



# Oil & gas policy

Effective date 1 September 2022

---

# Contents

<b>1</b>	<b>Introduction .....</b>	<b>4</b>
1.1	Object .....	4
1.2	Scope of application.....	5
1.3	Effective date .....	5
1.4	Reference scenario .....	5
1.5	Sector allocation target trajectory .....	5
<b>2</b>	<b>Oil &amp; gas exclusion policy .....</b>	<b>6</b>
2.1	Exclusion of unconventional hydrocarbons .....	6
2.1.1	For companies (listed equities & corporate debt) .....	6
2.1.2	For project companies.....	7
2.2	Specific exclusion of issuers not committing to energy transition .....	7
2.2.1	For investments in companies (listed companies and corporate debt).....	7
2.2.2	For investments in projects.....	7
<b>3</b>	<b>Oil &amp; gas engagement policy .....</b>	<b>8</b>
<b>3.1</b>	<b>Comprehensive and transparent greenhouse gas emissions reduction targets, aligned with a trajectory complying with climate change mitigation objectives</b>	<b>8</b>
3.1.1	Publishing a reduction strategy covering absolute greenhouse gas, carbon & methane emissions.....	8
3.1.2	Disclosing emissions from an equivalent scope to the set targets, respecting a trajectory which is coherent with objectives .....	10
3.1.3	Publishing information allowing an analysis of changes in companies’ carbon intensity and absolute emissions, across the entire value chain, regarding 1.5°C scenario trajectories .....	10
<b>3.2</b>	<b>Reorientating business models towards low-carbon energies &amp; services .....</b>	<b>10</b>
<b>3.3</b>	<b>Transparency regarding companies’ exposure to climate risks and energy transition strategies implemented to mitigate these risks .....</b>	<b>12</b>

<b>3.4</b>	<b>Heightened vigilance regarding the development of unconventional energies.....</b>	<b>13</b>
<b>3.5</b>	<b>A policy promoting energy transition targeting the Paris agreement objectives .....</b>	<b>14</b>
<b>3.6</b>	<b>Clear and coherent governance .....</b>	<b>14</b>
3.6.1	Defining responsibilities .....	14
3.6.2	Alignment of interests.....	14
3.6.3	Shareholder dialogue quality .....	14
3.6.4	Transparency.....	14
<b>4</b>	<b>Analysis &amp; selection policy .....</b>	<b>15</b>
<b>4.1</b>	<b>Analysis.....</b>	<b>15</b>
<b>4.2</b>	<b>Selection .....</b>	<b>16</b>
4.2.1	Transferable securities .....	16
4.2.2	Project financing.....	16
<b>5</b>	<b>Governance .....</b>	<b>16</b>
<b>5.1</b>	<b>Policy validation &amp; updating .....</b>	<b>16</b>
<b>5.2</b>	<b>Applying the policy to derivatives.....</b>	<b>17</b>
<b>5.3</b>	<b>Controls.....</b>	<b>17</b>

### 1.1 Object

La Banque Postale Asset Management and Tocqueville Finance have set a target of ensuring that investments are compatible with low-carbon development and resilience to climate change, in compliance with the Paris climate agreement (Art 2.1). In January 2021, the LBP AM group joined the Net Zero Asset Manager Initiative, and by doing so, has undertaken to define a decarbonisation trajectory for portfolios, with an initial milestone in 2030, and targeting zero carbon for investments by 2050. A target of 90% eligible asset alignment by 2030 was set in May 2022.

Energy scenarios have been proposed by the Intergovernmental Panel on Climate Change (IPCC)<sup>1</sup> and the International Energy Agency (IEA)<sup>2</sup> to limit the increase in temperature to 1.5°C by 2100. These scenarios, which have been put in place to respect the global carbon budget under the 1.5°C objective, while ensuring ongoing economic growth and energy security, involve significant reductions in emissions from the oil & gas sector, from 2020 onwards, along the entire supply chain, from production through to consumption. These reductions will be achieved through energy transition from fossil fuels to carbon-free energies, alongside efficiency measures across all energy consumption sectors. According to the IPCC, primary energy carbon intensity will have to be reduced by around 7.7% per year from 2020-50 worldwide, in order to limit global warming to 1.5°C. Global oil and gas consumption must be reduced by 60% and 45% respectively between 2019 and 2050, or by 60% and 70% respectively without carbon capture, utilisation & storage (CCUS<sup>3</sup>). IEA forecasts factor-in a 4% improvement in annual energy efficiency until 2030, while oil consumption, which has been declining since 2019, should see a 75% reduction between 2020 and 2050. Gas consumption should decline from mid-way through the 2020s and fall by 55% between 2020 and 2050. This trajectory in oil and gas demand implies that no further exploration is required to find new resources and that no new oil or gas fields are required beyond those which have already been approved for development in 2021.

