

# ESG integration policy

Article 173 (§ VI) of the French Law on the Energy Transition for Green Growth

JUNE 2018



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# PART ONE:

## ESG Investor Information





## 1. General approach to taking ESG criteria into account

ODDO BHF Asset Management SAS's commitment to integrating ESG is based on the long-term orientation of its business activities. It is an investment management firm and the subsidiary of an independent financial group whose origins date back to 1849 and that has a stable long-term shareholders, including the Oddo family (60%), its employees (30%) and others (10%) as of 31 December 2017. This long history has made corporate social responsibility (CSR) standards an integral part of its DNA.

The ESG integration approach is based on the Principles for Responsible Investment (PRI) signed by ODDO BHF Asset Management SAS in 2010.

The Principles for Responsible Investment are in compliance with our asset management approach, which is based on an analysis of fundamentals and a long-term investment horizon in order to better address risks and opportunities.

### Implementing PRIs at ODDO BHF Asset Management SAS:

<b>1.</b> Taking ESG factors into account in investment analysis and decisions.	<ul style="list-style-type: none"><li>• A proprietary ESG data base made available to the management teams</li><li>• ODDO BHF AM SAS 'ESG Integration" steering committee with the necessary skills (analysts, fund managers, compliance, line managers, marketing, and sales) to move forth in a constant effort to do better</li></ul>
<b>2.</b> Being an active investor and taking ESG issues into account in our shareholder policies and practices.	<ul style="list-style-type: none"><li>• Voting rights principles that reflect social and environmental criteria</li><li>• The voting rights policy is currently focused on governance criteria</li></ul>
<b>3.</b> Asking entities in which we invest to disclose suitable information on ESG issues.	<ul style="list-style-type: none"><li>• ODDO BHF joins the Carbon Disclosure Project (CDP) in 2006</li><li>• ODDO BHF AM SAS's ESG team regularly takes part in ESG working groups in France and internationally</li></ul>
<b>4.</b> Helping to promote the acceptance and dissemination of the Principles within the investment industry.	<ul style="list-style-type: none"><li>• In France, ODDO BHF AM SAS is an active member of the Forum pour l'Investissement Responsable (FIR)</li></ul>
<b>5.</b> Collectively enhancing our efficiency in applying the Principles.	<ul style="list-style-type: none"><li>• ODDO BHF AM SAS is a member of the AFG's SRI committee and a member of the Charter for Responsible Investment of Paris Europlace</li><li>• Since 2005 ODDO BHF has sponsored the FIR Award, which fosters academic research on subjects in finance and sustainability</li></ul>
<b>6.</b> Reporting on our activities and our progress in applying the Principles.	<ul style="list-style-type: none"><li>• Annual PRI evaluation report</li><li>• PRI transparency report</li></ul>

Source: ODDO BHF Asset Management SAS

In addition to traditional financial analysis, ODDO BHF Asset Management SAS ensures that ESG criteria that are significant for investors are taken into consideration in researching and evaluating issuers, just like traditional financial criteria.

Our in-house ESG research platform, which is available to all investment teams, has allowed us to roll out our ESG integration policy, whose primary goal is to influence the construction of investment portfolios. We thereby address our dual objective of producing the fullest and most holistic possible analysis of long-term risks and opportunities and of offering our clients sustainable financial performance.

Through this integrated approach, ODDO BHF Asset Management SAS is able to offer various ESG integration solutions to its clients to meet their investment needs (best-in-universe, best efforts, exclusions, etc.), but also the asset classes and expertise deployed (equities, corporate bonds, and large, mid and small caps).

### ESG integration and its various components



Source: ODDO BHF Asset Management SAS

To take one example, the all-cap ODDO BHF Génération fund, which targets companies with stable and long-lasting shareholder structures and a long-term industrial outlook, has included ESG research in its investment process since 2012. Companies' valuations are based in part on their ESG scores produced from our in-house database, thus affecting the analysis of upside potential and the managers' buying and selling discipline.



In the ODDO BHF Avenir range (Avenir, Avenir Euro, and Avenir Europe), the managers supplement their investment process with an in-depth shareholder dialogue, focusing in particular on the lowest-ESG-rated issuers from a “best efforts” point of view.

Throughout its range, ODDO BHF Asset Management SAS uses a filter to exclude companies implicated in anti-personnel mines (1997 Ottawa Treaty) and cluster munitions (2008 Oslo convention).

### **Engagement and shareholder dialogue policy**

ODDO BHF Asset Management SAS regards engagement as a means for promoting dialogue, including on ESG themes, with companies in which the investment management firm has invested or is likely to invest. This is not shareholder activism but, rather, occasional, case-by-case approaches with the following objectives:

- To use ESG research to come to a better understanding of the risks and opportunities related to growth models of sectors and companies in which ODDO BHF Asset Management SAS has invested or is likely to invest;
- To contribute to the validation or invalidation of our analysis of the quality of management, based on its track-record in ESG challenges;
- To use ESG questions to obtain additional information, beyond financial statements;
- Most of all, to initiate an ESG dialogue with issuers whose ESG score is high-risk (1), i.e., about 20% of the benchmark universe and in which ODDO BHF Asset Management SAS has invested.

ESG research is one of the hallmarks of the case-by-case policy of voting at shareholder meetings, with the priority being given over to governance and human capital (quality of management and human resources).

The decision to engage in a dialogue is taken by the ESG committee that meets on a quarterly basis, consisting of the Head of ESG Research, the CIO, all our investment expertise and the Head of Risk & Compliance.

To initiate such dialogue, ODDO BHF Asset Management SAS prefers company meetings and direct exchanges with issuers.

Our engagement / dialogue approach is based on identifying and systematically formalizing the areas where progress is expected. This allows us to monitor and evaluate the results. Our approach is considered fruitful if dialogue with an issuer leads to greater ESG transparency and / or an improvement ESG practices over time. If engagement fails to produce results (because of non-existent or unsatisfactory dialogue), the managers may decide to exclude the issuer from the investment universe or, if the position is active, to divest it.

