



ODDO BHF AM's approach to climate change

ODDO BHF AM affirms its differentiating ESG approach by applying a qualitative analysis to its ESG-integrating funds that goes beyond carbon measurement and also takes into account the achievement of climate objectives. To this effect, it has developed an Energy Transition Analysis (ETA), a proprietary indicator serving to measure each company's contribution to the transition towards a low carbon economy.

Climate reporting is becoming an essential part of an ESG integration investment strategy. Beyond the regulatory imperative (Article 173 in France), the reporting helps to make asset management teams aware of the financial risks of climate change. It also encourages them to allocate more investment flows toward the sectors and companies that contribute positively to the transition to a low-carbon economy.

About 40% of the companies polled in the “2015 Corporate Adaptation Survey”¹ say they are **concerned** or **very concerned about the potential impacts of climate change on their value chain**, be it at the level of production (35%), suppliers (45%) or distribution (45%). The direct consequence is that about the same proportion believes that climate change is already affecting their operational costs and consequently their expected future profitability.

The availability of data and the reporting framework are essential elements for taking climate issues into account in investment strategies. To move from intention to action, companies and investors are more than ever in need of a structured framework for disseminating and analyzing information on environmental issues.

ODDO BHF Group has been a signatory of the Carbon Disclosure Project (CDP) since 2006 and of the United Nations Global Compact since 2015. Climate issues have thus been on the group’s radar for several years.



ODDO BHF Asset Management, always at the forefront in applying ESG criteria to its investment activities, is part of this search for continuous progress and **now incorporates a qualitative analysis that goes going beyond carbon**

measurement and looks at how its ESG-integrating funds contribute to the achievement of climate objectives (The Paris Agreement main objective is to contain global warming below 2°C by 2100).

As part of the implementation of Article 173 of the Energy Transition and Green Growth Act, and more specifically the integration of climate change risks into investment decisions, **ODDO BHF Asset Management has built its environmental strategy around three axes:**

- Quantitative measurement of carbon intensity of its main equity funds
- Inclusion of environmental themes in its shareholder dialogue policy with companies
- Qualitative measurement of its investment strategies’ contribution to the transition towards a low carbon economy

Carbon intensity

ODDO BHF Asset Management has opted to work on the carbon intensity of its portfolios, i.e. CO2 emissions relative to turnover (while the carbon footprint brings CO2 emissions to market capitalization). This is an indicator less volatile and more reflective of the effectiveness of corporate actions.

But carbon intensity – like the carbon footprint – remains a static measure reflecting a past situation: it doesn’t tell us if a company’s investment strategy aims to foster environmental opportunities or how high its operational exposure to climate risks is.

Further research is conducted, with the dialogue and our formalized energy transition analysis being part of it.

¹ Published on May 2015 by 427 Climate Solutions, ND-GAIN, and BSR

Dialogue with companies

ODDO BHF AM gives the priority to the dialogue with companies rather than exclusion. We regularly discuss climate change matters with corporates in sectors with a heavy environmental impact (risks or opportunities).

To support its commitment to climate change issues, **ODDO BHF AM became a signatory of the Climate Action 100+ initiative in March 2018**. By joining the list of signatories, the objective for ODDO BHF AM is to participate in the joint effort of investors to facilitate the dialogue with the 100 companies that are the world's largest emitters of greenhouse gases.



As part of this collaborative commitment, ODDO BHF AM is committed to asking the companies it covers:

- To implement a solid governance framework that sets down clear lines of responsibility for management bodies in monitoring and managing climate change risks,
- To take measures to reduce greenhouse gas emissions throughout the value chain, in line with the objective of the Paris Agreement,
- To provide detailed reporting allowing investors to assess the robustness of business plans under different climate scenarios, enabling them to make better informed investment decisions.

Energy Transition Analysis

ODDO BHF AM has developed a specific indicator to measure each company's contribution to the transition towards a low carbon economy.

This ETA (Energy Transition Analysis) indicator is composed of two aspects:

- The positioning of the sector in which the company operates, accounting for 30%
- The score of the company specific environment block assigned by our ESG model, accounting for 70%.

The sectoral positioning takes into account the long-term environmental risks and opportunities using ODDO BHF AM's SDG matrix based on the "2030 United Nations Sustainable Development Goals". Within this matrix, ODDO BHF AM identifies five environmental themes: Clean Energies (SDGs 7, 13), Energy Efficiency (SDGs 7, 9, 11), Biodiversity (SDGs 6, 12, 14, 15), Circular Economy (SDGs 11, 12) and Sustainable Mobility (SDGs 9, 11, 13).

The second part, the environment block of ODDO BHF AM's ESG analysis model, is divided into two parts:

- The environmental management system assesses the company in terms of carbon intensity, water intensity, energy mix, waste management and certifications
- The analysis of environmental opportunities and risks related to the business activity (products and services)

Beyond identifying environmental impact, **the goal is also to highlight potential mid to long-term drivers of value creation or destruction for companies**. May sales or margins be impacted by climate change or new laws? How to manage coal and other hydrocarbon resources that become stranded assets if the world stops using fossil fuel?

By aggregating the ETA scores of the companies held in a portfolio (weighted by the weight of each position), **ODDO BHF AM come up with an indicator of the contribution of such an investment portfolio to the transition towards a low carbon economy**. This methodology provides ODDO BHF AM with a qualitative approach, helping it to align its portfolios with climate scenarios.

SUMMARY:

- ODDO BHF AM quantitatively measure the carbon intensity of its main equity funds
- It includes environmental themes in its dialogue with companies as shareholding investor
- It positions the portfolios integrating ESG criteria against the science-based climate scenarios to highlight their contribution to the transition towards a low carbon economy
- Around 38% of assets managed by ODDO BHF Asset Management SAS have incorporated ESG criteria into their investment process, of which 75% show a climate trajectory already in line with the Paris Agreement (to contain global warming below 2°C by 2100).

ODDO BHF Asset Management SAS (France)

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