



**ODDO BHF**  
ASSET MANAGEMENT

# Responsible Investor Report

*ARTICLE 29 OF LAW N°2019-1147 (EN-  
ERGY-CLIMATE LAW – KNOWN AS  
“LEC”)*

ODDO BHF ASSET MANAGEMENT SAS EXCL. ODDO BHF PRIVATE ASSETS

**JUNE 2023**

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The present report was established within the framework of the Article 29 of the Energy Climate Law (Decree No. 2021-663 of May 27, 2021). ODDO BHF Asset Management SAS (excluding Private Assets) presents the procedures for taking into account, in its investment strategies, the environmental, social and governance (ESG) criteria and the means implemented to contribute to the transition. The present report meets the disclosure obligations arising from Article 29 for the entity and funds. A separate document has been prepared for the Private Assets.

All informational documents and general policies may be viewed on our web page devoted to sustainable investing at:

[https://am.oddo-bhf.com/france/en/professional\\_investor/ad/sustainable\\_investment/1339/publication/1380](https://am.oddo-bhf.com/france/en/professional_investor/ad/sustainable_investment/1339/publication/1380)

The shareholder engagement policy and reports may be viewed on our web page detailing regulatory information at:

[https://am.oddo-bhf.com/france/en/professional\\_investor/infos\\_reglementaire](https://am.oddo-bhf.com/france/en/professional_investor/infos_reglementaire)

All documents pertaining to funds may be viewed on the following web page, after the desired fund has been selected at:

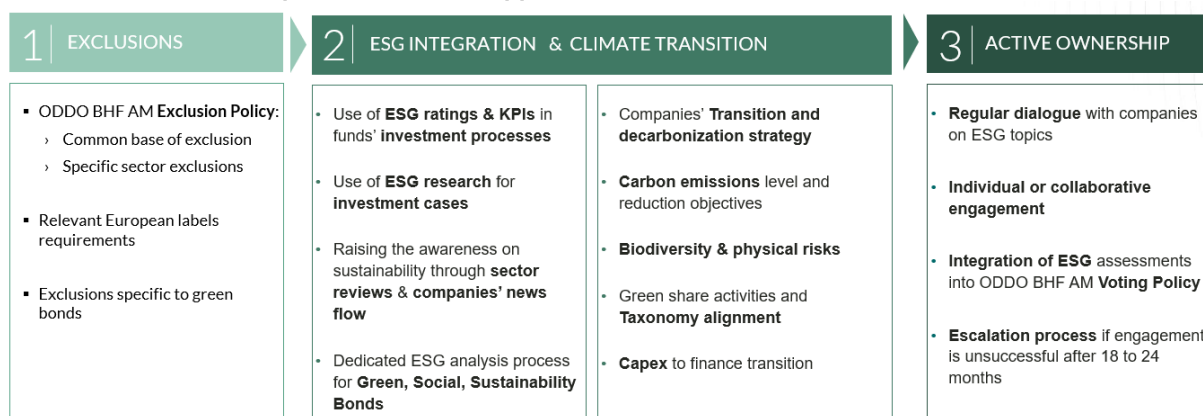
[https://am.oddo-bhf.com/france/en/professional\\_investor/fundspage](https://am.oddo-bhf.com/france/en/professional_investor/fundspage)

## 1° General approach of the entity

### 1. Entity's general approach to the consideration of environmental social and governance (ESG) criteria

Our ESG approach is based on three pillars: exclusions, ESG integration and active ownership.

#### The three fundamental pillars of our ESG approach



Source: ODDO BHF Asset Management, 2023

Based on these three pillars, we pledge to strengthen our ESG coverage in managing our portfolios:

#### Scope of application of ODDO BHF AM's ESG policies and processes

		Open-ended funds Art. 6 SFDR	Open-ended funds Art. 8-9 SFDR	Dedicated funds and mandates Art. 6 SFDR	Dedicated funds and mandates Art. 8-9 SFDR
Exclusion Policy	Common base	✓	✓	⚡	⚡
	Specific sector exclusions	⚡	⚡	⚡	⚡
ESG integration	ESG rating, ESG research used for portfolio management	✗	✓	✗	✓
	Dialogue	⚡	✓	⚡	✓
Active ownership	Individual engagement	✗	✓	✗	✓
	Collaborative engagement	⚡	✓	⚡	✓
	Voting <i>Minimum threshold</i>	✓	✓	⚡	⚡