### Voting policy

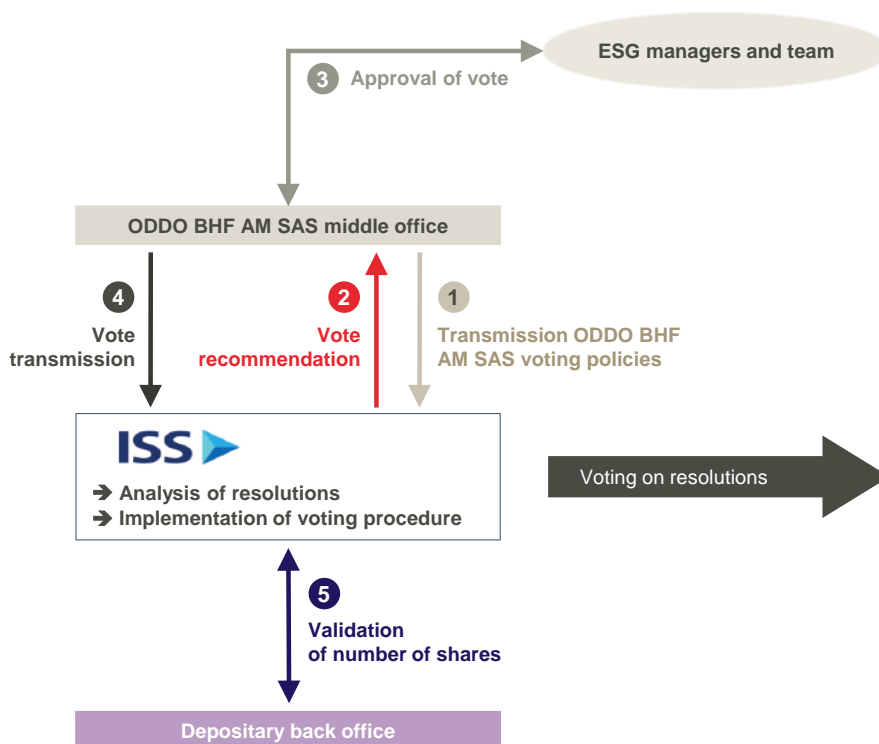
The investment management firm considers the exercising of voting rights to be an integral part of its shareholder responsibility. In exercising its profession as a professional investment manager, ODDO BHF Asset Management SAS believes that participating in shareholder meetings can be useful to its unit-holders and can serve their interests. Participating helps ensure that entrepreneurs are creating long-term value – and, hence, performance for their shareholders – through their risk management and governance.

In deciding how to vote, ODDO BHF Asset Management SAS is backed by the “Recommendations on Corporate Governance” of the French Financial Management Association (AFG), of which it is a member, as well as by the Afep-Medef code, and remembers its commitments as a signatory of the United Nations’ Principles for Responsible Investment (PRI) regarding environmental, social and governance criteria.

Generally speaking, ODDO BHF Asset Management SAS votes when it holds more than 0.25% of a European company’s shares in all its portfolios combined and for all companies in its portfolios that include ESG criteria in the investment process.

Based on these voting principles, ODDO BHF Asset Management SAS calls on the services of an external service provider, ISS, to analyse resolutions and to vote.

### ODDO BHF Asset Management SAS’s voting policy



Source: ODDO BHF Asset Management SAS



The voting policy is reviewed on a regular basis in order to reflect any recent changes in corporate governance.

Our voting policy to shareholder meetings is available on the ODDO BHF Asset Management SAS website ([am.oddo-bhf.com](http://am.oddo-bhf.com)). In accordance with regulations, details on votes cast may be provide to clients upon request.

## **2. Content, frequency and means of disclosures of ESG criteria to clients**

ODDO BHF Asset Management SAS possesses an ESG-dedicated space on its website:

(<http://www.am.oddo-bhf.com/France/EN/Pages/InformationsReglementaires.aspx>)

The following information is provided in this space for investors:

- The presentation of our ESG integration policy, in compliance with Article 173 (§ VI) of the French Law on the Energy Transition and Green Growth
- The annual PRI evaluation report
- The PRI transparency report
- The voting policy at shareholder meetings
- The report on the exercising of voting rights at shareholder meetings
- Our exclusion policy for anti-personnel mines (1997 Ottawa Treaty) and cluster munition bombs (2008 Oslo convention)

Moreover, in the section on funds with ESG integration

([http://www.am.oddo-bhf.com/France/EN/Lists/OddoAM\\_MenuPage/Fonds.aspx](http://www.am.oddo-bhf.com/France/EN/Lists/OddoAM_MenuPage/Fonds.aspx)), the monthly report informs investors on the breakdown by ESG rating and carbon intensity.

## **3. List of funds taking ESG criteria into account**

Based on PRI recommendations, ODDO BHF Asset Management SAS is phasing in its ESG approach in asset classes accounting for more than 10% of its assets.

**By the end of 2017, around 38% of ODDO BHF Asset Management SAS's AuM included ESG criteria in their investment processes, including the open-ended funds ODDO BHF Génération, the ODDO BHF Avenir fund range and Oddo Partage.**



### Funds integrating ESG criteria as of 31 Dec 2017

Funds	Legal form	AuM (31/12/2017)	Asset class	ESG type
<b>ODDO BHF Génération</b>	FCP	€843m	Equities, All Caps	ESG integration (best-in-universe)
<b>ODDO BHF Avenir</b>	FCP	€1,123m	Equities, Small & Mid Caps	ESG integration (best efforts)
<b>ODDO BHF Avenir Euro</b>	FCP	€536m	Equities, Small & Mid Caps	ESG integration (best efforts)
<b>ODDO BHF Avenir Europe</b>	FCP	€3,070m	Equities, Small & Mid Caps	ESG integration (best efforts)
<b>Oddo Partage</b>	FCP	€11m	Diversified	ESG integration +ethical filter

Source: ODDO BHF Asset Management SAS

## 4. Memberships in ESG charters, codes, initiatives, or labels

The ODDO BHF group has been a signatory to the United Nations Global Compact since 2015 and the Carbon Disclosure Project (CDP) since 2006.



