



ODDO BHF
ASSET MANAGEMENT

*Integration of sustainability risks
into investment decisions*

ARTICLE 3 SFDR

ODDO BHF ASSET MANAGEMENT GMBH

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1. REGULATORY CONTEXT

In accordance with the EU regulation 2019/2088 from the 27 November 2019 (the sustainable finance disclosure regulation or “SFDR”) and more particularly with its Article 3, the management company ODDO BHF Asset Management GmbH publishes on its website its policy regarding the integration of sustainability risks in the investment decision-making process.

2. PERIMETER OF THE POLICY

This policy concerns all mutual funds directly managed by ODDO BHF Asset Management GmbH and the mutual funds delegated to fund managers of the ODDO BHF group that integrate sustainability risks in their investment decisions for the products falling under Article 8 (products that promote environmental and social characteristics) and Article 9 (products with a sustainable investment objective) under the Sustainable Finance Disclosure Regulation (SFDR) framework.

The mutual funds directly managed by ODDO BHF Asset Management GmbH and the mutual funds delegated to fund managers of the ODDO BHF group invested in listed assets that are classified Article 6 only apply the Exclusion Policy and follow the voting process of ODDO BHF Asset Management as levers for taking into account sustainability risks. The funds invested in private assets classified Article 6 SFDR do not take into account sustainability risks. They also do not apply the ODDO BHF Asset Management Exclusion Policy.

The open-ended funds delegated externally (mutual and dedicated funds outside the ODDO BHF group) by ODDO BHF Asset Management GmbH and falling under Article 8 under SFDR consider sustainability risks through specific exclusions that are detailed in the respective pre-contractual information and, in some cases, through ESG ratings, but they do not systematically apply ODDO BHF Asset Management approach.

For management mandates or dedicated funds, please refer to the relevant prospectus or information memorandum.

3. INTEGRATION OF SUSTAINABILITY RISKS FOR DIRECTLY MANAGED ARTICLE 8 AND 9 SFDR FUNDS EXCEPT PRIVATE ASSETS

Introduction

The integration of sustainability risks is based on the Principles for Responsible Investment (PRI) signed by ODDO BHF Asset Management since 2010. The Principles for Responsible Investment are part of our approach to asset management, which is based on fundamental analysis and a long-term investment horizon in order to effectively take into account risks and opportunities. The management company ensures that ESG criteria which are important to investors are taken into account in its analysis of issuers, just like traditional financial criteria.

Despite numerous initiatives and regulations covering non-financial information, ESG/sustainability research still lacks universally recognized and shared standards. By investing in companies of all market capitalizations and in various asset classes, ODDO BHF Asset Management seeks to avoid information bias. This is why ODDO BHF Asset Management has chosen to develop its own ESG research model to complement external ESG ratings.

The management company is convinced that, in addition to quantitative criteria, it creates long-term value for its clients based on an in-depth analysis of companies' intangible assets, such as human capital, reputation, innovation capacity, etc. The ESG team provides its internal research model with data from:

- Corporate publications (reports and presentations)
- External ESG research providers (MSCI, ISS, Carbon4 Finance, etc.)
- External providers of raw financial and non-financial data (Bloomberg, FactSet)
- Specialized broker publications (thematic research).

This bottom-up approach involving ESG specialists, portfolio management teams and external providers of quantitative data gives us a global view of each company. On this basis, we are able to assign an ESG rating regardless of market capitalization. The ESG research model is not identical for all Art. 8 SFDR funds.

Our internal ESG model

Our model is a key element in integrating sustainability risks into the investment management process. The ESG research developed in-house by ODDO BHF Asset Management is based on the United Nations Global Compact. The UN Global Compact is based on 10 principles relating to human rights, labor rights, the environment and anti-corruption, based on the main international standards (the Universal Declaration of Human Rights, ILO conventions, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption). In 2017, in order to place its ESG research within a dynamic and forward-looking approach, ODDO BHF Asset Management adopted the United 'Nations' Sustainable Development Goals (SDG), signed in September 2015 by 193 countries, as a framework for reflection until 2030. Concretely, this allows us to understand the degree of exposure of each economic sector to the challenges of sustainable development around 8 long-term themes identified for their materiality on companies. These are environmental risks (climate, biodiversity, pollution & waste management), environmental opportunities (transition-financing investments, green share, taxonomy alignment), social risks (regulation, just transition, market), quality of management and human capital (CEO profile, composition of the executive team, human capital management), social ecosystem (customer capital, supply chain management, technology capital), sustainable development strategy (Global Compact, leadership and structure, reporting standards), corporate governance (minority shareholder rights, separation of functions, succession history, remuneration policy, board composition, internal control, financial communication), and business ethics (anti-competitive practices, lobbying, whistleblowing program, tax transparency, corruption risk). Controversies are also taken into account in the analysis of each of the E, S and G pillars.

