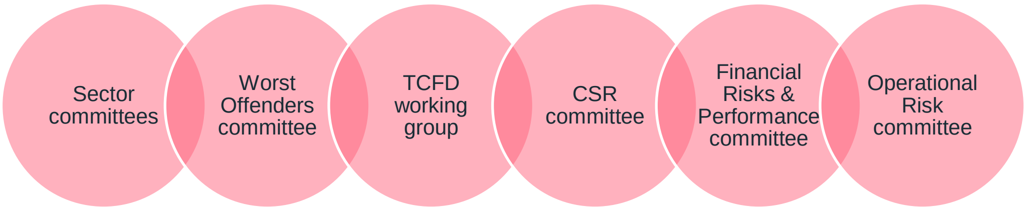


Source: Ostrum

Additionally, performance-related compensation for all the members of the Executive Committee is partly indexed to indicators set out in our CSR policy.
Meanwhile performance-related compensation for Portfolio Management teams, Credit Research and ESG Strategy teams is indexed to ESG integration goals and the implementation of our responsible investment strategy.

8.3 COMMITTEES AND WORKING GROUPS ON THE CLIMATE

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



These committees 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.

In late 2019, Ostrum AM developed an inhouse process 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 is placed on the Watch List and is carefully observed.
A number of companies were thus added to our Worst Offenders list and excluded from our open-ended funds due to serious pollution-related controversies. For example, during the latest Worst Offenders committee meeting in 2020, two companies were added to the Worst Offenders list as a result of environmental controversies: one was excluded for its involvement in major waste management controversies, with a drastic effect on marine life, ecosystems, local communities and human life, while the second was responsible for a major spill, as well as persistent emissions over several years exceeding regulatory limitations.

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

This group was set up in 2020 and meets once a month.

The CSR committee is responsible for ensuring the consistency of our CSR policy and the pledges we have taken as a company with the ESG and climate policies applied to our funds and mandates. This committee looks at all work related to sustainable finance, as well as the internal and external effects of our policies. Members of the committee are business line heads from the Portfolio Management department and the Development department, Human Resources, Risk and Compliance, Communications and CSR. The committee is chaired by the CEO and meets on a quarterly basis.

The Risk department updates senior management on our operational risk management set-up for the company as a whole. It presents specific risk indicators for each major group of financial risks – market, credit and counterparty, liquidity, model, stress test results – and presents performance monitoring information for the various portfolios while also alerting on any overruns or anomalies observed over the period.
The aim is to incorporate specific climate risk indicators into this committee's work.

The Risk department updates senior management on our operational risk management set-up for the company as a whole.
Our operational risk mapping is presented and approved once each year: this procedure aims to present and qualify areas of risk, some of which are assessed from a climate/social and environmental risk standpoint.
In our current mapping, climate-related risks, such as flooding, are included as risks of "Business interruption (IT systems, buildings, staff)".

In 2021, we will conduct work to finetune our mapping and identify risk processes that would be affected by climate/social/environmental aspects in a transversal way.