In this context, LBP AM and Tocqueville Finance (TFSA) have defined a sector policy covering investments in companies in the oil & gas sector. The policy also covers operating project companies, i.e. companies involved in exploration, exploitation, treatment, transport, refining or distribution, either directly or as partners or shareholders. The sector policy aims to define **the principles applicable by portfolio management companies to align their oil & gas sector allocation by 2030 with the zero carbon 2050 target**, by:

- Promoting and supporting orderly and fair energy transition in the real economy, required to achieve the objectives of the Paris climate agreement,
- Contributing towards managing financial, transition, legal and physical climate risks incurred by their portfolios.

The sector policy forms an integral part of the LBP AM and TFSA climate performance engagement framework and also defines the key sector issues in terms of managing social and biodiversity risks.

---

<sup>1</sup> [https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC\\_AR6\\_WGIII\\_SPM.pdf](https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf)

<sup>2</sup> [https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)

<sup>3</sup> Carbon Capture, Utilization, and Storage.

## 1.2 Scope of application

This policy applies to the following LBP AM and TFSA assets under management:

- Open-ended funds,
- Real & private asset funds launched since 1 September 2022 inclusive,
- Investment mandates and dedicated funds holding physical securities from 1 September 2022, if requested by investing clients and in the absence of contradictory instructions.

The policy applies to direct investments. Best efforts will be made to ensure the progressive rollout of the policy to cover assets managed by third parties, depending on the possibilities available within each asset class.

Funds marketed solely on behalf of third parties are not currently included within the scope of application.

## 1.3 Effective date

The measures presented in this policy become effective on 1 September 2022.

## 1.4 Reference scenario

This policy is based on the Intergovernmental Panel on Climate Change (IPCC) P1 and P2 scenarios and the International Energy Agency (IEA) Net Zero by 2050 scenario to define and calibrate the sector changes under energy transition, including target energy mix, demand trajectories and investment allocations.

LBP AM and TFSA recognise the importance of taking the most recent scientific findings into account. Our reference scenario may therefore change if new scenarios are published by any leading multilateral and independent bodies, such as the IPCC and the IEA.

## 1.5 Sector allocation target trajectory

The LBP AM and TFSA sector policy must enable the group to achieve **a sector allocation, by 2030, which is 100% aligned with an energy transition trajectory achieving net zero by 2050.**

This entails:

- **Unlimited climate exposure to companies in the sector applying a strategy which is aligned with this transition target,**
- **Moving towards zero exposure to companies which are not aligned to this target date.**

The degree of strategic alignment with the 2050 zero carbon energy transition goal is assessed by examining criteria which are defined and updated according to available expert sector references.

The degree of LBP AM and TFSA sector allocation alignment will be reviewed in 2025, in order to assess changes to allocation under the 2030 goal.

The LBP AM and TFSA sector policy uses levers within our SRI policies, in order to achieve our targets:

- **Exclusion policy:** LBP AM has defined the exclusion thresholds for investments in issuers which have not engaged in energy transition, or which exploit the most harmful resources to the environment, based on AMF recommendations.
- **Engagement policy:** LBP AM engages in demanding shareholder dialogue with companies in the sector, in order to guide them towards energy transition, by requiring them to adopt a transparent and credible transition strategy aligned with a +1.5°C scenario.
- **Analysis & selection policy:** LBP AM analyses investments in the sector with regard to their degree of alignment with their zero-carbon objective and the alignment of companies and projects with energy transition requirements. These analyses feed into the investment selection process.

The levers used are detailed below.

