
SUSTAINABILITY RISKS POLICIES

Publication pursuant to Article 3 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR Regulation").

This policy applies to all funds of the LBP AM Group¹, including funds that have been awarded the French SRI label. Any differences in treatment applied to certain funds are specified in the relevant paragraphs. Where no further detail is provided, the item concerned applies to all products of the LBP AM Group.

Consideration of Double Materiality

The LBP AM Group considers that taking sustainability risks into account and reducing the negative impacts of its investments on sustainability factors are intrinsically linked. Poorly managed negative impact can materialize as heightened sustainability risk, so that reducing the negative impacts of investments is, in the LBP AM Group's view, an essential component in preventing sustainability risks.

Accordingly, the LBP AM Group 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.

Policy on the Management of Sustainability Risks

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

1. Framework for Risk Identification and Assessment

1.1 ESG Rating

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

- **Regulatory risks**, captured in particular by the "Business Ethics" criterion which evaluates the internal control systems put in place by issuers;
- **Operational risks**, captured by the "Sustainable Resource Management" pillar which focuses in particular on the quality of human resource management (training, control of turnover, etc.) and the implementation of robust environmental management systems, both factors in reducing operational risk, as well as by the "Territories" pillar, which notably targets the management of supply chains and the downstream part of value chains, as well as the management of relations with stakeholders in the context of developing activities or projects;
- **Strategic risks**, which concern the alignment of companies' strategy with long-term trends, particularly with the "Energy Transition" and "Regional Development" pillars;
- **Climate risks**, namely physical risks covering damage directly caused by weather and climate phenomena; and transition risks resulting from the effects of implementing a low-carbon economic model, regulatory change, the emergence of new "disruptive" technologies, etc. These risks are analyzed within the "Energy Transition" pillar.

¹ Including funds of the LBP AM and LFDE companies

This analysis is applied systematically and the underlying indicators, provided by MSCI ESG, ISS ESG and Ethifinance for listed issuers and collected directly by LBP AM for unlisted issuers, are adapted to the geographic, sectoral and market-cap specificities of the companies concerned as well as to the type of asset considered (e.g., infrastructure or real estate).

GREaT scores for listed issuers are updated on a semi-annual basis and may be subject to ad hoc updates when a specific risk is identified or when the LBP AM Group considers that certain information has not been properly taken into account by its data providers. The rating methodology itself is reviewed at least annually.

Furthermore, La Financière de l'Echiquier (LFDE)'s funds, the portfolio management teams carry out a qualitative analysis of the quality of corporate governance of the companies held in the portfolios. This analysis has a dedicated pillar for the assessment and management of extra-financial risks by companies.

For the selection of external funds which are invested as part of allocation strategies and funds of funds, the LBP AM asset management company has developed the "GREaT AM" methodology for evaluation third-party asset managers, based on the same principles as GREaT. This analysis notably covers the governance and organization of the ESG teams, their expertise on ESG topics, the maturity and relevance of their exclusion and thematic policies (climate, biodiversity and human rights), their participation in market initiatives (UN PRI, NZAMI, etc.), their various policies (management of ESG risks notably through their ESG investment process, ESG selectivity, voting and engagement, etc.) as well as their adherence to recognized sustainable finance labels (French SRI label, Greenfin, Towards Sustainability, etc.). This methodology makes it possible, on the one hand, to assess the management of sustainability risks by the third-party asset manager, and on the other hand, to measure governance risks arising directly from the organization of the third-party asset manager.

1.2 Financial Analysis

For LBP AM's credit funds², the qualitative integration of ESG considerations into financial analysis aims to identify companies' strengths and weaknesses in connection with sustainability issues. For each issuer analyzed³, portfolio 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 takes into account companies' exposure to the material issues identified and the time horizon over which they could materialize, the degree to which companies integrate these issues into their strategy, as well as the mobilization of human, financial and technical resources to address them. These analyses result in the assignment of a materiality score made available to portfolio managers. The scores are updated as new information becomes available and following interactions with the companies concerned or external analysts.

1.3 Normative Analysis

The normative analysis carried out under the exclusion policy aims to identify companies for which there is an unacceptable risk that they cause, contribute to, or are linked to particularly serious violations of fundamental ethical standards or are subject to serious, proven and repeated controversies.

The international standards targeted by this policy include: the United Nations Global Compact, the United Nations Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. It aims in particular to assess the link between the company and the impact, the remedial measures implemented by the company, the due diligence carried out by the company, as well as the leverage effect of the LBP AM Group on the company.

² Funds whose management is delegated to a third-party manager are not concerned.