Yes
 Partially
 No

Source: ODDO BHF Asset Management, 2023

## 1.1 Exclusion policy

Our Exclusion Policy defines two categories of exclusions:

- › **Common base of exclusions** that applies to all listed open-ended funds managed funds except ODDO BHF AIF PLC, regardless of their SFDR classification.
- › **Specific sector exclusions** that applies to some open-ended and dedicated funds, as well as to some mandates classified as SFDR Article 8 or 9.

The policy also states the exclusions that investment funds must comply with under the various labels or clients' requirements.

Our exclusion policy is available in full at the following address:

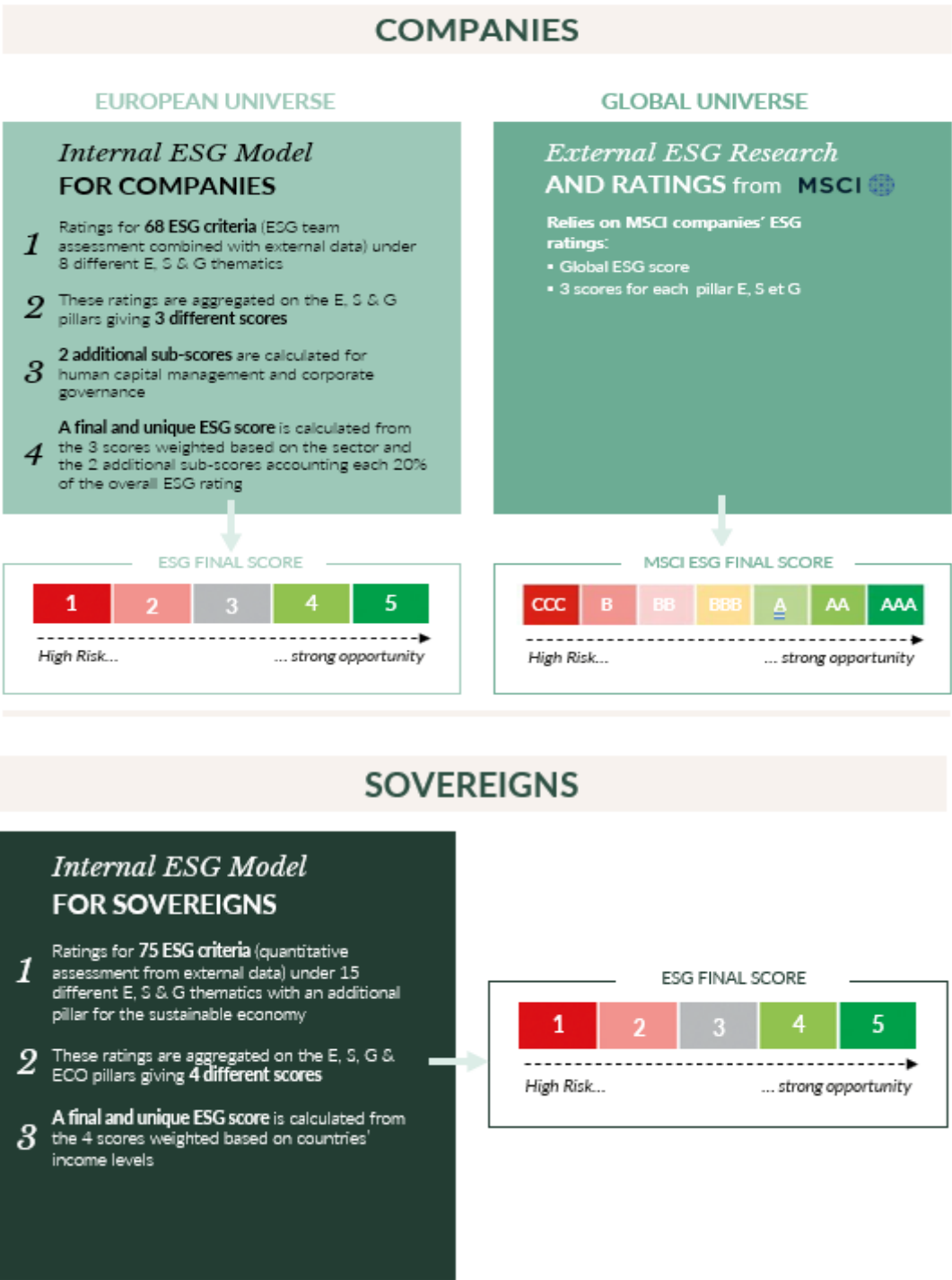
[https://am.oddo-bhf.com/france/en/professional\\_investor/ad/sustainable\\_investment/1339/publication/1380](https://am.oddo-bhf.com/france/en/professional_investor/ad/sustainable_investment/1339/publication/1380)