## 2 Oil & gas exclusion policy

### 2.1 Exclusion of unconventional hydrocarbons

The LBP AM and TFSA sector policy excludes issuers involved in oil & gas exploration, production, storage and distribution and associated projects with significant exposure to unconventional energies, based on the comprehensive definition of these resources proposed by the Sustainable Finance Observatory Scientific committee. These include shale oil & gas from bituminous sands and extra-heavy crude oil from arctic resources, as defined in the Arctic Monitoring and Assessment Program (AMAP), and oil & gas from deep offshore resources. This is a broader definition than the one usually used for the sector<sup>4</sup>. When the information is available, the definition can also include hydrocarbons produced from unconventional resources.

#### 2.1.1 For companies (listed equities & corporate debt)

- Total exposure is currently assessed based on exposure to unconventional energies, in terms of sales generated by companies in the sector, assessed using environmental data provided by Trucost, based on the preceding factors.
- The definitions applied<sup>5</sup> are listed below:
  - Oil from bituminous sands and extra-heavy crude

<sup>4</sup> In contrast, the IEA definition does not include resources from deep offshore forage in the Arctic region.

<sup>5</sup> The data provider may modify these specifications, which may also change depending on the data provider used. Analytical coverage may also change, particularly in segments of the value chain currently less-widely covered by data, including midstream and oil services companies. If information is not available concerning private debt investments, assessments are made on a case-by-case basis by requesting information from companies.

- Shale gas and oil
  - Arctic region gas and oil, i.e. projects or activities in regions covered by temporary or seasonal seawater freezing
  - Very deep gas and oil from offshore exploration or production activity at depths greater than 1,000m.
- The exclusion threshold trigger is currently set at 20% exposure to unconventional energy sources.

---

### **2.1.2 For project companies**

- LBP AM does not invest directly in any greenfield or brownfield projects, which are dedicated to any of the above four types of resources, based on available information.

The definitions of criteria, thresholds and sources used will be updated regularly in order to move towards zero exposure by 2050.

## **2.2 Specific exclusion of issuers not committing to energy transition**

The LBP AM and TFSA sector policy excludes companies and projects in the sector failing to demonstrate minimum strategic engagement towards energy transition, with regard to emissions trajectories established under the NZ2050 scenario.

---

### **2.2.1 For investments in companies (listed companies and corporate debt)**

- The absence of any strategic engagement is currently assessed by a lack of any publication of comprehensive zero carbon emissions objectives under scope 1 and 2, or greenhouse gas emissions reduction target, under scope 3, covering a significant business scope.
- Information is sourced from the Carbon Disclosure Programme (CDP) or the most recent data reported by Climate Action 100+ or by the companies concerned.
- For integrated companies, exposure is assessed based on exploration, extraction and production activities. LBP AM will also apply these rules to companies involved in gas or oil transport, storage and distribution, as well as oil services companies, depending on the availability and reliability of data.

---

### **2.2.2 For investments in projects**

- Investments in fossil gas projects and greenfield oil sites are excluded from the eligible investment universe for funds launched since 1 September 2022.

The definitions of criteria, thresholds and sources used will be updated regularly, in order to ensure that the exclusion policy contributes towards achieving the alignment of LBP AM sector allocation goals with 2030.

These criteria may be extended following demands from clients investing in dedicated funds or through investment mandates, in application of their own sector policy.

The LBP AM net zero sector policy is based on demanding shareholder engagement with regard to companies in the sector, requiring them to adopt a transparent and credible transition strategy, in order to align their business activities with a scenario enabling to limit global warming to +1.5°C.

The policy requires engagements from companies in the oil & gas sector, along with operating project companies involved in exploration, exploitation, treatment, transport, refining or distribution, or products or services associated with these activities, either directly, or as partners or shareholders. These engagements involve publishing an energy transition strategy towards zero carbon goals, which is clearly-defined, credible and aligned with climate and energy scenarios capping global warming at 1.5°C, prioritising the most rapidly available and least costly permanent resources and methods.

The strategy should include focusing investments on existing fields. The aim is to avoid locking regional economies and invested companies into fossil fuels and also, where applicable, avoid increasing the risk of stranded assets or a decline in business activities, depending on asset exploitation costs and positioning in the value chain.

The strategy should also serve to manage physical risks associated with climate change and also biodiversity risks incurred by company operations, as well as social risks within corporate strategies.