ODDO BHF Asset Management SAS has been a PRI signatory since 2010 and has signed on to the Climate Action 100+ initiative at the beginning of 2018.



ODDO BHF Asset Management SAS is also a member of AFG's SRI committee.

## 5. Managing ESG risks

In assigning a heavy weighting to the criteria of governance and human capital (human resources/quality of management), our ESG integration approach makes a significant contribution to our knowledge of portfolio companies, mainly through our analysis of execution risk. This stage, which is conducted collegially between the managers and ESG research, helps us identify those extra-financial risks to which each issuer is potentially exposed (e.g., corruption, reputation, regulatory risks, talent retention, innovativeness, product quality and safety, etc.), and to determine whether they constitute a significant risk in meeting the announced strategy and objectives.



Without applying a sector or thematic exclusion (in the case of open-ended funds, with the exception of normative exclusions), our ESG research platform helps systematically to alert the managers to investments in companies that score the lowest (1/5) and which are deemed to be high-ESG risk.

Controls are organized at two independent levels:

- First-level controls are conducted by the operating teams, i.e., the managers, manager assistants, and middle office.
- Second-level controls are conducted by the Risks & Compliance department, independently of “risky” activities. Risk (analysis and monitoring of market, liquidity and counterparty risks, alerts on high ESG risks) and Compliance (compliance and internal controls) are in charge of conducting these controls.

In terms of organization, the seven-member Risks & Compliance department is independent of the managers and reports directly to the CEO of ODDO BHF Asset Management SAS.

Compliance handles alerts generated each day (in analyses, reporting of incidents, etc.). The managers are informed immediately by Compliance of any incident or breach. Corrections are then made to the portfolios as soon as managers are so informed.

An escalation procedure exists, if necessary. All proven breaches are reported by email to the managers concerned and to the desk head and are archived in an audit trail.

The processes and participants are as follows:

- Internal controls sends out email reminders and, in certain cases, verbal reminders in the event of any breaches that have already been processed but not yet resolved on the maturity date of the incident.
- Weekly reports of significant breaches (of which the initial alert dates back more than five days and that have still not been rectified) are emailed to the chief compliance officer, as well as the chief investment officer. In the event of a persistent breach, the Compliance Committee is asked to rule on the matter and, failing that, the Management Board.

## PART TWO:

# ESG Investment information







## 1. Background

The ESG research developed in-house by ODDO BHF Asset Management SAS is based on the United Nations Global Compact, of which ODDO BHF has been a signatory since 2015. The Global Compact is based on 10 principles dealing with human rights, labour rights, the environment, and the fight against corruption, based on major international standards (the Universal Declaration of Human Rights, ILO conventions, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption).








### The 10 principles of the UN Global Compact

 HUMAN RIGHTS	<ol style="list-style-type: none"><li>1. Businesses should support and respect the protection of internationally proclaimed human rights.</li><li>2. Make sure that they are not complicit in human rights abuses.</li></ol>
 LABOUR	<ol style="list-style-type: none"><li>3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.</li><li>4. The elimination of all forms of forced and compulsory labour.</li><li>5. The effective abolition of child labour.</li><li>6. The elimination of discrimination in respect of employment and occupation.</li></ol>
 ENVIRONMENT	<ol style="list-style-type: none"><li>7. Businesses should support a precautionary approach to environmental challenges.</li><li>8. Undertake initiatives to promote greater environmental responsibility.</li><li>9. Encourage the development and diffusion of environmentally friendly technologies.</li></ol>
 ANTI-CORRUPTION	<ol style="list-style-type: none"><li>10. Businesses should work against corruption in all its forms, including extortion and bribery.</li></ol>

Source: United Nations

In 2017, in order to place our ESG research in a dynamic and prospective approach, we adopted the United Nations' Sustainable Development Goals (SDGs), which were signed in September 2015 by 193 countries as a framework for reflection out to 2030. In concrete terms, this grid allows us to determine each sector's degree of exposure to sustainable development challenges (12 of them in our methodology), as well as from the point of view of both long-term opportunities and risks. In parallel with our ESG research platform, this matrix allows us, for example, to position each economic sector in terms of its environmental opportunities and risks and, accordingly, assign an "Energy Transition" score at the level of each company and on an aggregate portfolio level (this approach is detailed in the third section of this document, which covers climate change risks).

## SDG matrix of risks and opportunities by sector

Long-term themes	SDGs	Sector opportunities	Sector risks
Clean energy	 	Insurance, utilities (renewables)	Fossil fuels, basic materials, transport
Energy efficiency	  	Capital goods, automobiles, software & services, real estate	
Biodiversity	   		Energy, materials, transport, agro-food, pharma, utilities
Circular economy	 	Food retailing, utilities, real estate	
Sustainable mobility	  	Capital goods, company services, transport, automobiles, telecoms	Fossil fuels
Fundamental rights	 		Consumer durables, software & services, tech equipment, semiconductors
Employment	  	Media, retailing, hygiene & healthcare, pharma, banks, insurance	Energy, materials, transport, company services, software & services
Healthcare		Healthcare equipment & services, pharma, insurance	Agro-food, beverages & tobacco, utilities
Education	 	Media, software & services	
Inclusion	  	Agro-food, hygiene & healthcare, pharma, banks, insurance, telecoms	
Technological innovation	 	Energy, capital goods, automobiles, hygiene & healthcare, pharma, tech equipment, telecoms	Banks, insurance, financial services
Business ethics			Energy, materials, capital goods, pharma, banks, utilities, real estate

Source: ODDO BHF Asset Management SAS

ODDO BHF Asset Management SAS has no sector or thematic exclusion policy in managing its open-ended funds, with the exception of companies implicated in anti-personnel mines (1997 Ottawa Treaty) and munitions bombs (2008 Oslo convention).