³ Note that this materiality analysis is not carried out systematically for all issuers in the portfolio.

2. Risk Management Framework

2.1 Exclusion Policy

The asset management companies of the LBP AM Group apply an exclusion policy to all their funds⁴ to limit their exposure to the most at-risk issuers or those causing serious harm to sustainability objectives. The policy includes normative exclusions based on the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact, in order to reduce exposure to issuers whose activities or practices would not allow for the effective management of critical risks for people, the environment or principles of good governance. It also includes exclusions of certain issuers whose products or services, or the way they manage these activities, present risks of serious infringements of human rights or the environment and/or are not aligned with the Group's ESG performance objectives, issuers belonging to sectors such as tobacco, gambling, coal, oil and gas, the production of insecticides, as well as issuers belonging to sectors exposed to deforestation, according to the criteria defined by the LBP AM Group.

The updating and monitoring of the application of the exclusion policy are ensured by the GREaT Committee, chaired by the Chief Investment Officer of LBP AM and bringing together the heads of portfolio management and ESG units of the LBP AM Group and the Risk Department. The Risk Department also has a right of veto and may refer matters to the Management Board of LBP AM for arbitration.

- Further information on exclusion policies can be found in the exclusion policy available on the websites of the asset management companies :

<https://www.lbpam.com/fr/publications/politique-exclusion>

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

2.2 Integrating ESG Scores into Asset Allocation

For funds awarded with the French SRI label or funds applying an ESG selection criterion based on the GREaT rating⁵, GREaT scores are central to the securities selection process. The ESG approach applied to select securities—either by excluding the lowest-rated companies, by overweighting the best-rated or by applying a minimum score to validate the investment—tends to disqualify the most exposed issuers and favor those that best control their exposure to sustainability risks.

- Further information on the securities selection process based on GREaT scores can be found in the Responsible Investment Report ("29-LEC Report") available on the websites of the asset management companies :

<https://www.lbpam.com/fr/publications/rapports-investissement-responsable>

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

For LBP AM allocation strategies or funds of funds, the GREaT AM rating is a discriminating factor within the selection process for external managers. Funds of external asset management companies that obtain a score deemed too low are removed from the buy list or excluded and divested in extreme cases. In addition, strategies holding the French SRI label invest at least 90%⁶ in funds that themselves hold the SRI label, whose criteria ensure strengthened management of sustainability risk.

⁴ Except for mandates or dedicated funds at the express request of the client.

⁵ Where applicable as specified in the pre-contractual documentation of the financial product, and in particular in the SFDR annex.

⁶ Calculated over the total investments in funds.

2.3 Engagement and Voting Policy

While the two mechanisms mentioned above aim to swiftly and directly reduce the asset management companies' exposure to impact and materiality risks, the LBP AM Group's engagement and voting policy aims to mitigate the source of risks over the long term through proactive action to encourage investee companies to improve or strengthen their management of environmental, social and governance risks. With regard to shareholder engagement, all investee companies may be engaged on ESG issues. All shareholder engagement actions are conducted in the name of the two asset management companies LBP AM and LFDE on behalf of their retail and professional clients. The main objectives, scope, and usual procedures for conducting engagements are formalized in the shareholder engagement policy, supplemented by thematic SRI policies, which specify and break down technical expectations on specific issues and sectors. These various policies are available on the LBP AM and LFDE websites.

→ The engagement policy is available at :

<https://www.lbpam.com/fr/publications/politique-engagement>

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

→ The thematic SRI policies are available at :

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

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

For allocation strategies or funds of funds, external asset management companies for which the GREaT AM analysis highlights points of vigilance on certain ESG aspects are subject to engagement by LBP AM's fund selection team.

With regard to voting at general meetings, designed as an extension of the engagement policy, the LBP AM Group publishes a policy that sets out the scope and procedure for voting at shareholders' general meetings as well as the criteria according to which the resolutions submitted to shareholder vote are approved or rejected.

→ The voting policy is available at :

<https://www.lbpam.com/fr/publications/politique-vote>

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

To report on the application of these various policies, the LBP AM Group publishes a shareholder engagement report, which also reports on the application of the voting policy.

→ The report is available at :

<https://www.lbpam.com/fr/publications/rapport-engagement>

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

2.4 Thematic Policies

Dedicated thematic policies specify the treatment of the main sustainability issues, across the three mechanisms mentioned above. These policies, co-constructed by experts from the SRI Solutions team, the LFDE RI Research teams and portfolio management teams, are submitted to the approval of the Sustainable Finance Committee, which validates the assumptions and choices made and ensures their consistency with the LBP AM Group's overall ESG strategy. These policies define the criteria for rating, engagement and exclusions. The LBP AM Group has policies relating to climate, biodiversity, coal, oil and gas, as well as respect for human rights.