This transition strategy should also cover the following issues:

#### 3.1 Comprehensive and transparent greenhouse gas emissions reduction targets, aligned with a trajectory complying with climate change mitigation objectives

##### 3.1.1 Publishing a reduction strategy covering absolute greenhouse gas, carbon & methane emissions

- Understanding **short, medium and long-term** goals including emissions from the use of energy products sold to clients<sup>6</sup>, coherent with a trajectory **enabling the achievement of a net zero emission target in 2050**, or a 1.5° scenario by the end of the century, or breaching this target slightly. Objectives are preferably set in stages, at least every 5 years, prioritising a rapid reduction in emissions.
- Specifying **the methods used to achieve goals**, including energy efficiency, growth in the sale and use of renewable energies, lower production and commercialisation of fossil fuels, carbon capture, utilisation & storage (CCUS), bioenergy with carbon capture and storage (BECCS)<sup>7</sup> and compensation, and also distinguishing between scopes 1,2 and 3, detailing the reductions in associated emissions and capex. **The avoid-reduce-compensate sequence is applied to achieve these goals.**
  - Although LBP AM is not opposed to CCUS and BECCS atmospheric extraction techniques, from an environmental point of view, we would like to see these techniques integrated into credible and transparent transition strategies<sup>8</sup>.

<sup>6</sup> Scope 3 emissions - category 11, across all direct and participating activity scopes and regions.

<sup>7</sup> Bioenergy with carbon dioxide capture and storage.

<sup>8</sup> Many companies prioritise carbon storage and compensation in their greenhouse gas emission reduction strategies. Some energy transition scenarios aim to achieve their objectives through the use of these technologies to varying degrees. CCUS and BECCS are not considered within the IPCC P1 scenario, although they will capture 1,150 million tonnes in 2030, under the IEA NZE2050 scenario. The main obstacle to technological atmospheric carbon capture solutions is their cost. The main obstacle to natural storage solutions (forests and soils), is competition from carbon capture solutions and other soil uses and the guarantee of long-term storage.



- LBP AM encourages companies to respect the 5 compensation principles recommended by the ADEME<sup>9</sup> public energy management agency regarding transparency (rule 1) and project selection (rules 2, 3 and 4) and also communication (rule 5). The weight of sequestration and compensation must also be limited in achieving greenhouse gas goals. These principles are also included in the Oxford Principles for Net Zero-Aligned Offsetting<sup>10</sup>.
- Concerning scope 1 and 2 emissions, this strategy must cover the full scope of direct business activities and participations, in order to achieve the net zero emission goal in 2050. In line with the Science-Based Targets Initiative recommendations for companies in all sectors, LBP AM stipulates that associated goals should cover at least 95% of scopes 1+2.
  - The strategy should also include a structured sub-strategy targeting reducing methane emission to close to net zero<sup>11</sup>, within value chains, through the following plans:
    - a) **A formal methane emission reduction plan** across the entire value chain, where relevant, including integrated majors, oil and gas producers, storage companies, gas transporters and distributors and gas-based electricity generators. The plan should target methane emission intensity of significantly below 0.2% in 2025, or target an absolute value trajectory of -75%, in terms of methane emission avoidance in oil and gas production between 2017 and 2040. Targets should also be defined for gas transport, storage and distribution, as well as the systematic detection and stoppage of leaks in the value chain. The plan should also detail the methods used to achieve goals across the entire operating scope and also be extended to non-operational participations, as well as lobbying. The plan may adhere to the Oil & Gas Climate Initiative (OGCI) or the Methane Guiding Principles (MGP)<sup>12</sup>.
    - b) **A formal plan to refrain from flaring**, where applicable (integrated majors, oil & gas producers), targeting zero routine burning<sup>13</sup> by 2030. The plan must specify the methods used to achieve goals across the entire operating scope and also be extended to non-operational participations, as well as lobbying. The plan may adhere to the Zero Routine Flaring by 2030 initiative<sup>14</sup>.