## 2. Type of ESG criteria used

Our ESG research of companies is based on 10 themes (three environmental, four social, and three governance) covering the United Nations Global Compact, the main criteria of which are presented below. Intangible assets (human resources, innovativeness, and relations with stakeholders) are prominent in our analysis model, and we have used both quantitative and qualitative criteria. Our objective is to avoid size or country biases and to focus on the most material factors from the ESG point of view in analysing companies.

The Environment block first reviews companies' Environmental Management Systems (EMS), in order to gauge their degree of maturity and the progress they have made in recent years. We then undertake an analysis of environmental opportunities and/or risks based on the approach proposed by the TCFD<sup>1</sup>. The analysis of opportunities deals with the products and/or services offered by the company while focusing on their environmental added value. The risk analysis takes up the distinction between

<sup>1</sup> Task Force on Climate-related Financial Disclosures



transition risks (regulation, technological disruption, consumption modes, etc.) and physical risks (geographical exposure to natural disasters, global warming, rising oceans, etc.).

### The main criteria in the Environment block

Environment	
Environmental Management Systems (EMS)	<ul style="list-style-type: none"><li>• Carbon intensity</li><li>• Water intensity</li><li>• Energy mix</li><li>• Waste management</li><li>• Certification policy</li></ul>
Environmental opportunities	<ul style="list-style-type: none"><li>• Products and/or services with high environmental value added (description, % of sales)</li></ul>
Environmental risks	<ul style="list-style-type: none"><li>• Exposure to transition risks (regulation, technology, reputation)</li><li>• Exposure to physical risks (extreme events, structural shifts)</li></ul>

Source: ODDO BHF Asset Management SAS

Within the Social block, human capital (quality of management / human resources) is a key factor in the proper execution of a company's long-term strategy and is, accordingly, a major pillar in our analysis model. Indeed, a manager's leadership, a management board cognitive diversity, innovation, and career management are all key challenges to which we pay special attention when we meet with companies.

Likewise, taking an interest in the company's social ecosystem (brand value, client capital, technological capital, and supply chain) allows us to better determine the long-term hidden value of intangible assets.

### The main criteria in the Social block

Social	
Regulation	<ul style="list-style-type: none"> <li>• Regulatory opportunities</li> <li>• Regulatory risks</li> </ul>
Operating licences / Reputation	<ul style="list-style-type: none"> <li>• Track-record of incidents (products/services, clients, suppliers)</li> </ul>
Human capital	<ul style="list-style-type: none"> <li>• CEO profile</li> <li>• Composition of the management team</li> <li>• Mid-management organisation</li> <li>• Managing of human resources</li> </ul>
Social ecosystem	<ul style="list-style-type: none"> <li>• Client capital</li> <li>• Technological capital</li> <li>• Management of the supply chain</li> </ul>

Source: ODDO BHF Asset Management SAS

Lastly, within the Governance block, we pay special attention to Corporate Governance, which is a very instructive of risk on a medium- or long-term investment horizon. To prevent analysis biases as much as possible, we make a distinction between companies based on their ownership structure (non-controlled, controlled, and family-owned) and their size (large caps vs. mid & small caps).

The theme of business ethics is determined for each company from the point of view of the track-record of incidents, tax transparency, and exposure to the risk of corruption (sector and geographical).

### The main criteria in the Governance block

Governance	
Sustainable Development Strategy	<ul style="list-style-type: none"> <li>• Signing of the Global Compact</li> <li>• SD leadership, objectives, reporting</li> <li>• External certification of ESG data</li> </ul>
Corporate Governance	<ul style="list-style-type: none"> <li>• Rights of minority shareholders</li> <li>• Separation of functions</li> <li>• Organizing the CEO's succession</li> <li>• Compensation policy</li> <li>• Board composition</li> <li>• Internal controls</li> <li>• Financial communication</li> </ul>
Business ethics	<ul style="list-style-type: none"> <li>• Track-record of incidents</li> <li>• Exposure to the risk of corruption</li> </ul>

Source: ODDO BHF Asset Management SAS



### **3. Disclosures on the implementation of ESG criteria analysis**

The ESG research team, which reports directly to the chief investment officer (CIO), works in close tandem with all managers and analysts, in particular on the qualitative factors of the research model. Meetings with companies and progress reports are essential stages in our research methodology.

Alongside these internal resources, the ESG team is backed by company publications, including reports and presentations), an external ESG research provider (Sustainalytics), external financial and non-financial raw data providers (Bloomberg, FactSet), and specialised broker reports.

### **4. Methodology and findings of ESG research**

To build up its proprietary research methodology, ODDO BHF Asset Management SAS has capitalized on the more than 10 years of experience and know-how of the ESG analyst team of the ODDO BHF Corporates & Markets research office.

Based on 10 themes (presented above) and 42 criteria, our ESG research model distinguishes companies by sector (level two GICS classification with 24 economic sectors) and by ownership structures (non-controlled, controlled, family-owned).

The weightings of the Environment, Social, and Governance blocks are determined at the sector level using a materiality threshold matrix, based on long-term opportunities and risks. To take one example, the media sector's Environment block will have a 10% weighting and its Social block, a 50% weighting, vs. 30% and 40%, respectively, for the energy sector.