## 1.2 ESG integration

Investments are analyzed by our fund management teams, supported by the ESG Research team. This approach allows us to identify companies' financial and extra-financial risks and to assess how financially material such risks are.

We have developed our own in-house ESG research and scoring model for corporates. For the time being it covers only companies for our European investment strategies. For Global investment strategies we mostly rely on an MSCI ESG ratings. We have also developed a proprietary ESG model for sovereigns.

Sustainability analysis processes







Source: ODDO BHF Asset Management, 2023

### 1.2.1 Our internal ESG model for companies

Our scoring model 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, labor rights, the environment, and the fight against corruption, and is based on major international norms and conventions.

#### The 10 principles of the UN Global Compact

 <b>HUMAN RIGHTS</b>	<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>
 <b>LABOUR</b>	<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. Contribute to the elimination of all forms of forced and compulsory labour;</li> <li>5. Contribute to the effective abolition of child labour;</li> <li>6. Contribute to the elimination of discrimination in respect of employment and occupation .</li> </ol>
 <b>ENVIRONMENT</b>	<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>
 <b>ANTI-CORRUPTION</b>	<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 Nation

Our model for companies is structured around 8 themes: two environmental, three social and three governance themes. The model encompasses some of the Principal Adverse Sustainability Impacts (PAI) as described in our Principal Adverse Impact Statement:

[https://am.oddo-bhf.com/france/en/professional\\_investor/infos\\_reglementaire](https://am.oddo-bhf.com/france/en/professional_investor/infos_reglementaire)



## 8 themes of the ESG research and rating model for companies linked to sustainable development goals

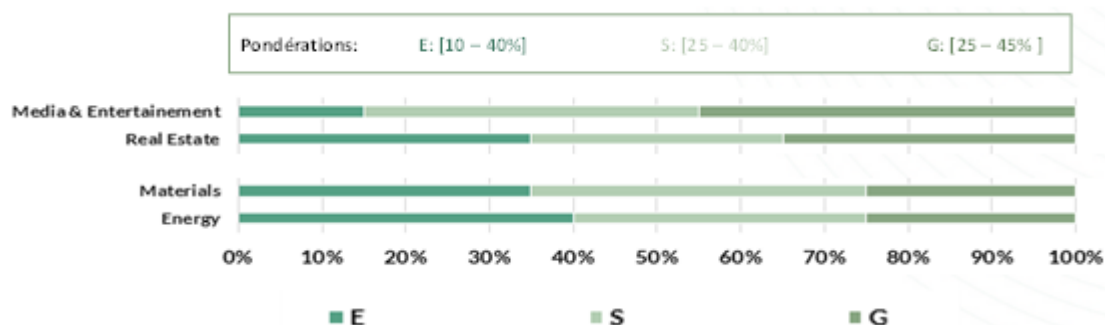


Source: ODDO BHF Asset Management, 2023

For each of the 8 themes, we define different categories for which we use a range of indicators to quantitatively and qualitatively assess companies' ESG profile. The model is built based on a double materiality approach for each of the three pillars, i.e. the external risks that weigh on the company as well as the risks that the company might have on society and environment.

The weighting assigned to each of the “Environmental”, “Social” and “Governance” pillars is determined at the sectoral level according to long-term risks and opportunities. In practical terms, we use a grid that allows us to grasp each economic sector's degree of exposure to sustainable development challenges.

