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# SFDR sustainable investments

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LBP AM GROUP METHODOLOGY

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## DISCLAIMER

The methodology described in this document reflects the approach implemented independently by each of LBP AM Group's investment management companies, consisting of LBP AM and La Financière de l'Echiquier ("LFDE"), based on data available to them and on their understanding of the current regulatory context.

This methodology is subject to modification, in particular to reflect regulatory stipulations that may be made by the European Commission or European and national regulators, in order to integrate new data deemed more relevant or to make methodological refinements deemed necessary.

The methodology described in in this document is applicable since **October 14<sup>th</sup> 2024**.

# 1.

**Contribution to an  
environmentally or socially  
sustainable objective**

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## 1.1. BACKGROUND

The LBP AM group, consisting of LBP AM and La Financière de L'Echiquier ("LFDE"), applies a **generalist extra-financial approach** to making environmentally and socially sustainable investments. LBP AM's two companies share the research methodology for identifying sustainable investments but each company is responsible for implementing it.

**The environmental thematic** reflects the **European Taxonomy's** six objectives, i.e.:

- **Climate change mitigation;**
- **Climate change adaptation;**
- **The sustainable use and protection of water and marine resources;**
- **The transition to a circular economy;**
- **Pollution prevention and control;**
- **The protection and restoration of biodiversity and ecosystems.**

The methodology used by the LBP AM group is unable to measure the contribution by investments, based on the European Taxonomy's definition (i.e., taxonomic alignment of investments). The contribution of investments to environmental objectives as defined by Article 2(17) of Regulation (EU) 2019/2088 ("SFDR") is measured via the LBP AM group's own indicators, which are specified hereinafter.

**The social thematic** considers the following objectives:

- **Respect for, and promotion of, human rights<sup>1</sup>**, including the promotion of fair and decent working conditions and social inclusion through work, and the protection and promotion of the rights of local communities;
- **Local and community development**, through relations with stakeholders from outside the company and responsible management of value chains, in order to address socio-economic development challenges, combat social divides, support local actors and provide access to education;
- **Improved access to healthcare**, which is essential in addressing challenges of treatment availability, geographical accessibility, affordability and acceptability.

This generalist strategy does not require that any sustainable investment must address all the aforementioned environmental and social objectives, but that sustainable investments must address at least one of these challenges, while doing no significant harm to the others.

The contribution to one of the aforementioned environmental and social objectives is assessed on the basis of various sources, including:

**For all environmental and social objectives:**

- **The "GREaT" score**, a proprietary quantitative analysis methodology, which covers all environmental and social objectives<sup>2</sup>;
- **The "SDC" score**, a proprietary qualitative research tool that assesses companies' products, services and practices, in order to measure their contribution to meeting the United Nations' Sustainable Development Goals (SDGs)<sup>3</sup>.

1. Human rights are defined as inalienable standards of treatment to which all persons are entitled, regardless of sex, national or ethnic origin, colour, religion, language, disability, sexual orientation or gender, or any other status.

2. A fuller description of the "GREaT" research methodology is available in LBP AM's Responsible Investment report at: <https://www.lbpam.com/en/publications/responsible-investment-report>

3. A fuller description of the research methodology is available in LFDE's AFG-FIR Transparency Code at: [https://cdn.lfde.com/upload/partner/202402\\_Transparency\\_Code\\_AFG-FIR\\_EN.pdf](https://cdn.lfde.com/upload/partner/202402_Transparency_Code_AFG-FIR_EN.pdf)

## Regarding the specific goals of climate and biodiversity:

- The issuer's commitment to a trajectory for decarbonating its activities that is compatible with the **objectives of the Paris Agreement**, based on criteria laid down by the investment management company;
- **The "Greenfin" score**, a quantitative indicator measuring how exposed the issuer's business model is to eco-activities as defined by the Greenfin French government label, which is dedicated to financing the energy and environmental transition<sup>4</sup>;
- **The "Bird" score**, a proprietary quantitative indicator which assesses companies mainly on their biodiversity policies, as well as their biodiversity practices and impacts;
- **The "Climate & Biodiversity Maturity" score**, a proprietary quantitative analysis tool to assess how mature companies are in addressing the climate and biodiversity challenges that they face and will face in the future<sup>3</sup>.