---

<sup>9</sup> <https://presse.ademe.fr/2019/11/compensation-carbone-5-regles-de-bonnes-pratiques.html>

<sup>10</sup> <https://www.smithschool.ox.ac.uk/sites/default/files/2022-01/Oxford-Offsetting-Principles-2020.pdf>

<sup>11</sup> Methane is the second-largest gas contributor to climate change after carbon dioxide. It is also highly pollutive to the atmosphere and causes serious health problems. A sharp reduction is required to achieve climate neutral target by 2050. According to the IEA, almost one third of oil and gas reduction options are cost-free, or incur practically zero costs. According to the European methane strategy, a reduction in spillage and flaring is required, along with a reduction in production leakage and fossil gas and oil transport and combustion.

<sup>12</sup> <https://oilandgasclimateinitiative.com> , <https://methaneguidingprinciples.org/>

<sup>13</sup> According to the World Bank, routine gas flaring, as opposed to safety flaring occurs during regular oil production if installations are of insufficient capacity, or if the geological conditions are not suited to reinject the gas produced, or to use it on-site or for export to markets.

<sup>14</sup> <https://www.worldbank.org/en/programs/zero-routine-flaring-by-2030#4>

- The strategy must promote best efforts to reduce scope-2 carbon and methane emissions, through the use of renewable energy in production, notably gas production and LNG liquefaction.

### 3.1.2 Disclosing emissions from an equivalent scope to the set targets, respecting a trajectory which is coherent with objectives.

This information must comply with full transparency regarding scope and calculation rules applied in determining indicators, and also be reviewed by an independent third party.

### 3.1.3 Publishing information allowing an analysis of changes in companies' carbon intensity and absolute emissions, across the entire value chain, regarding 1.5°C scenario trajectories.

## 3.2 Reorientating business models towards low-carbon energies & services

In order to contribute to low-carbon transition<sup>15</sup> and diversify risks and revenues, LBP AM and TFSA expect invested companies to progressively reorientate their capex and mergers & acquisitions activities in fossil oil and gas activities towards investments in low-carbon activities. This may include the following:

- Bolt-on acquisitions in low-carbon activities in clearly-established domains or business models (solar panels, onshore wind power) to gain skills and activities and providing protection against transition risk;
- Drawing on their operational and financial strengths to support transition in the real economy by creating new low-carbon energy capacity and by investing in businesses which are more capital intensive and riskier, and which can generate technical synergies, such as hydrogen, electricity storage, biorefining, offshore wind power and deep geothermic energy.

These changes in investment and mergers & acquisition profiles must contribute to the **anticipated change in energy mix regarding production, transport, storage, transformation and sales**, either directly or through products and services, depending on the positioning of companies in the value chain.

The absolute fossil fuel production trajectory, as well as the development of new oil and gas capacities, must be justifiable with regard to marketplace reference scenario conclusions and the IEA Net Zero scenario, specifically indicating that oil and gas fields already approved in 2020 suffice to cover demand in 2050 and that 2021 marks the end of approvals for the development of new oil and gas fields<sup>16</sup>.

On this basis, LBP AM will assess changes to business models and their alignment with a trajectory compatible with mitigating climate change, through the following procedures:

<sup>15</sup> Low-carbon activities are defined under the European taxonomy as sustainable assets due to their significant contribution to mitigating climate change, without significantly impacting other environmental targets. European companies of over 500 employees will be obliged to publish non-financial reporting ([https://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:52019XC0620\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN))

<sup>16</sup> [https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZero2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZero2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)