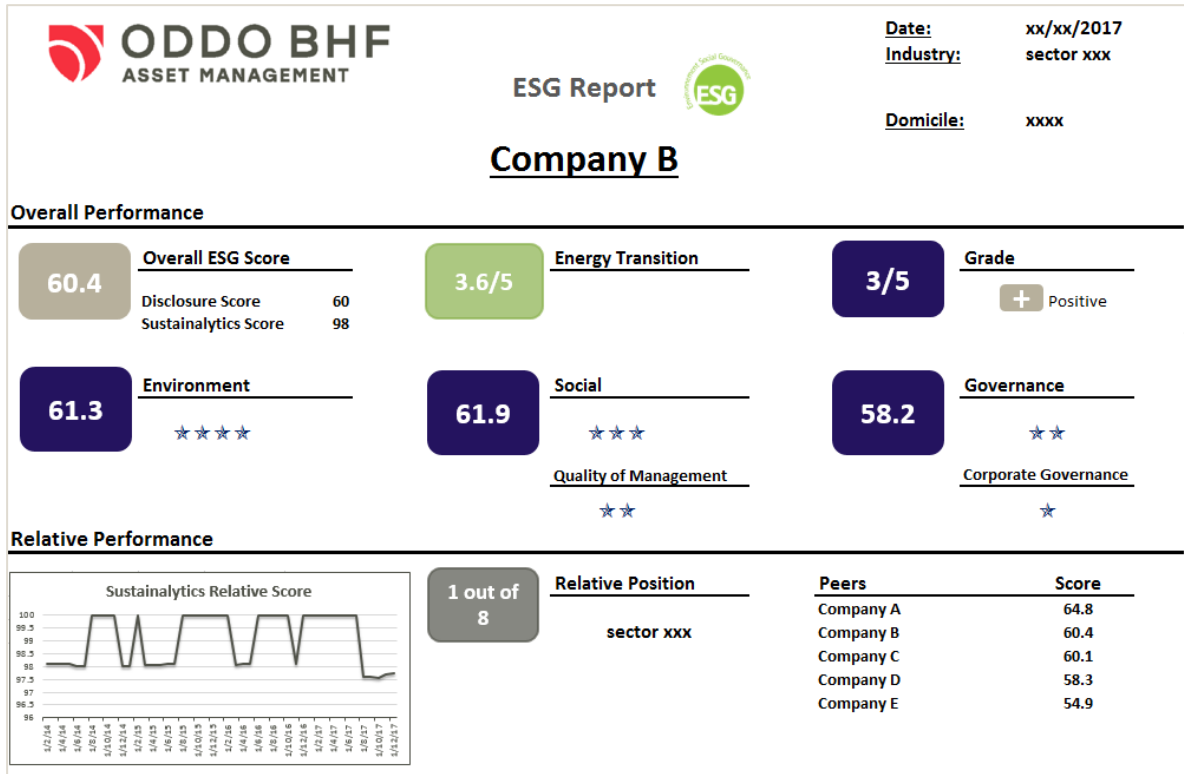
Corporate governance (Governance block) and human capital (Social block), which are priority themes in our methodology, account for, respectively, 25% and 30% of the research model, regardless of sector and size. However, the weighting of other themes, such as regulation, the social ecosystem and business ethics will vary as a function of the materiality threshold of each sector.







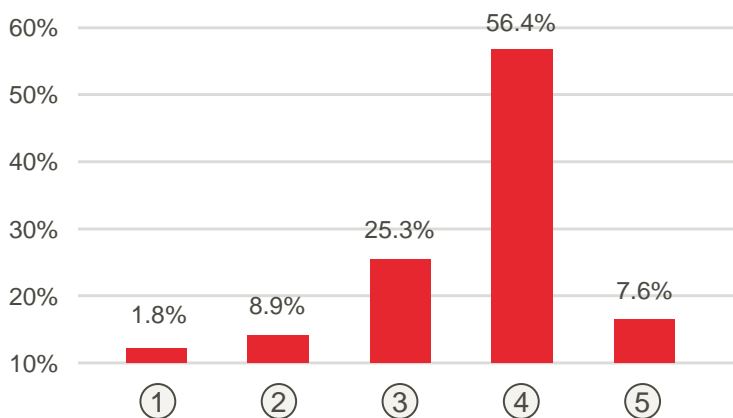
Example of a factsheet from our ESG research platform



Source: ODDO BHF Asset Management SAS

Our ESG database, which is a single platform for all managers, now allows us to report the breakdown in ESG scores for each fund. Our ultimate goal is to be able to assign a score for each block (Environment, Social, and Governance), as well as an overall score compared to the benchmark (weighted by market cap) for all funds in which ESG criteria are integrated.

Example of the breakdown of a portfolio by its ESG ranks



Source: ODDO BHF Asset Management SAS

## 5. Integrating ESG research into the investment process

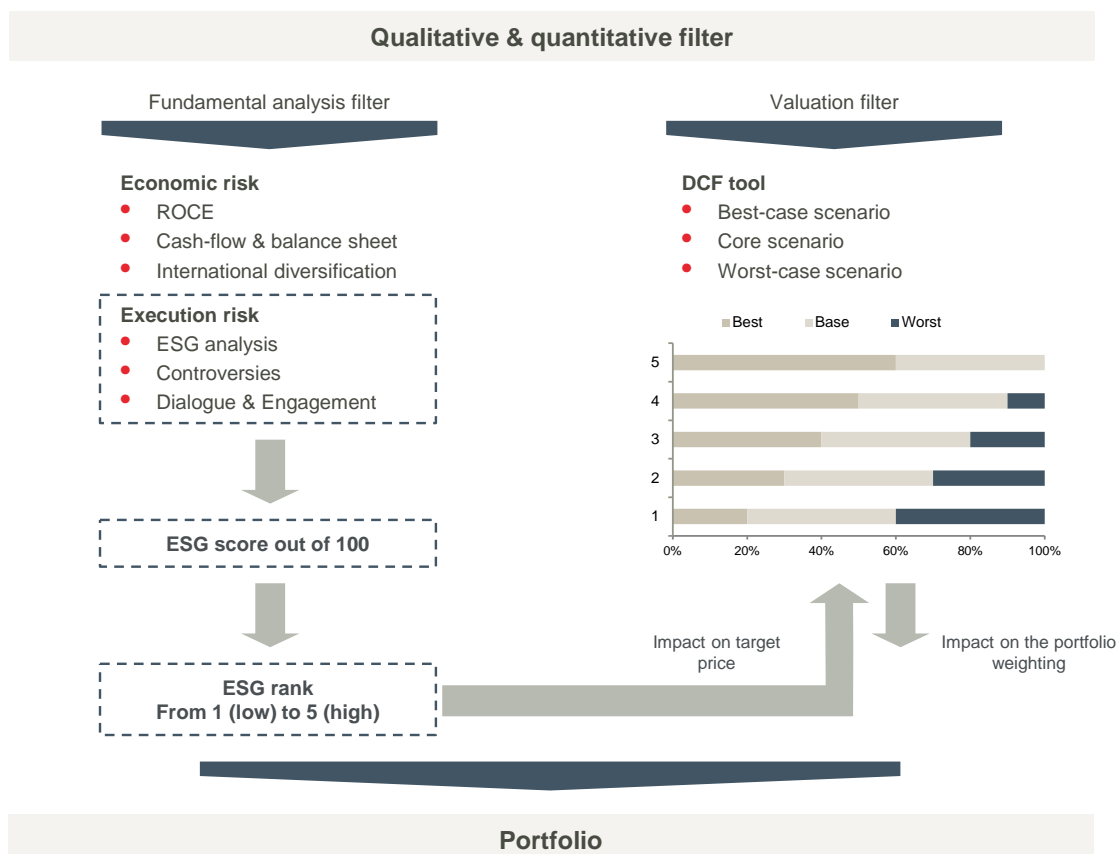
Based on the single ESG research platform accessible to all managers, the degree of ESG integration varies with the product expertise: All Cap & Large Cap Europe, Mid Cap Europe and Small Cap Europe for equities; and Investment grade and High yield for corporate bonds.