### Examples of pillar weighting by sector



Source: ODDO BHF Asset Management, 2023

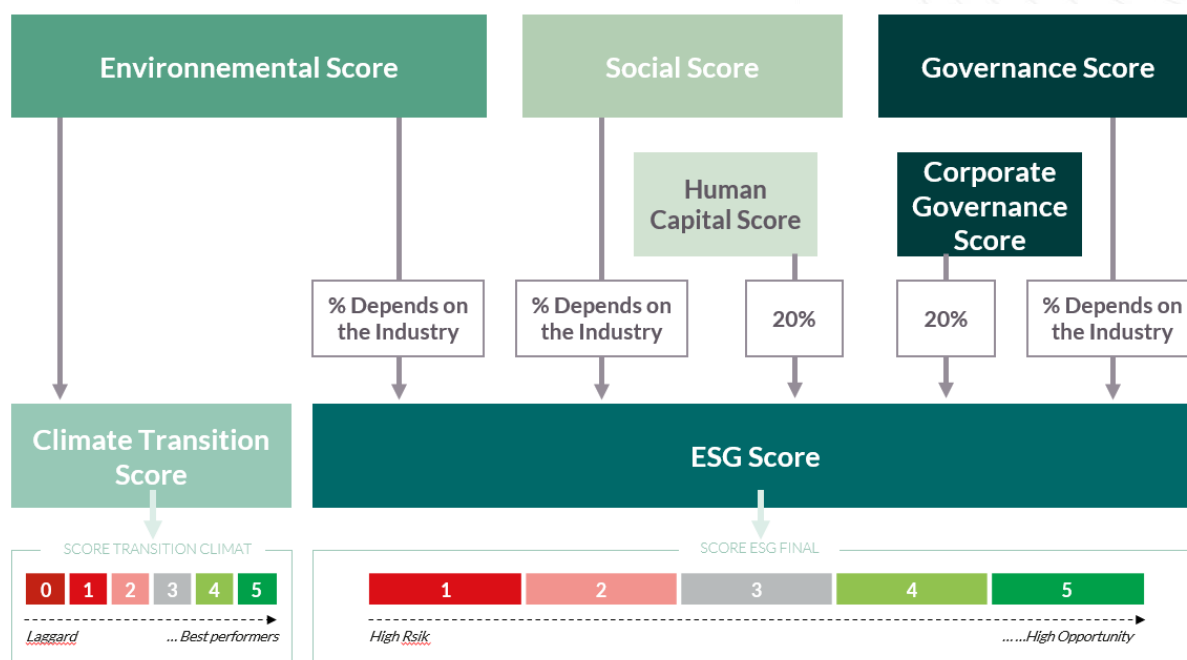
Each company that is analyzed obtains an absolute score out of 100 points for each of the three modules - E, S and G -, as well as two sub-scores for human capital management and corporate governance. An aggregate ESG score is calculated once each module has been weighted combined with the scores for human capital management and corporate governance accounting each for 20% of the overall ESG score. Scores obtained allows to classify companies on a scale of five levels: Strong Opportunity (5), Opportunity (4), Neutral (3), Moderate Risk (2) and High Risk (1).

#### 1.2.2 Our internal Climate Transition model for companies

A “transition score” is also calculated to assess the risk that companies’ activities face regarding the environmental transition. This score is obtained through the combination of indicators on the E pillar. This transition score allows us to evaluate companies from a transition risk/opportunity perspective: carbon intensity measures (analysis of scopes 1, 2 and 3), CapEx plans in low-carbon solutions or the breakdown of revenues between “green share” and “brown share”. It is calculated considering several indicators such as the sector activity of the company, the decarbonization strategy and its credibility, the carbon footprint<sup>1</sup>, or transition, physical and reputational risks.

<sup>1</sup> Measure the total GHG emissions of a portfolio by summing all GHG emissions of the underlying holdings, proportional to the share of ownership.

## Scores derived from our proprietary model



Source: ODDO BHF Asset Management, 2023

Our analysis model includes an assessment of ESG controversies based on information provided by MSCI, by SESAMm thanks to a partnership leveraging artificial intelligence, and proprietary research, which is fed into the research model and has a direct impact on the final ESG score assigned to each company depending on the severity of the controversy.

