POLICIES RELATING TO SUSTAINABILITY RISKS

Publication in accordance with Article 3 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on the publication of sustainability information in the financial services sector ("SFDR Regulation").
Policy updated on June 30, 2024 (edited on February 20, 2025).
This policy applies to all funds of LBP AM, including those that have received the French SRI label.

POLICY

2024

Publication in accordance with Article 3 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on the publication of sustainability information in the financial services sector ("SFDR Regulation").

Policy updated on June 30, 2024 (edited on February 20, 2025).
This policy applies to all funds of LBP AM, including those that have received the French SRI label.

Policy on ESG Risk Management

The analysis and management of sustainability risks are based on a set of complementary tools, policies, and procedures.

Consideration of Double Materiality

LBP AM is of the view that the consideration of sustainability risks and the reduction of adverse impacts of its investments on sustainability factors are intrinsically linked. A poorly managed adverse impact can materialize as an increased sustainability risk, so reducing the adverse impacts of investments is, according to LBP AM, an essential component in preventing sustainability risks.

Therefore, LBP AM does not separate its management of sustainability risks from the consideration and reduction of the principal adverse impacts of its investment decisions on sustainability factors.

1. Framework for Identifying and Evaluating Risks

SRI rating

The proprietary ESG rating methodology GREaT integrates indicators related to the different categories of sustainability risks, such as risks related to climate change, governance issues, and respect for human rights. The following are considered:

- **Regulatory risks**, captured by the "Business Ethics" criterion, which evaluates the internal control systems implemented by issuers;
- **Operational risks**, captured by the "Sustainable Resource Management" pillar, which focuses on the quality of human resource management (training, turnover control, etc.) and the implementation of solid environmental management systems, both factors in reducing operational risk;
- **Strategic risks**, which concern the alignment of companies' strategies with long-term trends, particularly with the "Energy Transition" and "Territorial Development" pillars;
- **Climate risks**, which are physical risks that cover direct damage caused by weather and climate phenomena, and transition risks resulting from the effects of implementing a low-carbon economic model, regulatory changes, and the emergence of new "disruptive" technologies, etc. These risks are analyzed in the "Energy Transition" pillar.

This analysis is applied systematically and the underlying indicators, provided by MSCI ESG, Moody's ESG, and EthiFinance, are adapted to the geographical, sectoral, and market capitalization specificities of the companies considered.
The GREaT ratings are updated on a semi-annual basis and may be subject to ad hoc updates when a specific risk is identified. The rating methodology is reviewed at least annually.

Financial Analysis

The qualitative integration of ESG considerations in financial analysis aims to identify the strengths and weaknesses of companies in relation to sustainability issues. For each issuer analyzed, managers and analysts identify material sustainability issues, i.e., those likely to have a significant impact on the issuer's credit quality or valuation. This analysis considers the exposure of companies to identified material issues and the time horizon over which they could materialize, the level of integration of these issues into companies' strategies, and the mobilization of human, financial, and technical resources to address them. These analyses result in the assignment of a materiality score, made available to all managers in the financial analysis tool to support their investment decisions. The scores are updated as new information becomes available and through exchanges with the companies concerned or external analysts.

Normative analysis

The normative analysis carried out as part of the exclusion policy aims to identify companies at risk of causing, contributing to, or being linked to critical risks or impacts on people and the environment, or violating the following international standards: the United Nations Global Compact, the United Nations Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. It aims to assess the link between the company and the impact, the remediation measures implemented by the company, and the due diligence carried out by the company.

→ Additional information can be found in the exclusion policy available on the LBP AM website:

https://www.lbpam.com/en/publications/exclusion-policy

2. Risk Management Framework

Rules for Integrating ESG Ratings into Allocation

ESG ratings established based on the GREaT methodology are at the heart of the SRI process for selecting securities in portfolios, based on the exclusion of the lowest-rated companies or the overweighting of the highest-rated ones. Thus, the ESG approach applied for selecting securities in portfolios tends to disqualify issuers most exposed to sustainability risks and favor those that best manage their exposure to these risks..