ODDO BHF Asset Management SAS is now phasing ESG integration into all its equity funds (implementation under way) and corporate bond funds (currently under development).

At this stage, we have implemented two levels of integration for equity funds:

- A core integration (best-in-universe and best efforts), a process in which each company’s ESG score aims to precisely measure the execution risk of the disclosed strategy and has a direct impact on its valuation;

### Core ESG integration process – the example of ODDO BHF Génération

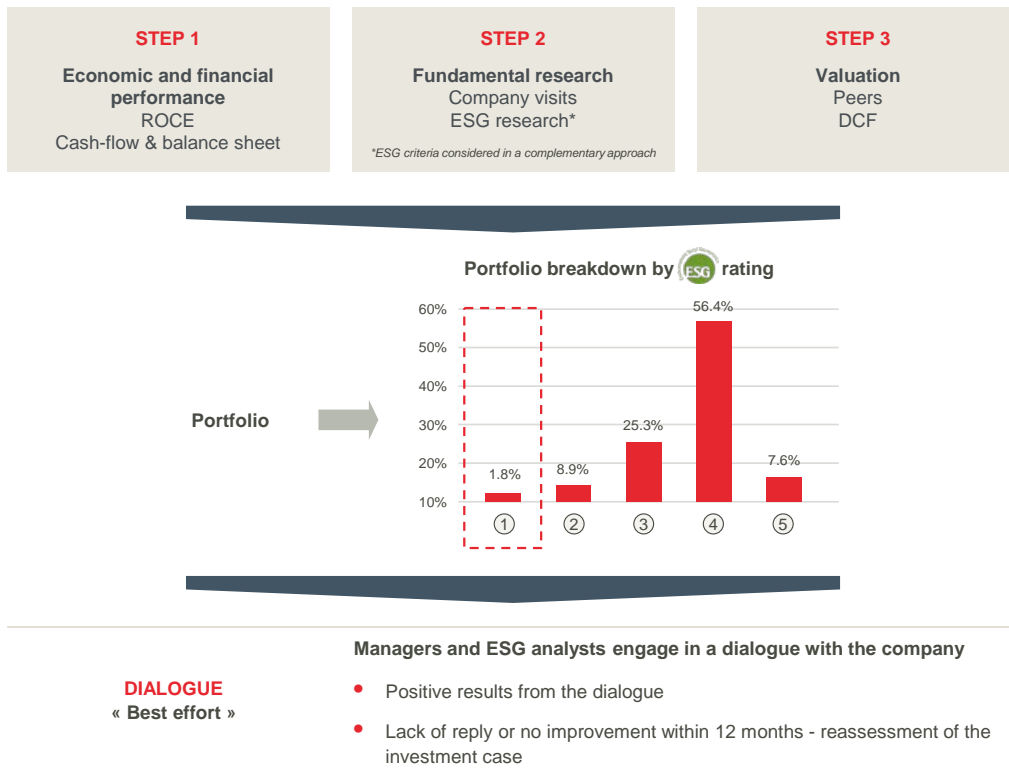


Source: ODDO BHF Asset Management SAS



- An ex-post integration (best efforts), in which a shareholder dialogue policy is begun with the lowest-scoring portfolio companies.

### Ex-post ESG integration process – the example of ODDO BHF Avenir



Source: ODDO BHF Asset Management SAS

Regardless of the level of integration, our ESG approach aims at, and succeeds in, **impacting the construction of investment portfolios.**

# PART THREE:

## Integrating climate change risks





As a member of the Carbon Disclosure Project (CDP) since 2006 and the United Nations Global Compact since 2015, the ODDO BHF group has for several years made climate challenges a hallmark of its thinking.

In 2015, as the United Nations' Sustainable Development Goals (SDG) for 2030 were being launched and with the holding of the COP 21 conference in Paris, France made the pioneering move of enshrining in law (Article 173 Law 2015-992 of 17 August 2015 on the Energy Transition for Green Growth) concrete obligations for institutional investors and asset management firms to disclose information on how they take ESG criteria into account in their investment policy, as well as on the integration of climate change risks.

With this in mind, ODDO BHF Asset Management SAS has developed a three-pronged environmental strategy:

- the quantitative measure of the carbon intensity of its main equity funds;
- the increased prominence of environmental themes in its policy of shareholder dialogue with companies;
- a qualitative measure of the contribution of its investment strategies to the energy transition towards a low-carbon economy.

## 1. Carbon intensity of portfolios

ODDO BHF Asset Management SAS has chosen to measure the carbon intensity of its main equity funds (opened-ended funds and mandates) beyond the legal threshold of AuM of €500m. As of 31 December 2017, 17 portfolios were subjected to a measure of carbon intensity with AuM of almost €6.2bn (or about 38% of total AuM at ODDO BHF Asset Management SAS).