### 1.2.3 Our Sustainable Debt Framework

Sustainable bonds, and more specifically Green and Sustainability bonds, play an important role to support and finance the transition to a low carbon economy. Our assessment of Green, Social and Sustainability bonds rely on a bottom-up approach to make sure that the bonds finance projects that provide clear environmental and/or social benefits. This includes making sure that the respective framework follows the Green, Social, Sustainability Bond Principles but also that the projects to be financed are eligible under the Climate Bonds Initiative (CBI) taxonomy. To this end, ODDO BHF AM has developed a four-step selection framework for each of the Sustainable bond. The aim of these frameworks is to ensure that only bonds that adhere to internationally accepted standards are eligible for being invested in our investment strategies.

### 1.2.4 MSCI model

The MSCI ESG Research is designed to measure a company’s resilience to long-term environmental, social and governance risks material to the industry. The ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). MSCI ESG Ratings model identifies the ESG risks (key issues) that are most material to a GICS® sub-industry or sector.

#### Hierarchy of MSCI Research’s ESG rating model

ESG (IVA) Rating									
Environmental Pillar				Social Pillar				Governance Pillar	
Climate change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon emissions	Water stress	Toxic emissions & waste	Opport. in clean tech	Labor mgt	Product safety & quality	Controversial sourcing	Access to communication	Ownership & control	Business ethics
Product carbon footprint	Biodiversity & land use	Packaging material & waste	Opport. in green building	Health & safety	Chemical safety	Community relations	Access to finance	Board	Tax transparency
Financing env. impact	Raw material sourcing	Electronic waste	Opport. in renewable energy	Human capital development	Consumer financial protection		Access to health care	Pay	
Climate change vulnerability				Supply chain labor standards	Privacy & data security		Opport. in nutrition & health	Accounting	
					Responsible investment				
					Insuring health & demographic risk				

Source: MSCI ESG Key Issues

The MSCI ESG Ratings model measures:

- Risk exposure
- Risk management

Each of these two criteria are measured and then expressed in the form of scores, which are then combined, such that a higher level of exposure requires demonstrating higher management skills to obtain the same final Key Issue Score. Key Issue Scores are expressed on a scale of 0 to 10, where 0 means “very poor” and 10 means “very good”.

More information on the methodology used by MSCI ESG Research is available on the following link:

<https://www.msci.com/our-solutions/esg-investing/esg-ratings#:~:text=What%20is%20an%20MSCI%20ESG,those%20risks%20relative%20to%20peers.>

### 1.2.5 Our internal ESG model for sovereigns

Our internal ESG model for sovereigns has been updated in 2022, based on the United Nations' Sustainable Development Goals (SDGs). The model is based on four pillars divided into 15 themes. 75 indicators are assessed, some of which are specific to certain countries based on their income levels, as high- or medium-income countries do not face the same challenges. It uses multiple reference sources<sup>2</sup>.

#### The 15 themes of our ESG research and rating model for sovereigns linked to the Sustainable Development Goals

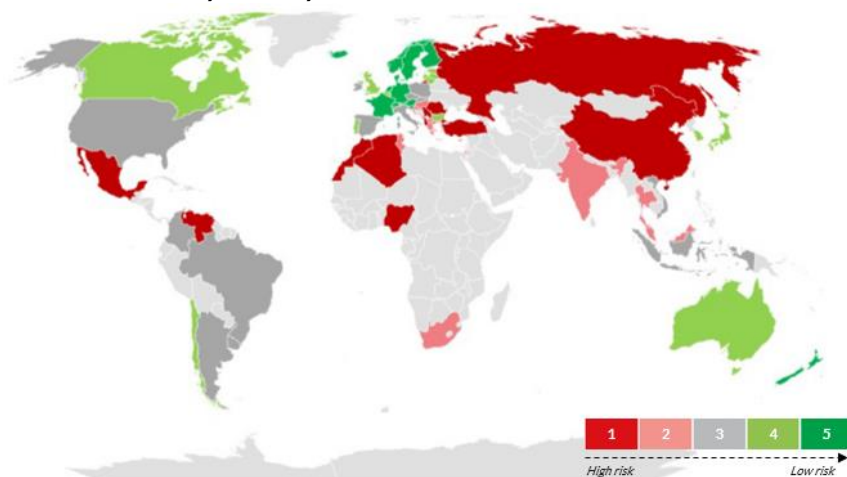


Source: ODDO BHF Asset Management, 2023

Sixty-five countries, plus the European Union, are assessed with this model. Each country receives a score ranging from 1 (= "high risk") to 5 (= "low risk"), as in our internal ESG model for companies.