The model is based on a double materiality approach for each of the three pillars, i.e. the external risks that weigh on the company (financial materiality) as well as the risks that the company's activities pose to society and the environment (impact materiality). The weight of the Environment, Social and Governance pillars is determined at the sectoral level based on long-term opportunities and risks. In concrete terms, we use a grid that allows us to understand the degree of exposure of each economic sector to sustainable development issues.

MSCI ESG Rating

Some funds do not apply the internal ESG model developed by ODDO BHF Asset Management but rely on an external ESG rating model created by MSCI. Like the internal model, this external model makes it

possible to consider sustainability risks because the ESG ratings assigned by MSCI (from CCC to AAA) to companies, countries or investment funds are indicators of exposure to and management of sustainability risks. The lower the ESG rating, the higher the sustainability risks.

Integration of our ESG research into the investment process

Our internal ESG research platform, which is available to all portfolio management teams, aims to deploy our ESG integration policy across all asset classes to help guide the construction of investment portfolios. Our approach is based on four pillars: exclusion, ESG ratings and research, climate transition, and shareholder engagement. Portfolio management teams can access the ESG files of all issuers in their investment universe on a daily basis, which allows them to obtain rapid and up-to-date information on the securities in their portfolios. The fact sheet includes not only the company's overall ESG score, but also its score for each module (E, S and G), recent key elements of the information flow and the most relevant points to consider consideration depending on the sector in which the company operates. ESG ratings and additional information (controversy level, dedicated corporate governance or management quality rating) are also integrated into our IT and investment systems (Bloomberg). This means investment teams are able to gain clear insight into the average ESG rating of their portfolios and identify the level of controversy of each issuer whenever they want. This has a direct impact on portfolio construction.

Our exclusion policy

ODDO BHF Asset Management GmbH (Germany) has defined an exclusion policy concerning some controversial activities or sectors and/or practices that go against major international conventions. These Asset Management companies remain autonomous and independent in their management decisions, in accordance with the regulations in force.

The common base of exclusion applies, depending on their nature, to all open-ended funds managed by ODDO BHF AM GmbH as a management company or delegated to other entities of the ODDO BHF Group. It also applies to Private Assets depending on the investment strategy. However, some open-ended funds whose management is delegated or advised by third parties are not affected by these exclusions, unless otherwise stated in the prospectus. These exclusions may also apply to management mandates or dedicated funds, if they are explicitly mentioned in the prospectus or other legal document. The ODDO BHF Merger Arbitrage and ODDO BHF Data Driven L/S funds managed by ODDO BHF Asset Management SAS are excluded from this policy except for the following non-conventional weapons: anti-personnel mines and cluster munitions.

These exclusions target:

1. Exclusion of any company violating the UN Global Compact (UNGC) Principles as well as the OECD Guidelines for Multinational Enterprises
2. Unconventional weapons: exclusion of any company involved the development, production, and distribution of weapons prohibited by the Chemical Weapons Convention, the Ottawa Treaty, the Oslo Convention, the amended and supplemented version of the Convention on the Prohibition or Restriction of the Use of Certain Weapons, conventional weapons and nuclear weapons produced by a company incorporated in a country that is not a party to the Treaty on the Non-Proliferation of Nuclear Weapons.

3. Coal:
 - a. Exclusion of any company whose annual production is greater than 8 million tons or, failing that, more than 5% of its revenues. These thresholds will be lowered to 0% by 2030 for EU and OECD countries, and by 2040 for the rest of the world.
 - b. Electricity generation: exclusion of any company for which coal accounts for more than 15% of its production mix, or failing that, 15% of its installed capacity. These thresholds will be lowered to 10% in 2026, 5% in 2028 and 0% in 2030 for EU and OECD countries. In absolute terms, we exclude any power company whose installed coal power capacity is greater than 15 GW.
 - c. Development of new projects: exclusion of any company involved in coal mining or coal-fired power generation that develops new projects involving thermal coal, regardless of the size of the project.
 - d. Green bonds: investments in green bonds from issuers excluded under the coal category remain eligible unless these issuers are developing new capacities except if stated differently in the prospectus.
4. Unconventional oil and gas: exclusion of any companies from the energy sector that generate more than 5 % of their revenues from the extraction and production of unconventional oil and gas. This includes shale oil and gas as well as oil sands.
5. Arctic: exclusion of all companies from the energy sector that generate more than 10 % of their revenues from the extraction and production of (conventional and unconventional) oil and gas in the Arctic.
6. Tobacco: exclusion of all companies that generate more than 0% of their revenues from the production of tobacco.
7. Biodiversity: exclusion of any companies that generate more than 5% of their revenues from the production of palm oil as well as any company involved in serious controversies linked to biodiversity.