- Publishing target trajectories covering energy mix, production volumes and medium and long-term energy sales goals, with **the aim of increasing absolute and relative low-carbon energy volume production/sales, and reducing absolute and relative oil & gas within the mix;**
- Publishing a short and medium-term investment plan for each business activity, distinguishing low-carbon investments in fossil oil and gas, and covering maintenance and development of the company's assets. **The plan should include an increase in the share of low-carbon investments and a reduction in investments in natural oil and gas,** specifically referring to:
  - An immediate halt to investments in the exploration of new oil and gas reserves;
  - A rapid halt to approvals for developing new<sup>17</sup> oil and gas fields and proof of the climate compatibility of any new oil and gas production and distribution capacity developments with the sector trajectories established by the IPCC or the IEA, in order to cap global warming at +1.5°C by the end of the century.
  - As the achievement of these two significant IEA energy programme goals rely chiefly on actions by national public bodies, LBP AM also calls on governments to align their energy policies with this planning scheme. Meanwhile, these goals provide key engagement and asset selection criteria and, from 2025 onwards, will be considered as criteria justifying portfolio divestments, on a case-by-case basis.
- **A review of all significant investments in exploration and acquisitions or development of oil and gas resources based on published climate criteria. The review will take the Paris climate agreement goals into account,** based on oil, gas and carbon price assumptions and demand and production forecasts. Companies should also publish an annual review of efforts made, with a particular focus on transparency and assessing their alignment with new greenfield projects.
- **Concerning low-carbon investments,** LBP AM expects companies to provide details on the following factors:
  - Whether they implement a strategy covering liquid biofuel production, refining, transport and distribution, or disclose the proportion of biofuel in their total sales. They should also specify the proportion of biofuel sold which qualifies for internationally accepted sustainability labels and recognised as such by the European Union. In a report on limiting warming to +1.5°C, the IPCC reiterated that significant use of certain biofuels may jeopardise food safety and ecosystem and biodiversity preservation.
  - Whether they implement a strategy covering biomethane production, transport and distribution strategy, or disclose the proportion of biomethane in their total sales, and if they publish details of any strategies substituting fossil-based hydrogen with clean hydrogen development, in production, refining and midstream activities (transport, storage, distribution) and, where applicable, downstream gas usage.

---

<sup>17</sup> Development not approved in 2021 under IEA programming.

### 3.3 Transparency regarding companies' exposure to climate risks and energy transition strategies implemented to mitigate these risks

The sector is exposed to energy transition risk. Falling demand for oil, on a national and international scale, under energy transition scenarios targeting zero carbon, incurs overcapacity risks in terms of production, transport, refining, storage and distribution, particularly in Europe. Similarly, the expected changes under these scenarios and the PPE rolling annual energy programming in France, concerning natural gas demand, may also incur other overcapacity risks. Natural gas consumption under PPE programming is expected to fall by 10% in 2023 and by 22% between 2012 and 2028, which may cause overcapacity risks in terms of production, treatment, transport, liquefaction, regasification, storage and distribution, particularly in Europe and in France. Although energy transition opens significant new job opportunities, identical skills may not necessarily be required in the same regions as in the fossil fuels sector, which will require specific management and programming to achieve fair transition in the affected communities<sup>18</sup>.

Article 29 of the Energy & Climate law stipulates that portfolio management companies must “publish information regarding the consideration of physical and transition risk and climate change responsibility, as well as a description of the main risks (...), a quantitative estimation of the financial impact of the main risks (...) and an action plan aiming to reduce the entity's exposure to the main risks”. LBP AM and TFSA must therefore assess and manage their sector exposure to climate risks and more particularly to transition risk.

LBP AM and TFSA expect invested companies to:

- **Plot a trajectory for their activities and projects complying with the +1.5°C scenario** and also complying with PPE programming in France, particularly by diversifying their activities through progress in low-carbon activities, in order to diversify risks and revenues (see expectation n°2);
- Ensure that **assessments of any significant investments, particularly in exploration or the acquisition and development of oil and gas resources and other energies and technologies, take into account the constraints imposed by the Paris climate agreement objectives** (see expectation n°2);
- **Assess HR issues and the impact on communities** associated with their energy transition strategy, by implementing a policy promoting staff redeployment and retention;
- **Ensure transparency**
  - Within their transition strategy by integrating the main objectives, methods and key indicators into the framework of their financial reporting and annual business reviews. This reporting must adhere as closely as possible to the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, by presenting information providing an analysis of companies' carbon intensity trajectory and their emissions, along the entire value chain, with regard to the +1.5°C target scenarios.
  - Regarding their exposure to transition risks, in compliance with TCFD recommendations and European guidelines regarding publishing information relating to the climate, by disclosing identified short, medium and long-term risks in the context of a global +1.5°C target scenario within their activities, as well as the impact of these risks on their activities, strategy and financial planning. LBP AM and TFSA also call on companies in France and in Europe to publish a financial estimation for the investments required to increase their proportion of sustainable gas (biomethane and carbon-free hydrogen) integrated into their existing infrastructures.

---

<sup>18</sup> The IEA Net Zero scenario forecasts 14 million job creations by 2030 in the carbon-free energy sector and 16 million from decarbonating demand, but also a loss of 5 million jobs in the fossil fuels industry.