→ Additional information on the process of selecting securities based on GREaT ratings can be found in the Responsible Investment Report ("29LEC Report") available on the asset management company's website:

https://www.lbpam.com/en/publications/responsible-investment-report

Exclusion Policy

LBP AM applies an exclusion policy to limit its exposure to the riskiest issuers or those causing serious harm to sustainability objectives. This policy includes exclusions related to controversial activities in the fossil fuel sectors (thermal coal, oil, and gas), gambling, tobacco, and major sectors exposed to risks related to deforestation or biodiversity degradation. It also includes normative exclusions based on the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises to reduce exposure to risks related to serious, repeated, and uncorrected violations of these international standards.

Arbitration and monitoring of the application of the exclusion policy are ensured by the GREaT Committee, chaired by the Chief Investment Officer and bringing together the heads of management units, the risk department, and the ISR Solutions team. The risk department also has the right to veto and refer matters to the LBP AM Board for arbitration.

→ Additional information on exclusion policies can be found in the exclusion policy available on the asset management company's website:

https://www.lbpam.com/en/publications/exclusion-policy

Engagement and Voting Policy

While the two aforementioned mechanisms aim to rapidly and directly reduce the exposure of management companies to risks, LBP AM's engagement and voting policy aim to mitigate the source of risks—considered to be of lesser magnitude or imminence—through proactive action aimed at encouraging invested companies to improve their management of environmental, social, and governance risks to which they are exposed.

Regarding shareholder engagement, all invested companies are likely to be engaged on ESG issues. All shareholder engagement actions are carried out on behalf of LBP AM for its individual and professional clients. The main objectives, scope, and usual procedures for conducting engagements are formalized in the global shareholder engagement policy, supplemented by thematic ISR policies, which specify and detail the technical expectations for specific issues and sectors. These various policies are available on the LBP AM website.

- The shareholder engagement policy is available at the following address:

  https://www.lbpam.com/en/publications/engagement-policy

- Thematic ISR policies are available at the following address:

  https://www.lbpam.com/en/publications/publications

Regarding voting at general meetings, designed as an extension of the engagement policy, LBP AM publishes its policy, which sets out the scope and procedure for voting at shareholder general meetings, as well as the criteria according to which resolutions submitted to shareholder votes are approved or rejected.

- The voting policy is available at the following address:

https://www.lbpam.com/en/publications/voting-policy

To account for the application of these various policies, LBP AM publishes a shareholder engagement report, which also accounts for the application of the voting policy.

- The report is available at the following address:

https://www.lbpam.com/en/publications/engagement-report

Thematic policies

Dedicated thematic policies aim to specify the specific treatment of the main sustainability issues in a cross-cutting manner across the three mechanisms mentioned above. These policies, co-constructed by the experts of the ISR Solutions team and the management and research teams, are submitted for validation to the Sustainable Finance Committee, which validates the assumptions and choices made and ensures their consistency with the global ESG strategy of LBP AM. These policies define the criteria for rating, implementing engagement actions targeting at-risk companies, and exclusions for the most exposed companies. LBP AM thus has policies relating to climate, biodiversity, coal, oil and gas, and respect for fundamental treaties on human rights (United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises).
These policies are updated periodically based on an annual evaluation of the opportunity for an update. The methodologies and results for 2023 are specified below.

Conventional Risk Management Framework

Finally, the Risk Department, responsible for applying the conventional risk management framework, is directly involved in the validation and supervision of the application of the aforementioned mechanisms: participation in the development or validation of policies, control of ESG rating models, participation in the exclusion committee, pre- and post-trade controls on compliance with exclusion lists and ESG objectives of each fund. It should be noted that while the Risk Department aims for broad deployment of pre-trade controls, these are not systematically implemented, especially for criteria that have been recently deployed in the funds.

The Risk Department has also implemented a tool for monitoring climate risks to which LBP AM is exposed through its aggregated investments and within its portfolios. This analysis is based on the 6 scenarios of the NGFS supplemented by two scenarios of the IPCC: 4°C SSP3-70 and 5°C SSP5-8.5. For each of these scenarios, an estimate of the depreciation of outstanding amounts is made, integrating the effects of the energy transition (scope 1, 2, and 3) as well as the impacts of physical hazards (chronic or acute). The results are subject to a monthly review by the Risk Department and a quarterly review within the risk committee, in which members of the Board participate. Finally, this tool has made it possible to draw up a list of issuers subject to closer monitoring, particularly in terms of shareholder engagement.