<sup>2</sup> Amnesty International, Bündnis Entwicklung Hilft, Climate Watch, Convention on Biological Diversity, COP 21, COP 26, Financial Action Task Force, Food and Agriculture Organization, Freedomhouse, Garriga, International Energy Agency, International Labor Organization, International Monetary Fund, International Telecommunication Union, OECD, Population Reference Bureau, Programme for International Student Assessment, Transparency International, UNESCO, UNICEF, United Nations, Vision of Humanity, WHO, World Bank, World Intellectual Property Organization

### Short-/medium-term ESG risk by country



Source: ODDO BHF AM SAS, 2023

### 1.3 Our active ownership approach

Please refer to the “Active Ownership” section below.

## 2. Means used by the entity

### 2.1 ESG reports

For funds integrating ESG criteria into their investment process (Art. 8-9 SFDR), ODDO BHF Asset Management SAS reports the following information in its monthly ESG reports:

- › The fund ESG score vs its benchmark index or investment universe
- › The carbon intensity of the portfolio vs its benchmark index or investment universe
- › Additional KPIs such as related to human capital, corporate governance, fossil fuel exposure etc.

For more information, please refer to products’ documentation available on our website by selecting the fund:

[https://am.oddo-bhf.com/france/en/professional\\_investor/fundspage](https://am.oddo-bhf.com/france/en/professional_investor/fundspage)

## 2.2 Summary of sustainability-related documents

Documents	Scope	Description
<b>Appendix SFDR precontract</b>	Fund	Pre-contractual information for products art. 8-9 SFDR on sustainable investments (EU taxonomy aligned, non-EU taxonomy aligned environmental or social), no significant harm or addressing principle adverse impacts (PAI).
<b>Annual PRI report</b>	ODDO BHF AM	The Responsible Investment Transparency Report enables signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries, and other stakeholders.
<b>Annual report</b>	Fund	This document gives information on investments and management of the fund with the management report, the SFDR management report/taxonomy, and the annual financial statement of the fund at the end of the reporting period.
<b>Article 29 of the Law N°2019-1147 (Energy-Climate Law – known as “LEC”)</b>	ODDO BHF AM SAS	Definition of the information obligations of institutional investors concerning their transparency in relation to the integration of environmental, social, and governance (ESG) criteria in their investment operations.
<b>Basic of Sustainable Investing</b>	ODDO BHF AM	General description of sustainable investing including sustainable development, sustainable investing, main approaches to sustainable investing, climate emergency, labels, sustainability, and financial performance, and ODDO BHF's CSR approach and our investment solutions.
<b>ESG Approach</b>	ODDO BHF AM	Description of our approach and commitments regarding sustainable investing.
<b>ESG Report</b>	Fund	Monthly fund's report for which we integrate ESG criteria into their investment process to summarize all ESG aspects considered.
<b>European SRI Transparency Codes</b>	Fund	Regulatory document required for each fund applying for the French ISR label and the French Greenfin label to have a complete review of the sustainable strategy of the asset manager and of the fund.