- Regarding the rollout of their policy in terms of fair transition and the social impacts of their strategy.

### 3.4 Heightened vigilance regarding the development of unconventional energies

Unconventional resources are a key environmental issue, due to their physical or economic characteristics, notably regarding the transition towards zero carbon.

LBP AM and TFSA expect invested companies to:

- **Publish reporting on their exposure to these energies.** LBP AM and TFSA call on companies to make their best efforts to disclose the proportion of their gas and oil exploitation from unconventional sources represented in their sales, production and reserves.
- **In the case of companies or project companies specifically involved in unconventional energy activities:**
  - LBP AM and TFSA call on the companies already or potentially concerned not to invest in, or participate in, the development of new capacities and new exploration projects, or production or transport involving oil from bituminous sands, or shale oil and gas, or heavy oil from deep sea oilfields, or in regions covered by the Arctic Monitoring & Assessment Programme (AMAP).
  - LBP AM and TFSA will engage with invested companies with residual exposure to unconventional energies, encouraging them to apply best practices in managing environmental risks associated with these activities, based on the following:
    - Companies exposed to bituminous sands are expected to apply best practices in managing water resources and soil quality restoration;
    - Companies with residual exposure to shale gas or oil are expected to apply best practices in managing methane leakage, water resources and soil quality restoration;
    - Companies with residual exposure to the Arctic region (AMAP) are expected to apply best practices regarding methane emissions, pollution and security, and also disclose a detailed description of the nature and regional scope of their activities in the AMAP region, covering their direct activities and also those of their partners or companies in which they are shareholders.

### 3.5 A policy promoting energy transition targeting the Paris agreement objectives

Companies involved in the production, transformation and sales of hydrocarbons or associated products and services may have a positive or negative influence on the implementation of Paris climate agreement policies by governments and the European Union, notably regarding technical greenhouse gas emission regulations and the related social cost tariffication mechanisms, for their own activities and along the value chain. They may have either a direct influence or through their professional organisations.

LBP AM and TFSA expect invested companies to:

- Implement a direct and indirect persuasion policy, which is coherent with their transition plan and promotes the Paris climate agreement objectives.
- Disclose traceable lobbying policies and practices relating to climate issues, which are signed-off by their general management.

Influence is exercised through shareholder engagement, either bilaterally or as part of a coalition, and companies are expected to welcome **shareholder resolutions requesting transparency regarding lobbying policies and activities concerning the climate**. These issues will be assessed on a case-by-case basis, taking current shareholder dialogue into account.

### 3.6 Clear and coherent governance

#### 3.6.1 Defining responsibilities

Regarding the strategic aspects of transition plans, LBP AM and TFSA expect formal responsibilities to be established, covering the definition and rollout of plans, by the board of directors or the supervisory board, through a dedicated committee or by a specific board member, or under the joint responsibility of the board, supported by a nominated executive.

#### 3.6.2 Alignment of interests

LBP AM/TFSA also recommend the inclusion of corporate climate strategy goals within managers' remuneration packages, in compliance with our voting policy, and that remuneration policy for executives does not include any components inciting the non-respect of achieving the company's climate objectives.

#### 3.6.3 Shareholder dialogue quality

LBP AM and TFSA will pay attention to the quality of shareholder dialogue within the strategy and the assessment of companies' climate risks.

#### 3.6.4 Transparency

In addition to the factors referred to in this strategy document, LBP AM and TFSA encourage companies

to participate in the following schemes:

- The ACT initiative, which assesses companies' alignment with the Paris climate agreement targets, and companies should also disclose their ascribed ratings and key components.
- The Climate Action, Transition Champions questionnaire produced by the Carbon Disclosure Programme (CDP)
- If available, certification of their decarbonisation objective by the Science-Based Targets Initiative (SBTi).

Points 3.6.1 and 3.6.2 are key priorities, as they correspond to expected results. The following points correspond to expected management objectives, leading to the achievement of these results and/or managing biodiversity and social risks.

**LBP AM and TFSA express their shareholder expectations through regular and coherent bilateral or collaborative dialogue with invested companies.**

**Dialogue takes place in conjunction with our voting policy and with shareholder resolutions submitted by LBP AM and TFSA.** This procedure provides shareholders with a platform to make specific observations regarding companies' energy transition strategies and objectives, through specific climate resolutions submitted by companies or their shareholders. It also provides a voting framework for resolutions relating to strategic energy transition alignment goals.