These policies are updated periodically, based on an annual assessment of whether an update is appropriate.

For allocation strategies or funds of funds, specific attention is given to the thematic policies of external asset management companies on climate, biodiversity and human rights as part of the analysis based on the GREaT AM methodology.

2.5 Conventional Risk Management Framework

The Risk Department, responsible for applying the conventional risk management framework, is directly involved in validating and supervising the application of the mechanisms mentioned above: participation in the drafting or approval of policies, control of ESG rating models, participation in the exclusion committee, pre- and post-trade controls on compliance with exclusion lists and the ESG characteristics of each fund. Note that while the Risk Department aims for broad deployment of pre-trade controls, these are not systematically implemented, notably for criteria that have been recently deployed or for products whose management does not rely on traditional tools (e.g. real and private asset funds).

For LBP AM, the Risk Department has also implemented a tool for monitoring the climate risks to which the company is exposed through its aggregated investments and within its portfolios. This analysis is based on the 6 NGFS⁷ 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 assets under management is made by incorporating the effects of the energy transition (Scopes 1, 2 and 3) as well as the impacts of physical hazards (chronic or acute). The results are reviewed monthly by the Risk Department and quarterly by the risk committee in which members of the Management Board participate. Finally, this tool made it possible to draw up a list of issuers that are subject to closer monitoring, particularly with regard to shareholder engagement.

⁷ Central Banks and Supervisors Network for Greening the Financial System

Focus on human rights risks management

The LBP AM Group is committed to respecting internationally recognized human rights across all its investment activities, in accordance with the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights, and the Ten Principles of the United Nations Global Compact.

It pays particular attention to respect for the human rights contained in: the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, the ILO Declaration on Fundamental Principles and Rights at Work and the ILO's ten Fundamental Conventions, and international humanitarian law.

Throughout its investment activities it deploys measures to prevent and mitigate potential human rights impacts that could result from the activities of issuers in which it invests. These measures consist both of :

- The identification of risks, via a human rights risk mapping, to assess and prioritize the most sensitive sectors, geographies and themes.
- The prevention and mitigation of risks via: SRI selection based on the proprietary GREaT rating, corporate engagement on human rights, and the normative exclusion policy, which targets companies for which there is an unacceptable risk that they cause or contribute to or are linked to serious human rights violations, or are exposed to serious, proven and repeated controversies and for which exclusion is the most effective way to reduce this risk, and the human rights engagement policy;
- The monitoring of the evolution of risks and measures via continuous normative watch and enhanced due diligence, which feed into deliberative bodies that may decide to downgrade ESG ratings, initiate engagement actions, freeze or exclude the issuer.
- Communication and transparency, through the publication of policies and the modalities of their implementation in the Group's 29-LEC and engagement reports.
- The consultation of stakeholders throughout the process.

The human rights policy applied by the LBP AM Group is available on the websites of the asset management companies :

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

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

Focus on climate risks management

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

- **The proprietary GREaT ESG rating methodology** integrates climate risks into its "Energy Transition" pillar on the basis of indicators provided by MSCI ESG, ISS ESG and Ethifinance. For real and private asset funds, the indicator is calculated on the basis of a proprietary analysis grid whose data are obtained directly from companies.
- **The ESG materiality analysis**, integrated into the financial analysis carried out by research and portfolio management teams, studies qualitatively physical and transition risks when these are 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 the LBP AM Group:

- **The portfolio transition strategy deployed** as part of LBP AM's commitment to the Net Zero Asset Managers Initiative (NZAMI). This strategy aims to align the company's investments with a 1.5°C pathway, taking the IPCC P2 scenario as a reference. This ambition materialized in 2022 with the company's commitment to achieve a "net zero" alignment for 80% of assets under management by 2030 and 100% by 2040; LFDE has also committed to the initiative with an objective to align 50% of its assets with a carbon neutrality pathway, corresponding to a 50% reduction in the weighted average carbon intensity across all scopes of its UCIs by 2030 versus 2020. As part of LFDE's integration into the LBP AM Group, a convergence of commitments and methodologies under this initiative is planned.
- **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 lock-in effects for regional economies and companies invested in fossil energies. The financial objective is, where applicable depending on asset operating costs and positioning in the value chain, to avoid increasing the risk of stranded assets or the decline of emissive commercial activities that would result from a successful energy transition as recommended by the IPCC.
- **The engagement and voting policy** includes several elements that contribute to managing portfolio climate risk. In line with its transition ambition, the LBP AM Group pursues an active engagement policy with companies to encourage them to initiate or accelerate the transition of their business model, notably through the formalization of robust transition plans.