## Regarding the specific thematic of access to healthcare:

- **The "AAAA" score (Availability, Geographical Accessibility, Financial Accessibility, Acceptability)**, a proprietary qualitative research tool aiming to assess companies' contribution, through their products and services, to the four dimensions of healthcare access (Acceptability Accessibility, Affordability, Availability) inspired by the work of the World Health Organisation (WHO) in this area<sup>3</sup>.

## 1.2. THRESHOLDS APPLIED

An investment is assumed to contribute to one of the aforementioned objectives when it complies with one of the following conditions in the indicators stated below:

**"GREaT" score:** The issuer has obtained a **rating above 8/10**<sup>5</sup> on one of the criteria of the GREaT ESG research methodology for allowing to identify a contribution to an environmentally or socially sustainable objective.

- **In the environmental thematic**, the criteria considered are as follows: **Biodiversity and Water, Pollution and Waste, and Energy Transition Solutions. Regarding Biodiversity and Water**, the contribution is not considered on the scale of the entire economy but on a sub-group of sectors whose activities are deemed relevant, based on research by the LBP AM group, for making a contribution to protecting biodiversity and water resources;
- **On the social thematic**, the following criteria are considered: **Employee Fundamental Rights, Responsible Practices with Communities, Responsible Practices with Suppliers, and Management of the Societal Impact of Products and Services**. The contribution on the social thematic is not considered on the scale of the entire economy but on a sub-group of sectors whose activities are deemed relevant, based on research by the LBP AM group, for contributing to the social thematic.

Moreover, and to ensure sufficient representativity of issuers' ratings regarding their actual practices, a **minimum coverage rate of 33%** is required in underlying data used to calculate the GREaT score<sup>6</sup>.

3. A fuller description of the research methodology is available in LFDE's AFG-FIR Transparency Code at: [https://cdn.lfde.com/upload/partner/202402\\_Transparency\\_Code\\_AFG-FIR\\_EN.pdf](https://cdn.lfde.com/upload/partner/202402_Transparency_Code_AFG-FIR_EN.pdf)

4. The list of eco-activities is available on the Greenfin's website at: [Le label Greenfin | Ministères Écologie Énergie Territoires \(ecologie.gouv.fr\)](https://www.label-greenfin.fr/)

5. With 10 being the best score and 1 the worst.

6. An issuer having a score above 8/10 on the criteria listed below but not reaching a 50% coverage ratio would not have its contribution approved.

## SDGs score:

The score assesses companies' contribution to SDGs in two dimensions:

- **The net "Solutions Score"**, based on an analysis of companies' products and services, measures the weight of activities making a positive or negative contribution to the nine SDGs selected for their strong economic materiality<sup>7</sup>. The distribution of a company's revenue among these SDGs produces a net Solutions Score out of 100.
- **The net "Initiatives Score"**, based on an analysis of companies' social and environmental practices, aiming to value the advanced social and environmental practices of companies contributing to the SDGs and to penalise practices that contribute negatively to one or more SDGs.

The average of Solutions and Initiatives scores produces a net "SDG Score". For its SDG contribution to be approved, an issuer must achieve a net "SDG score" of at least **25/100** and a net "Solutions" of at least **20/100**<sup>8</sup>.

## Decarbonation trajectory:

The issuer must have an SBTi-approved Net 0 trajectory. In order to ensure that this commitment will result in real-world actions, the investment management company demands that the issuer provide evidence of its short-term carbon emissions reduction objectives covering **more than 70% of scopes 1 and 2 emissions**.