**LBP AM and TFSA will regularly update shareholder expectations, particularly in order to integrate changes to marketplace methodological standards, and may also update engagement methods.**

In managing real & private assets, LBP AM and TFSA will make best efforts to encourage companies and project companies, contractually, to adopt a transition strategy aligned with the above requirements.

## 4 Analysis & selection policy

### 4.1 Analysis

LBP AM and TFSA will apply a proprietary sector analysis methodology, fed by the most stringent marketplace standards, to assess companies' strategic alignment with the Paris climate agreement targets. The analysis essentially covers the following issues:

- Quantitative carbon and methane greenhouse gas emission reduction objectives by companies;
- Transition plan transparency and the credibility and climate impact of levers used to achieve transition, notably:
  - The strategy's dependency on carbon compensation,
  - The development of new fossil fuel production capacities, in order to set a trajectory towards reducing production,
  - An increase in the proportion of investments in low-carbon resources or any other changes.
- Transition plan governance;
- Its coherence and achievability.

This proprietary sector analysis will enhance the results of the quantitative GREaT SRI analysis.



## 4.2 Selection

This qualitative analysis feeds into asset selection, in order to ensure a progressive convergence between sector allocation and alignment with the AUM 2030 goals.

### 4.2.1 Transferable securities

- LBP AM and TFSA may upgrade or downgrade companies' qualitative ESG ratings, based on an analysis of their short, medium and long-term engagements, as well as their effective decarbonisation trajectories and the gap with sector trajectories defined under the +1.5° scenario.
- LBP AM and TFSA may use this analysis to overweight or underweight portfolio holdings, on a case-by-case and real-time basis, or freeze or exclude certain stocks in the sector, as part of our goal to align investment allocations with the net zero by 2030 target.
- On an otherwise like-for-like basis, this analysis will provide a favourable view of investment opportunities in companies strongly engaged in sustainable themes in sectors contributing to transition, particularly biogas and biofuels, as defined by the European taxonomy on sustainable assets.

### 4.2.2 Project financing

- From the policy effective date onwards, LBP AM will no longer finance greenfield oil and gas projects. The exclusion list covers combined cycle gas turbines (CCGTs), peaking power plants, distribution networks and storage, excluding carbon-free hydrogen infrastructures and biogas.
- Regarding brownfield projects, the proportion of fossil oil and gas in the primary energy production mix (heat networks etc.) or sales (distribution) must comply with greenhouse gas emission limits in usage scenarios under IEA Net Zero goals, on the date of financing, or based on engagements.
  - By 2030: a limit of 25% for oil and 24% for gas
  - By 2050: a limit of 8% for oil and 11% for gas

LBP AM and TFSA also aim to manage climate, transition and physical risks for companies in the sector, by taking material risks into account within fundamental analysis and in investment and risk management processes.

LBP AM and TFSA will regularly update their analysis and selection methodology, in order to integrate changes to marketplace methodological standards.

## 5 Governance

### 5.1 Policy validation & updating

The policy will be reviewed annually.

Definitions of policy criteria, thresholds and sources will be updated regularly, in order to take various factors into account. These include public energy and climate policies and also changes to scientific climate and energy sector scenarios. Technological progress and shifts in energy demand,

backed by expert third-party assessments, will also be taken into consideration. Modifications proposed by the SRI Solutions team, or requested by other departments in charge of policy implementation, will be reviewed for approval by the LBP AM Sustainable finance committee. Any modifications impacting solely the exclusion policy may be validated by the Exclusions committee. Any modifications impacting solely voting policy may be validated by the Governance committee.

## **5.2 Applying the policy to derivatives**

This policy applies to exposure to physical securities and derivatives, under the derivatives policy provisions defined in the LBP AM and TFSA SRI policy.

## **5.3 Controls**

Engagements under this policy are taken into account within the framework of first-level operational controls carried out by the front office during investment decisions and monitoring. All of these engagements, including compliance with exclusion constraints, are controlled independently by the risk managers on a daily basis. Second-level controls are carried out under LBP AM's permanent control procedures.