Some of the exclusions directly relate to the principal adverse impacts (PAI) detailed in the SFDR regulatory technical standards (RTS). Indeed, our biodiversity, UNGC, and unconventional weapons exclusions are linked to the PAI number 7, 10 and 14, respectively.

Our commitment to investors

As a long-term and conviction-based investor, ODDO BHF Asset Management GmbH has implemented a three-pronged shareholder engagement approach available on our website.

1. Dialogue with companies

Our approach focuses on improving business practices and transparency on environmental, social and governance issues of the companies in which the portfolios invest. It is not about shareholder activism, but about engaging in dialogue with companies when necessary and dealing with issues on an individual basis. We are convinced that efforts to make progress on non-financial issues can create long-term value for all stakeholders. The management company publishes an annual report on its engagement and dialogue activities.

2. Exercise of voting rights at annual shareholders' meetings

ODDO BHF Asset Management GmbH considers that the exercise of voting rights is an integral part of its responsibility as a shareholder. The management company votes at general meetings of shareholders of which its funds directly and jointly hold more than 0.05% of the capital, and regardless of the level of holding of the portfolios integrating ESG criteria in their investment process. These concern AGM of European companies belonging to the regulated market of the EU or the EEA. In accordance with its voting principles, ODDO BHF Asset Management GmbH uses an external service provider, ISS, to review resolutions and help decide how to vote. Voting recommendations are submitted to investment teams, who take final voting decisions after consulting with the ESG research team on social and environmental resolutions.

3. Individual or collaborative engagement

Our individual engagement process focuses notably but not only on companies where we identify significant risks and/or that make the subject of serious controversy. Our engagement process involves systematically identifying and establishing explicit areas where we expect progress, allowing us to monitor and evaluate the results achieved. Our approach is considered successful if dialogue with an issuer leads to greater ESG transparency and/or improved ESG practices. If the engagement is unsuccessful (the dialogue proving non-existent or unsatisfactory), our fund management teams, in collaboration with the ESG team, may implement an escalation process. The escalation process may lead to the reduction of the ESG rating, the initiation of a collaborative engagement, the expression of an opposing vote at the company's general meeting and/or the exclusion of the issuer from the investment universe or, if an active position is already held, the reduction of positions or the sale of the company. On structuring and cross-cutting issues in terms of sustainable development, ODDO BHF Asset Management GmbH considers that collaborative engagement is an effective way to obtain concrete and measurable results within a reasonable time frame. We are therefore involved in several initiatives, both locally and internationally. Details of our engagement approach and results are available on the management company's website.

Sustainability risks management

The ESG Research team is responsible for rating companies to reflect sustainability risks. Sustainability risk management is then carried out by the Risk & Compliance department, which is independent of the portfolio management teams and reports directly to the CEO of ODDO BHF Asset Management GmbH. This team analyses and monitors the market and liquidity risks of the funds managed by ODDO BHF Asset Management GmbH. In addition, it alerts on high ESG risks while ensuring compliance and internal controls.

The first point of identification and management of sustainability risks concerns our exclusion policy. The exclusion lists are established monthly by the ESG Research team and sent to the portfolio management teams as well as to the Risk & Compliance team for its implementation in the control system.

The second point of identification and management of sustainability risks concerns the specific rules set for our funds and mandates art. 8-9 SFDR. This may include, for example, internal exclusion filters on human capital and corporate governance, exclusion of some ratings based on our internal model, improvement of the portfolio's climate profile or external exclusion filters based on data from our external service provider.

The exclusion lists and ESG selection rules are set in the pre-trade compliance system (Bloomberg AIM). This option makes it possible to apply an exclusion list to the fund or mandates and to generate blocking messages before executing transactions or sending orders to the desk:

- In pre-trade and post-trade in Bloomberg AIM (warning and/or blocking constraints in relation to the severity) based on real-time portfolios.

In the case of some investment limits to be respected, the portfolio managers are automatically informed by the system pre trade in case of any incident or deviation from these limits. Constraints and limits are in addition checked post-trade e.g. to identify passive breaches. The corrections are then taken into account in the portfolios as soon as the portfolio management team is informed. For all breaches already processed and not resolved, the Risk & Compliance department initially sends reminders by email. In addition, an escalation process exists. All proven breaches are reported by email to the portfolio managers concerned and kept in the audit trail. In the event of a persistent breach, arbitration is requested from the Compliance Committee and, failing that, from the General Management Committee.

To ensure compliance with these rules and a better understanding of sustainability issues, regular discussions take place between the Risk & Compliance team, the portfolio management teams and the ESG Research team. Thus, for art. 8-9 SFDR, before any investment in a new company, the portfolio management team in charge of the fund or mandates discusses with ESG analysts to ensure that the issuer studied does not present significant extra-financial risks.

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