## Greenfin score:

The issuer must generate at least **20% of its revenues** or EBITDA in eco-activities as defined by the Greenfin French government label dedicated to financing the energy and environmental transition;

## Bird score:

The issuer must have achieved a Bird score **equal to, or greater than, 5/10**<sup>9</sup>. The Bird score is based on three pillars assessing companies' policies and commitments to protecting biodiversity, their "biodiversity footprint", i.e., the change in natural spaces caused by their activities and their "practices" for limiting their impact on various thematic, such as water management, deforestation biodiversity-sensitive areas. For this score, the contribution is not considered on the scale of the entire economy but on a sub-group of sectors deemed relevant, based on the analysis of the LBP AM group, to providing a contribution to biodiversity protection challenges<sup>10</sup>.

## "Climate and Biodiversity Maturity" (CBM):

Companies must achieve a CBM **score of at least 40%**, in order to ensure that they are taking climate change and biodiversity depletion seriously into account and hence their positive environmental contribution. The CBM qualitative score consists of four pillars (Governance, Climate, Biodiversity, and Fair Transition) based on the company's biodiversity impact, plus a malus for environmental controversies.

## "AAAA" score:

The AAAA score assesses companies' contributions in two dimensions:

- Companies must contribute the equivalent of **at least 20% of their revenues** to at least one of the four healthcare access dimensions (Acceptability Accessibility, Affordability, Availability).
- Through their activities and practices, companies **must do no harm** to any of the four healthcare challenges. Companies are evaluated on about 20 criteria defined in the four challenges.

7. These involve SDGs 3, 4, 6, 7, 8, 9, 11, 12, and 16.

8. 100 being the best score and 0 the worst.

9. 10 being the best score and 0 the worst.

10. The sub-sectors are the same as for the contribution linked to the "GREaT" score on biodiversity and water.

# 2.

**Checks to ensure  
that no significant harm  
is done to environmentally  
or socially sustainable  
objectives**

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## 2.1. BACKGROUND

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To ensure that an investment contributes to a sustainability goal, based on the aforementioned research model, does no significantly harm to any environmentally or socially sustainable investment goal, and respects the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights OECD Guidelines for Multinational Enterprises, the methodology applied by the LBP AM group takes into account systematically and cumulatively:

- The issuer's practices in **managing environmental resources and respect for human rights**. This point is checked using "GREaT", the proprietary extra-financial research methodology;
- The issuer's exposure to **environmentally and socially sensitive sectors** (thermal coal, oil & gas, deforestation, biodiversity, OGM, biocides, palm oil, controversial weapons, tobacco, pornography, alcohol, gambling) in connection with exclusion policies applicable to management companies of the LBP AM group;
- The issuer's exposure to a **severe environmental, social or governance controversy** or to a critical risk of severe violation of the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

Furthermore, **Delegated Regulation (UE) 2022/1288** of the Commission (hereinafter the "SFDR Delegated Regulation") lays out a list of indicators for measuring an issuer's adverse impact on environmental and social sustainability factors (hereinafter the "principal adverse impact indicators").

Principal adverse impact indicators are calculated for each issuer, when the data are available, and integrated into the extra-financial research tool.

Some other indicators are integrated directly either into the GREaT **proprietary rating methodology** used for identifying a positive or significant negative impact, into the aforementioned controversy indicator, or into the **analysis for applying exclusion policies**. These indicators are as follows:

- **PAI N°1** Scope 1 and 2 **GHG emissions**;
- **PAI N°2** **Carbon footprint** (scope 1 and 2);
- **PAI N°10** **Violation of the principles of the United Nations Global Compact and the OECD Guidelines** for Multinational Enterprises;
- **PAI N°11** **Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines** for Multinational Enterprises;
- **PAI N°12** **Unadjusted gender pay gap**;
- **PAI N°14** **Exposure to controversial weapons** (anti-personnel mines, cluster munitions, chemical weapons and biological weapons).



## 2.2. THRESHOLDS APPLIED

The thresholds applied on the aforementioned control points are as follows:

**GREaT score:** The issuer's practices in respecting human rights and managing environmental resources, as well as adhering to the OECD Guidelines for Multinational Enterprises, are analysed using a set "GREaT" indicators, a proprietary research methodology. The indicators considered are as follows: Biodiversity and Water, Pollution and Waste, Human Resources, Fundamental Employee Rights, Responsible Practices with Customers, Responsible Practices with Communities, Responsible Practices with Suppliers, and Managing the Societal Impact of Products and Services. An issuer rated lower than 3/10<sup>11</sup> on any of these indicators is assumed to cause significant harm to sustainability objectives.