		At ODDO BHF AM, we decided for homogeneity reasons to prepare a transparency code for each fund applying for any labels.
<b>Exclusion Policy</b>	ODDO BHF AM	Investment rules covering a range of controversial activities across sectors and practices that are contrary to major international norms and conventions.
<b>Key Information Document (KID)</b>	Fund	This document provides key information about investment products. It is not marketing material. The information is required by law to help to understand the nature, risks, costs, potential gains and losses of products and to help to compare them among themselves.
<b>Prospectus</b>	Fund	The purpose of the prospectus is to provide full, true and plain disclosure of all material facts about the securities being issued so that the investor can make informed investment decisions. The prospectus must disclose all matters that could affect the value or market price of the security being offered.
<b>Responsible Investment Policy</b>	ODDO BHF AM	The purpose of this document is to explain the sustainable approach, the ESG methodologies developed, the means implemented to promote sustainable development and the good governance policy adopted by ODDO BHF Asset Management.
<b>Semiannual report</b>	Fund	This document is more succinct than the annual report providing only the inventory of the funds.
<b>Shareholder engagement policy</b>	ODDO BHF AM	Definition of our approach in terms of dialogue with companies held in our portfolios, the exercise of voting rights and other rights attached to shares, our voting policy principles, the cooperation with other shareholders, the communication with stakeholders, and the prevention and management of actual or potential conflicts of interest.
<b>SFDR Website product disclosure</b>	Fund	Document based on art. 10 SFDR summarizing ESG profile of funds art. 8-9 SFDR, commitments to sustainable investments, etc.
<b>Shareholder engagement report</b>	ODDO BHF AM	Report on dialogues, engagements, and voting annual statistics



<b>Sustainable Finance Disclosure Regulation (SFDR)</b>	ODDO BHF AM	Regulatory documents required by the EU regulation (SFDR classification, SFDR sustainability risk policy (Article 3), transparency of adverse sustainability impacts (Article 4)).
<b>White papers</b>	ODDO BHF AM	Different publications on main and relevant topics in relation to sustainability such as climate, human capital, the ecological transition, biodiversity, in line with our sustainable strategy.

Source: ODDO BHF Asset Management, 2023

All documents with the scope “ODDO BHF AM” or “ODDO BHF AM SAS” can be found on our Sustainable investing webpage:

[https://am.oddo-bhf.com/france/en/professional\\_investor/ad/sustainable\\_investment/1339/publication/1380](https://am.oddo-bhf.com/france/en/professional_investor/ad/sustainable_investment/1339/publication/1380)

The Shareholder & Engagement Policies and Reports can be found on our Regulatory Information webpage:

[https://am.oddo-bhf.com/france/en/professional\\_investor/infos\\_reglementaire](https://am.oddo-bhf.com/france/en/professional_investor/infos_reglementaire)

All documents with the scope “Fund” can be found on our Funds webpage by selecting the fund in question:

[https://am.oddo-bhf.com/france/en/professional\\_investor/fundspage](https://am.oddo-bhf.com/france/en/professional_investor/fundspage)

The various means of communication described above are adapted to the scope authorized by position AMF-2020-03.

### *3. Financial products: "Article 8" and "Article 9"*

As of December 30, 2022, ODDO BHF Asset Management SAS managed €8.1bn in funds and mandates classified as Article 8 or 9. This amounts to 72.3% of its total €11.2bn in assets under management (AuM). To be classified as Article 8, in addition to SFDR requirements, ODDO BHF Asset Management SAS requires a clear integration of ESG in the investment and portfolio construction processes.

The SFDR classification of mutual funds is constantly updated and accessible online at:

[https://am.oddo-bhf.com/france/en/professional\\_investor/infos\\_reglementaire](https://am.oddo-bhf.com/france/en/professional_investor/infos_reglementaire)

As of December 30, 2022 €5.2bn in assets under management or 46.5% of total AuM have a label.

**Our labelled products as of December 30, 2022**

- ODDO BHF Active Small Cap
- ODDO BHF Euro Credit Short Duration
- ODDO BHF Green Planet
- ODDO BHF Polaris Flexible F
- ODDO BHF Sustainable Credit Opportunities

- ODDO BHF Green Planet
- ODDO BHF Sustainable Euro Corporate Bond



- ODDO BHF Avenir Europe
- ODDO BHF Avenir Euro
- ODDO BHF Génération
- ODDO BHF Green Planet

- ODDO BHF Métropole Sélection
- ODDO BHF Métropole Euro SRI
- Pilotage Sélection Durable

Source: ODDO BHF Asset Management, 2023

These labels have been created to clarify the concept of socially responsible investment (SRI) for investors. Most labels are based on an independent certification guaranteeing the quality and transparency of the implemented processes.