Focus on the Management of Human Rights Risks

Implementation of due diligence in accordance with the expectations of the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises

LBP AM has joined the Advance initiative, led by the United Nations Principles for Responsible Investment (UNPRI), in which investors aim to achieve progress in managing human rights risks and positive outcomes for people through engagement. In this context, LBP AM participates in two working groups on the renewable energy and mining sectors and engages with EDP and ArcelorMittal. Among the areas of progress envisaged are:

- **Strengthening traceability measures in supply chains**
- **Measures to identify risks related to certain geographies or certain materials/products**
- **Strengthening health and safety risk management procedures**

LBP AM is an active member of the Coalition Against Forced Labor and Child Labor, organized by the Forum for Responsible Investment (FIR) and Human Resources Without Borders (RHSF). This coalition aims to support the fight against forced labor and child labor worldwide. The coalition mobilizes to ensure that the exercise of due diligence effectively reduces risks to people through constructive dialogue with companies. In this context, engaged companies are evaluated based on an analysis grid co-constructed by investors and RHSF. The objective is to highlight possible areas for strengthening companies on these two issues and to support them in implementing best practices.

Management of Controversies and Prevention of Risks of Severe Impacts

In accordance with its normative exclusion policy, **LBP AM may engage with companies to follow up on a controversy or when these companies present an unacceptable risk of causing, contributing to, or being linked to particularly critical impacts on human rights or the environment**. This dialogue differs from regular dialogue with companies, as it aims to address an impact that has already materialized, for example, by implementing remediation and risk control measures to prevent the recurrence of an adverse impact, or to support the companies concerned in the process of ceasing and remediating potential future adverse impacts.

For example, in July 2023, **the GREaT Committee analyzed 19 companies in the chemical sector**. These companies presented a high risk of violating LBP AM's fundamental ethical standards, particularly due to their production of per- and polyfluoroalkyl substances (PFAS), commonly known as "forever pollutants." Potentially harmful to health and the environment, PFAS are characterized by their unalterable and bioaccumulative chain: indestructible in nature and in organisms, these compounds can lead to critical environmental and health consequences. LBP AM therefore initiated enhanced due diligence to examine the measures implemented to reduce the risk of impact on people and the environment related to the production and use of forever pollutants, as well as the policies and strategies for remediating impacts already caused by these products.

LBP AM has identified expectations for these companies, notably that they commit to:

- Ceasing and remediating the impact on people and the environment of these molecules,
- Consulting affected stakeholders and communicating transparently about their progress,
- Developing and implementing a robust policy on health and safety for workers in their production chains and on the responsible development of chemical products ("Safety by design").

To facilitate engagement processes and strengthen its leverage with the companies concerned, **LBP AM has joined the Investor Initiative on Hazardous Chemicals, led by ChemSec**. This initiative brings together 54 investors and over 10 trillion dollars in assets under management. Signatories of a letter sent to 50 of the world's largest producers and users of PFAS, LBP AM is engaging with three companies in the chemical sector to encourage them to plan their gradual exit from PFAS and increase transparency in managing risks and impacts related to the production and use of these substances.

Through this approach, LBP AM is acting directly with companies for more responsible and respectful chemistry for people and the environment, but also to sustainably reduce the risk of controversies related to these issues.

Focus on the Management of Climate Risks

Climate risk is considered by central bankers as a systemic risk, potentially influencing the stability of the global financial system.

Some central banks (e.g., European Central Bank, Bank of France) have launched programs aimed at developing and improving approaches to assessing climate risks. The methodologies for assessing the effects of climate change and the energy transition are still recent but allow for an appreciation of the main exposures of portfolios to physical risks, i.e., the negative effects of climate change, and transition risks, i.e., political measures and changes in consumer preferences to combat global warming.

The analysis and monitoring of issuers' climate risks are ensured by the following elements:

- **The proprietary ESG rating methodology GREaT** integrates climate risks into its "Energy Transition" pillar based on indicators provided by MSCI ESG and Moody's ESG. For real and private asset funds, the indicator is calculated based on a proprietary analysis grid whose data is obtained directly from companies.

- **The ESG materiality analysis**, integrated into the financial analysis carried out by the research and management teams, qualitatively studies physical and transition risks when considered material for the issuer.

- **An ad hoc measurement indicator** deployed by the Risk Department applied to all LBP AM investments.