The Group's companies apply complementary approaches for certain specific products :

- **For funds awarded with the French SRI label** as well as funds applying an ESG selection criterion based on the GREaT rating⁸ the securities selection is based on GREaT scores through best-in-class or best-in-universe strategies. Applying these strategies as binding elements in fund management tends to underweight the most exposed issuers;
- **For LBP AM funds**, the ad hoc monitoring carried out by the Risk Department to identify climate risks according to the approach described in section 2.5 above. The results are reviewed monthly by the Risk Department and quarterly by the risk committee in which members of the Management Board participate. This tool is also used to draw up a list of issuers deemed particularly at risk and subject to closer monitoring, particularly with regard to shareholder engagement.
- **For LBP AM credit funds** (excluding funds whose management is delegated to a third party), the qualitative analysis carried out by research and portfolio management teams enables portfolio managers to identify the most exposed issuers in order to make investment decisions accordingly within an ESG integration approach;
- **The proprietary Impact scores used** in LFDE's impact funds, which include a focus on managing climate risks :

→ Within the "SDG Score", criteria related to climate are taken into account in the company rating used for portfolio securities selection, notably the contribution to achieving SDG 7 (Affordable and Clean Energy) and SDG 11 (Sustainable Cities and Communities).

→ Within the "Climate and Biodiversity Maturity Score": climate-related criteria are taken into account in the positive selection of companies via the Climate and Biodiversity Maturity score. It assesses issuers' maturity in their consideration of climate and biodiversity issues.

Further information on the various policies mentioned above is available on the websites of the asset management companies :

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

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

Focus biodiversity risks management

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

- **The proprietary GREaT ESG rating methodology** integrates indicators covering biodiversity issues. These indicators are distributed across the criteria "Biodiversity and Water" and "Pollution and Waste" 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 on the basis of a proprietary analysis grid whose data are obtained directly from companies.
- **The biodiversity thematic policy** relies on a measurement of risks and dependencies on biodiversity using the ENCORE database, which measures the ecosystem services required for the proper performance of an activity according to five different levels of materiality ranging from Very Low to Very High. These levels of materiality are transposed onto a quantitative scale enabling the calculation of an average materiality of the portfolio for each ecosystem service.

⁸ Where applicable as specified in the pre-contractual documentation of the financial product, and in particular in the SFDR annex.

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

- - **The exclusion policy linked to biodiversity** and its component dedicated to deforestation, targeting companies that operate and/or trade directly involved in deforestation and that have not implemented a robust policy to prevent risks. Companies in the energy, agri-food, chemicals, beverages, tobacco, materials, transport, and public services and infrastructure sectors receive particular attention due to the significant pressures they exert on biodiversity.
- - **The engagement and voting policy**, which aims to support companies on the path to a better understanding and consideration of biodiversity issues. LBP AM has adopted a sectoral approach to optimize the effectiveness of this initiative. One sector is selected for a period of 2 to 3 years, during which the company supports the companies deemed priorities given their positioning and the assets they represent in the LBP AM Group's portfolios.

The Group's companies apply complementary approaches for certain specific products :

- **For funds awarded with the French SRI label** as well as funds applying an ESG selection criterion based on the GREaT rating⁹, securities selection is based on GREaT scores through best-in-class or best-in-universe strategies. Applying these strategies as binding elements in fund management tends to underweight the most exposed issuers.
- - For LFDE's impact funds, the proprietary scoring methodologies include a focus on the management of biodiversity-related risks :
 - Within the "SDG Score", criteria related to biodiversity are taken into account in the company rating used for portfolio securities selection, notably the contribution to achieving SDG 14 (Life Below Water) and SDG 15 (Life on Land).
 - Within the "Climate and Biodiversity Maturity Score", which assesses issuers' maturity in their consideration of climate and biodiversity issues. The consideration of biodiversity depends on the (high or low) degree of impact and/or dependence of each company's sector on this theme.

Further information on the biodiversity policy applied by the LBP AM Group is available on the websites of the asset management companies :

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

<https://www.lfde.com/fr-fr/investissement-responsable/pour-aller-plus-loin/>

⁹ Where applicable as specified in the pre-contractual documentation of the financial product, and in particular in the SFDR annex.



<https://www.lbpam.com>

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