From the methodological viewpoint, we use the data provided by Sustainalytics on an annual basis for both those disclosed by issuers and those that are estimated. We have chosen the same service provider for our ESG research for the quality and scope of its coverage universe, in particular in mid-caps. Out of the total of 17 portfolios covered, 46% of companies have disclosed carbon data and, when estimates are included, we are now at a coverage rate of 79.8%.

## Definition of carbon intensity

The measuring method used is carbon intensity (in tons of CO2 equivalent per million euros of revenues), on which basis companies can be compared regardless of their size.

- Carbon intensity of the security = (the company's **Scope 1 + Scope 2** emissions (i) / the company's revenues (i))
- Weighted total carbon intensity =  $\Sigma$  (carbon intensity of the security \* portfolio weighting of the security)

## Perimeter

**Scope 1:** direct greenhouse gas emissions (fuel, refrigerants, fuel-run vehicles owned)

**Scope 2:** indirect emissions (electricity, steam purchases)

- Carbon emissions extend to Scope 1+ Scope 2.
- Prevented emissions are not included.
- Emissions produced indirectly by emitters other than those resulting from consumption of electricity, heat or steam that are necessary for their activities (Scope 3) have not been included in calculating greenhouse gas emissions, due to the lack of availability or comparability of information.

The table below details carbon intensities as of 31 December 2017 of the main open-ended equity funds:

Funds	Carbon intensity * 31/12/2017	Benchmark 31/12/2017
ODDO BHF Avenir	57.9	208.4
ODDO BHF Avenir Euro	55.5	208.4
ODDO BHF Avenir Europe	64.2	208.4
ODDO BHF Génération	251.4	246.9
ODDO BHF Proactif Europe	58.1	196.5
ODDO BHF Active Equities	163.0	208.4

\* tons of CO2 equivalent per €m of revenue

Source: ODDO BHF Asset Management SAS

For open-ended equity funds with more than €500m in AuM (ODDO BHF Avenir, ODDO BHF Avenir Europe, ODDO BHF Proactif Europe, and ODDO BHF Génération), a full measurement of carbon intensity is available in these funds' reports on our website:

[www.am.oddo-bhf.com/France/EN/Lists/OddoAm\\_MenuPage/Fonds.aspx](http://www.am.oddo-bhf.com/France/EN/Lists/OddoAm_MenuPage/Fonds.aspx)

At this stage the measuring of carbon intensity does not yet have any influence on the investment policy.

As our ESG policy is developed and applied to the corporate bond asset class, the measuring of carbon intensity will ultimately include bond funds.



## 2. Integrating environmental themes in shareholder dialogue with companies

Although our engagement and shareholder dialogue policy gives priority to issues of governance and human capital (quality of management / human resources), we now discuss climate change matters when we meet with a company in a sector with a heavy environmental impact (risks or opportunities). The subjects of discussion include, for example, the development of an offering of high-value-added environmental products or services, the implementing of a product life-cycle analysis, the use or non-use of a carbon pricing in investment projects, or the formalization or lack thereof of a 2°C scenario and the potential consequences in terms of value creation.

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.



## 3. Qualitative approach to our investment strategies' contribution to the energy transition

The third channel of our environmental strategy is to meet the obligation of implementing one or more indicators for measuring an investment portfolio's contribution to the energy transition towards a low-carbon economy. To do so, within our in-house ESG research platform we have developed a special indicator at the level of each company, called the Energy Transition Analysis (ETA) score. The ETA score has two components: the company's sector, with a 30% coefficient, and the company's Environment block score from our ESG research platform (70%).

Sector positioning is determined with regard to the environmental risks and opportunities from our SGD matrix (based on the United Nations Sustainable Development Goals by 2030). Within this matrix we have identified five environmental themes (clean energies, energy efficiency, biodiversity, the circular economy, and sustainable mobility), based on which we assign sector scores from 1 (high risk) to 5 (strong opportunity).

The Environment block of our ESG research model of companies is based on two avenues: the environmental management system (carbon intensity, water intensity, energy mix, waste management, and certifications), and an analysis of environmental opportunities and/or risks generated by the



company's activities (products or services). The final score out of 100 points in the Environment block is assigned a 1 (high risk) to a 5 (strong opportunity).

The table below uses the example of three companies in sectors with very different environmental impacts.

### Recap of the Energy Transition Analysis (ETA) score

Company	Sector positioning (1)		Environment block (2)			ETA score		
	Opportunities	Risks	EMS	Opportunities	Risks	(1)*30%	(2)*70%	Total
BP Plc		<ul style="list-style-type: none"> <li>Clean energies</li> <li>Biodiversity</li> <li>Sustainable mobility</li> </ul>	Score of 22.5/50	<ul style="list-style-type: none"> <li>Marginal presence in biofuels and wind power (&lt; 5% of sales)</li> <li>Concertation with stakeholders on closing and dismantling of facilities</li> </ul>	<ul style="list-style-type: none"> <li>Track-record of disasters (Deepwater Horizon)</li> <li>Regulatory risk (decline in share of fossil fuels)</li> <li>Physical risks (offshore installations, climate change)</li> </ul>	0.3	1.4	1.7
Sanofi		<ul style="list-style-type: none"> <li>Biodiversity</li> </ul>	Score of 27.8/50	<ul style="list-style-type: none"> <li>Commitments on biodiversity and animal testing</li> </ul>	<ul style="list-style-type: none"> <li>Physical risks (water, pharma residues)</li> </ul>	0.6	2.1	2.7
Valeo	<ul style="list-style-type: none"> <li>Energy efficiency</li> <li>Sustainable mobility</li> </ul>		Score of 40.0/50	<ul style="list-style-type: none"> <li>Regulatory trends (anti-pollution systems &gt; 20% of sales)</li> <li>Technological innovations (digitalization, mobility services)</li> </ul>	<ul style="list-style-type: none"> <li>Transition risk (urbanization, consumer habits, digitalization)</li> <li>Physical risks (climate change)</li> </ul>	1.0	2.8	3.8