With a risk management framework reviewed annually, the management of physical, transition, or controversy risks related to climate issues is ensured by several elements of the investment strategy deployed by LBP AM:

- **The selection of securities based on GREaT ESG ratings** through best-in-class or best-in-universe strategies. The application of these strategies in a binding manner in fund management tends to underweight the most exposed issuers;

- **In addition, the qualitative analysis carried out by the research and management teams** allows managers to identify the most exposed issuers to make investment decisions accordingly in an ESG integration approach;

- **The portfolio transition strategy** deployed as part of LBP's commitment to the Net Zero Asset Managers Initiative (NZAMI). This strategy aims to align the company's investments with a 1.5°C trajectory, using the IPCC's P2 scenario as a reference. This ambition materialized in 2022 with a commitment by the company to achieve "net zero" alignment for 80% of assets under management by 2030;

- **Sectoral exclusion policies on coal, oil, and gas** help control the company's exposure to these sectors, which are highly exposed to transition and reputational risks. The societal objective of this approach is to avoid exacerbating the lock-in effects of regional economies and invested companies in fossil fuels. The financial objective is, where appropriate, depending on the operating cost of assets and positioning in the value chain, to avoid increasing the risk of stranded assets or declining carbon-intensive business activities that would result from a successful energy transition, as recommended by the IPCC.

- **The engagement and voting policy** integrates several elements contributing to the management of climate risk in portfolios. In line with its transition ambition, LBP AM conducts active engagement with companies to encourage them to initiate or accelerate the transition of their business models, particularly through the formalization of robust transition plans.

- **The ad hoc monitoring carried out by the Risk Department** to identify the climate risks to which LBP AM is exposed through its aggregated investments and within its portfolios. This analysis is based on the 6 NGFS scenarios supplemented by two IPCC scenarios: 4°C SSP3-70 and 5°C SSP5-8.5. For each of these scenarios, an estimate of the depreciation of outstanding amounts is made, integrating the effects of the energy transition (scope 1, 2, and 3) as well as the impacts of physical hazards (chronic or acute). The results are subject to a monthly review by the Risk Department and a quarterly review within the risk committee, in which members of the Board participate. Finally, this tool has made it possible to draw up a list of issuers subject to closer monitoring, particularly in terms of shareholder engagement.

Additional information on the various policies mentioned above is available on the asset management company's website:

https://www.lbpam.com/fr/publications/publications-rapports

Focus on the Management of Biodiversity Risks

The analysis and monitoring of biodiversity-related risks are ensured by the following elements:

- **The proprietary ESG rating methodology GREaT** integrates indicators covering biodiversity issues. These indicators are distributed within the "Biodiversity and Water" and "Pollution and Waste" criteria contained in the "Sustainable Resource Management" pillar, as well as within the "Energy Transition" pillar. For real and private asset funds, the indicator is calculated based on a proprietary analysis grid whose data is obtained directly from companies.

- **The ESG materiality analysis**, integrated into the financial analysis carried out by the research and management teams, qualitatively studies physical and transition risks when considered material for the issuer.

- **The thematic biodiversity policy** is based on a measurement of risks and dependencies on biodiversity using the ENCORE database, which measures the ecosystem services necessary for the successful conduct of an activity according to 5 different levels of materiality ranging from Very Low to Very High. These levels of materiality are transposed onto a quantitative scale, allowing the calculation of an average materiality of the portfolio for each ecosystem service.

The management of biodiversity risks is ensured by several elements of the investment strategy deployed by LBP AM:

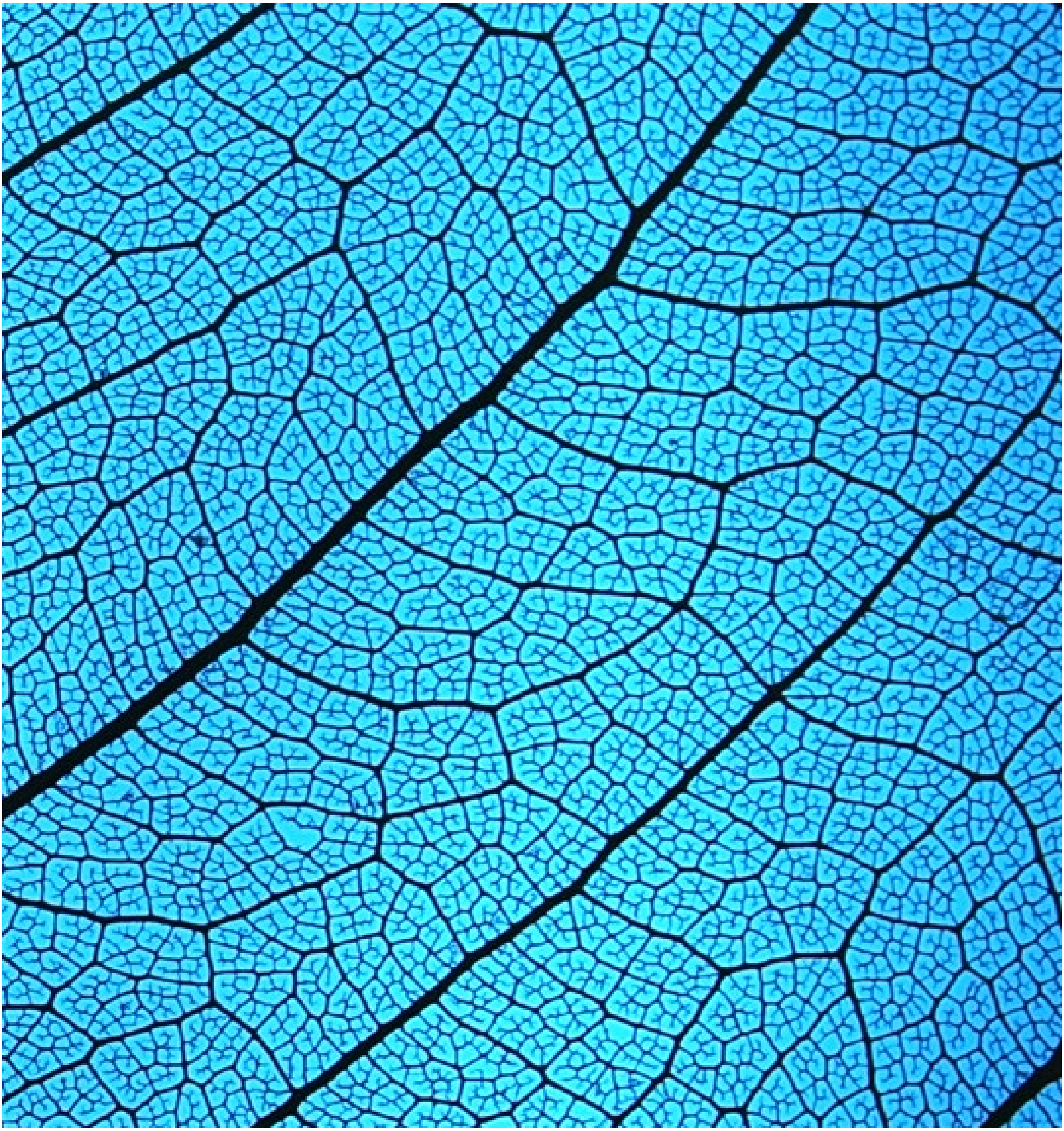
- **The selection of securities based on GREaT ESG ratings** through best-in-class or best-in-universe strategies. The application of these strategies in a binding manner in fund management tends to underweight the most exposed issuers.

- **The exclusion policy related to biodiversity and its component dedicated to deforestation,** targeting companies that are directly involved in deforestation and have not implemented a solid risk prevention policy. Companies in the energy, agri-food, chemical, beverage, tobacco, materials, transport, public services, and infrastructure sectors are subject to particular attention due to the significant pressures they exert on biodiversity.

- **The engagement and voting policy**, which aims to support companies in better understanding and addressing biodiversity issues. LBP AM has adopted a sectoral approach to optimize the effectiveness of this approach. A sector is selected for a period of 2 to 3 years, during which the company supports priority companies considering their positioning and the outstanding amounts they represent in LBP AM's portfolios.

Additional information on the biodiversity policy applied by the LBP AM Group is available on the asset management company's website:

https://www.lbpam.com/fr/publications/politique-biodiversite



https://www.lbpam.com

LBP AM
Société Anonyme à directoire et conseil de surveillance with authorised capital of 12,138,931.20 euros
Registered office: 36, quai Henri IV 75004 Paris, France
Immatriculée sous le n° 879 553 857 RCS Paris
Certified as a portfolio management company by the French Financial Markets Authority (AMF)
under n° GP-20000031 (code APE 6630Z)
EU VAT N°: FR 71 879 553 857