8.4 TECHNICAL EXTERNAL RESOURCES

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

SUPPLIERS	SCOPE OF OPERATION	DESCRIPTION
ISS OEKOM	Voting platform	▪ 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 (excl. barred markets); ▪ "core" and "non-core" votes sent to account holder.
	Exclusion of controversial weapons	▪ analysis of corporates based on our exclusion policy on controversial weapons.
SDG INDEX	Sovereign - ESG	▪ ESG scoring for states based on their achievement of sustainable development goals. Scoring also used for Supranationals and Agencies.
TRUCOST	Corporate - CO2	▪ CO2 emission and CO2 intensity indicators for corporates and sovereigns
	Corporate - 2DA	▪ Climate alignment scenario for corporates to assess if aligned on Paris agreement
	Corporate - green/social/ sustainable bonds	▪ Evaluation of green/social/sustainable aspect of bond issued by a corporate and flag (Bloomberg) enhanced by number of pieces of data on green bond and its issuer.
CDP	Corporate - CO2	▪ Recovery of CO2 data requested by some clients (data re-used for consolidated data report on client's total assets)
SUSTAINALYTICS	Corporate ESG	▪ ESG scoring of corporates and extensive qualitative ESG analysis
	Worst Offenders exclusion	▪ Analysis of corporates and controversies based on our Worst Offenders exclusion policy
BLOOMBERG	Green bonds flag	▪ Confirmation of green bond profile for issued bond
URGEWALD Global Coal Exit List (GCEL)	Corporate - carbone	▪ List of issuers that exceed certain critical thresholds for coal, with a view to withdrawing from the coal industry in accordance with the Paris agreement
NATIXIS	Corporate carbone	▪ Analysis of carbon criteria for corporates / issuers.
MSCI*	ESG scoring	▪ ESG scoring for companies and extensive qualitative ESG analysis
VIGEO*	ESG scoring	▪ ESG scoring for companies and extensive qualitative ESG analysis

** Services from this supplier are effective from 2021*

8.5 CLIMATE INDICATORS

Ostrum AM draws on Trucost data for all CO_2 emission data for 1, 2 and 3 for companies and sovereigns in our investment universes.
We use these data to calculate carbon emissions for any given portfolio for the corporate portion and, by dividing the amount of emissions by the portfolio's value, we can then derive the carbon footprint for the corporate component of the portfolio.
We also calculate carbon intensity on the corporate component of our portfolios (average of individual carbon intensities calculated as scope 1 + 2 emissions over the company's revenues) and the carbon intensity for the sovereign portion (same calculation, but emissions are compared to the country's GDP).
At this stage, scope 3 is not included in the analysis, as recommended by the SBTi.

CONCLUSION

In 2019, Ostrum AM took a number of pledges:

- 98% of AuM in our open-ended funds to carry SRI accreditations by 2022;
- 100% of our asset classes to screen for ESG in our financial analysis (excl. ABS) by 2021;
- exclusion of issuers that derive more than 25% of revenue streams from coal-fired energy generation and coal production (utilities and mining companies);
- exclusion of 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;
- exclusion from our investment scope of all equities, bonds and 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) particularly as regards environmental protection.

In 2020, Ostrum AM ramped up these commitments and:

- no longer invests in companies that develop new thermal coal capacity from January 2021;
- no longer invests in companies that have not set out a transition plan by 2021 to exit the coal sector in alignment with the Paris Agreement. Ostrum Asset Management will undertake extensive individual engagement efforts with any companies that did not already have a withdrawal plan in 2020 to inform them of this;
- excludes companies that exceed the threshold of 20 million tons of thermal coal production on an annual basis as of January 1, 2021;
- excludes companies that exceed 10 GW in installed capacity as of January 1, 2021;
- excludes companies with a coal share of power generation of more than 30% as of January 1, 2021;
- at the latest, Ostrum Asset Management will phase out coal exposure by 2030 for OECD countries and 2040 for non-OECD countries, with no possible exceptions.

In 2021, Ostrum AM aims to further support and advise our clients on their ESG policies, as we pledge to address 100% of requests for accreditation for dedicated funds and mandates. Similarly, we will communicate to all clients explicitly and transparently on the methodology used for calculating their portfolios' climate trajectory in terms of degrees.

Engagement will be a particular focus for attention in 2021 and Ostrum AM is committed to applying a joint policy across equities and bonds, with a specific application to each type of portfolio management. Our goal is to act as a pioneer in the financial sector and spearhead ESG engagement on the credit business, as we believe that we can positively use our influence to support companies in their practices.

We also intend to further bolster our climate strategy by rolling out an ambitious coal sector exit policy and applying a new Oil & Gas policy. Ostrum AM also intends to extend assets under management on sustainable bonds.

Lastly, we plan to bolster our presence in financial market bodies and make a further contribution to the financial sector's work on enhancing ESG practices.

Additional notes

Ostrum Asset Management

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