Source: ODDO BHF Asset Management SAS

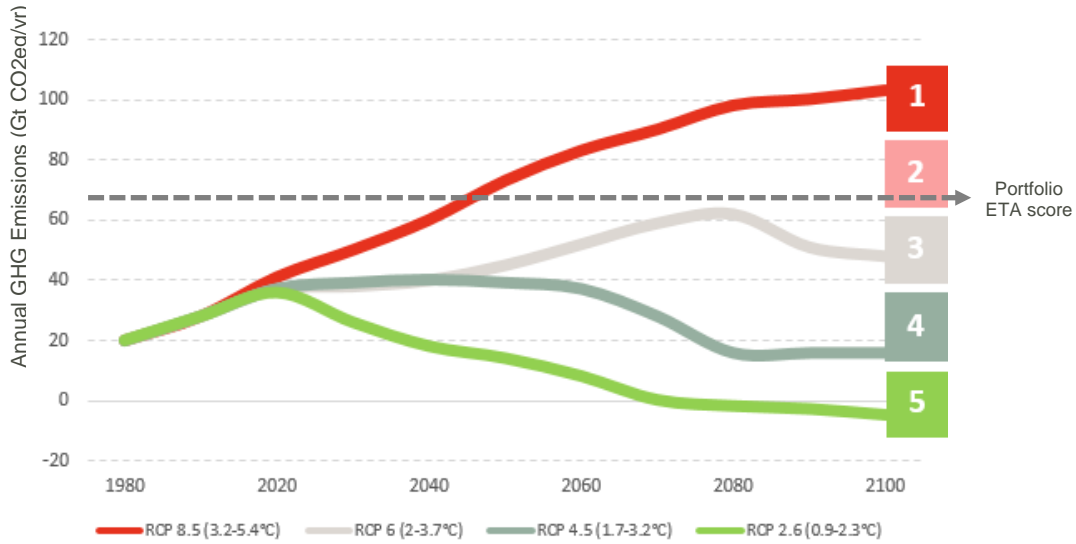
In aggregating the ETA scores of portfolio companies (weighted by the weight of each holding), we obtain an indicative measurement of the contribution of this investment portfolio to the energy transition.

This provides us with a qualitative approach, helping us to align our portfolios with the different climate scenarios of the IPCC (Intergovernmental Panel on Climate Change) covering the period until 2100<sup>2</sup>.

<sup>2</sup> Please see also our White Paper #1 "ODDO BHF AM's approach to climate change" published in December 2017



## Alignment to IPCC climate scenarios



Source : ODDO BHF Asset Management SAS

Even so, we have not ruled out including new “2°C trajectory” indicators in the future, such as the green share (the share of electricity generated from renewable or non-fossil sources) and the brown share (the share of electricity generated from fossil fuels) or the percentage of a portfolio’s “stranded assets” (fossil reserves which may not be able to be exploited under international climate objectives).

## Glossary

**Best efforts:** The best efforts approach consists of investing in companies demonstrating visible progress in terms of sustainable development strategy, regardless of their rank ESG.

**Best-in-universe:** the best-in-universe approach is to conduct a thorough analysis of the ESG factors of a company that is compared to the entire investment universe.

**CDP:** The Carbon Disclosure Project is an international organization who created a system that has resulted in unparalleled engagement on environmental issues between investors (representing more than \$ 800bn), companies (more than 5 600), cities (533), states and regions (71) worldwide. CDP's data enables the network to link environmental integrity, fiduciary duty and public interest to make better-informed decisions on climate action.

**Exclusion:** This approach is to exclude an issuer based on the results of the internal ESG analysis and/or the exclusion policy of the management company (Ottawa Treaty and Oslo Convention).

**Oslo Convention:** The Oslo Convention on Cluster Munitions is an international humanitarian and disarmament treaty that totally prohibits the use, production, stockpiling and transfer of this category of weapons and provides for their removal and destruction. The text of the Convention was adopted by 107 states on 30 May 2008 in Dublin and was signed by 94 states in Oslo on 3 and 4 December 2008.

**Ottawa Treaty:** The Ottawa Treaty is an international disarmament treaty that prohibits the acquisition, production, stockpiling and use of anti-personnel mines. Opened for signature on December 3 and 4, 1997 in Ottawa, the treaty entered into force on March 1, 1999.

**PRI:** The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

**SDG:** The Sustainable Development Goals are a collection of 17 interrelated global goals set out by the United Nations. The SDGs cover a broad range of social development issues, such as poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, environment and social justice. On 25 September 2015, the 193 countries of the United Nations General Assembly adopted the 2030 Development Agenda titled "Transforming our world: the 2030 Agenda for Sustainable Development".

**TCFD:** the Task Force on Climate-related Financial Disclosure was launched in 2015 by the G20 to review how the financial sector can take better into account climate-related issues.



**UN Global Compact:** The United Nations Global Compact is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. The initiative brings the 13000 corporate participants and other stakeholders over 170 countries with two objectives: "Mainstream the ten principles in business activities around the world" and "Catalyse actions in support of broader UN goals, such as the Sustainable Development Goals (SDGs)".

## Company profile

**ODDO BHF Asset Management** is part of the independent Franco-German financial group ODDO BHF that was founded in 1849. ODDO BHF AM is an independent asset management leader in Europe. The asset management of the ODDO BHF Group comprises ODDO BHF AM GmbH in Germany, ODDO BHF AM SAS and ODDO BHF Private Equity SAS in France, which together manage assets totaling €61.6 billion.

ODDO BHF AM offers its institutional and wholesale clients a unique range of high-performance investment solutions in all main asset classes, i.e. European equities, quantitative strategies, fixed income, multi-asset solutions and private equity.

On a combined basis, 70% of assets under management are from institutional clients and 30% from distribution partners. The teams operate from investment centers in Dusseldorf, Frankfurt and Paris with additional locations in Luxembourg, Milan, Geneva, Stockholm and Madrid.

ODDO BHF AM puts the long-term support of its clients at the heart of its priorities. Its independence allows its teams to be responsive, flexible and innovative in order to constantly find solutions tailored to the customers' needs.

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