**Exclusions:** the criteria and thresholds applied are stated in the policies available on the websites of LBP AM group management companies<sup>12</sup>. The policies applied are as follows:

- **LBP AM policies:** all exclusion policies are applied;
- **LFDE policies:** tobacco, all types of weapons, non-conventional and controversial hydrocarbons, thermal coal, gambling, pornography, alcohol, GMOs, palm oil and biocides;
- **Regarding compliance with OECD Guidelines** for Multinational Enterprises, the LBP AM group may decide to exclude companies for which there exists an unacceptable risk that they will cause or contribute to especially serious violations of the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights and the 10 Principles of the United Nations Global Compact. Details on analysis and exclusion policy applied are provided on LBP AM website, under "Human rights policy"<sup>13</sup>.

All aforementioned policies are systemically applied to DNSH (do no significant harm) controls, regardless of which LBP AM group investment management company made the investment.

**Controversies:** The issuer's exposure to a severe environmental or social controversy or posing a critical risk of violating the OECD Guidelines, is analysed using a proprietary indicator integrating data from MSCI and Moody's ESG. A controversy is deemed severe if it meets one of the following four conditions:

- **MSCI Social** – Controversy Score = 0
- **MSCI Environment** – Controversy Score = 0
- **Moody's ESG Controversy Risk Assessment** – Overall Severity = critical and (MSCI Social – Controversy Score = 1 or MSCI Environment – Controversy Score = 1)
- **Moody's ESG PAI 11**<sup>14</sup> Score ≥ 50% and (MSCI Social – Controversy Score = 1 or MSCI Environment – Controversy score = 1)

**Adverse impact indicators:** Regarding "adverse impact indicators" as defined by Delegated Regulation (EU) 2022/1288 of the Commission and integrated into the extra-financial research tool, no quantitative threshold is systematically applied to identify significant harm to sustainable objectives.

11. With 10 being the best score and 1 the worst.

12. LBP AM exclusion policies: <https://www.lbpam.com/en/publications/exclusion-policy>  
LFDE exclusion policies: [https://cdn.lfde.com/upload/partner/2023\\_Politique\\_Exclusion\\_EN.pdf](https://cdn.lfde.com/upload/partner/2023_Politique_Exclusion_EN.pdf)

13. <https://www.lbpam.com/fr/publications/politique-droits-humains>

14. Lack of compliance processes and mechanisms for ensuring adherence to the principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises



# 3.

**Checks to ensure  
that good governance  
principles are applied**

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### 3.1. BACKGROUND

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Checks to ensure that good governance principles are applied by issuers are based on two indicators:

- **A quantitative indicator from the Governance pillar of the “GREaT” proprietary research methodology**, which covers, among other things, balance of powers, equitable remuneration and business ethics.
- **An indicator from LFDE’s in-house qualitative research**. Among other things, research covers issues involving manager competence, the existence of checks and balances, gender diversity on the board, respect for minority shareholders, and the assessment of extra-financial risks.

An issuer is deemed to have applied principles of good governance if suggested by one of the two aforementioned indicators.

### 3.2. THRESHOLDS APPLIED

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The LBP AM group deems that an issuer applies good governance principles when it meets at least one of the following two criteria:

- The issuer has obtained a **GREaT Governance pillar score above 5/10**<sup>15</sup>; or
- The issuer has obtained a **qualitative governance rating from LFDE greater than, or equal to, 5.5/10**<sup>16</sup>

15. With 10 being the best score and 1 the worst.

16. With 10 being the best score and 0 the worst.

The logo for LBPAM, featuring the letters 'LBPAM' in a bold, sans-serif font, followed by a stylized graphic element resembling a wing or a chevron pointing to the right.

[www.lbpam.com](http://www.lbpam.com)

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