For details on exclusion thresholds and methodology, please refer directly to the information published by the certification agencies concerned:

CLA, Revised Towards Sustainability Qualitative Standard Final Criteria (2021),

[https://www.towardssustainability.be/sites/default/files/files/RevisedQS\\_Technical\\_20210531.pdf](https://www.towardssustainability.be/sites/default/files/files/RevisedQS_Technical_20210531.pdf)

FNG label for sustainable investing funds (2022),

[https://fng-siegel.org/media/downloads/FNG-Label2023-Rules\\_of\\_Procedure.pdf](https://fng-siegel.org/media/downloads/FNG-Label2023-Rules_of_Procedure.pdf)

The official French “ISR” (SRI) label (2020),

[https://www.lelabelisr.fr/wp-content/uploads/Referentiel\\_LabelISR\\_22July2020\\_Modif.pdf](https://www.lelabelisr.fr/wp-content/uploads/Referentiel_LabelISR_22July2020_Modif.pdf)

<https://www.lelabelisr.fr/wp-content/uploads/Guide-dinterpre%CC%81tation-du-re%CC%81fe%CC%81rentiel-du-label-ISR-1er-fascicule-vf.pdf>

All information on the methodology for integrating ESG into these open-ended funds is available in the SRI transparency codes available on our website by selecting the fund in question:

[https://am.oddobhf.com/france/en/professional\\_investor/fundspage](https://am.oddobhf.com/france/en/professional_investor/fundspage)

## 4. Collaborative initiatives

For several years now, ODDO BHF Asset Management SAS has been involved in international and national initiatives to promote ESG integration and stewardship, encourage dialogue on and raise awareness of sustainable investing among various stakeholders, as well as influence issuers to improve their ESG practices. Collaborative engagements are a powerful mechanism for investors to collectively have more leverage and influence on companies.

Our involvement in these initiatives allows us to be part of collaborative engagements to address longer-term sustainability issues and provides material inputs for investment-decision making.

### Memberships & collaborative initiatives

SIGNATORY	MEMBER	SUPPORTER
		
		
		
		
		

Source: ODDO BHF Asset Management, 2023

ODDO BHF Asset Management SAS takes part in several climate-related initiatives, including CDP or Climate Action 100+, and we are supporter of the TCFD. We are also members of other groups focused on specific subjects such as FAIRR on the agro-food sector, the Finance for Biodiversity Foundation on biodiversity, or “l’Institut de la Finance Durable” on the just transition.

## 2° Internal resources deployed by the entity

### *1. Resources dedicated to sustainable investing*

#### **1.1 Human resources**

##### *1.1.1 ESG Experts team*

For many years now, ODDO BHF Asset Management is investing in ESG resources. Today, the team is composed of 6 ESG experts. The team helps producing ESG and thematic research, as well as analytical solutions that promote portfolio managers' understanding and awareness of ESG factors. It is also in charge of our internal ESG rating models and sustainable bonds framework and approval, as well as integrating ESG analyses and climate data into investment processes. The Global Head of ESG Research reports to the CEO of ODDO BHF Asset Management SAS and is a member of the Global Management Committee.

All investment teams work with the ESG Research team in structuring and implementing our sustainable approach to investment. They total 32 fund managers/analysts working for ODDO BHF AM SAS amounting to 26.2% of ODDO BHF AM SAS's full-time equivalents. The ESG Research team sits alongside investment teams.

In 2022, ODDO BHF AM has appointed a Group Head of Sustainability Policy. The main responsibilities of this role are to monitor and understand any new sustainable regulations to help our clients and investment teams to be compliant. This role is key and supported by all our internal capabilities (research, legal, reporting, risk & compliance, and support function teams).

##### *1.1.2 Support function teams*

The Risk & Compliance team is responsible for monitoring sustainability risks. 7 employees are dealing with sustainability subjects accounting for 5.7% of ODDO BHF AM SAS's full-time equivalents.

On the legal side, 3 FTEs oversee sustainability subjects representing 2.5% of ODDO BHF AM SAS's full-time equivalents.

Based on this perimeter, 47 FTEs allow the implementation of the ESG strategy, which amounts to 38.5% of ODDO BHF AM SAS's FTEs.

1.2 Technical resources

The ESG Research team feeds its internal research model with data from company publications (reports, presentations), from external ESG data providers, from external suppliers of raw financial and non-financial data (Bloomberg, FactSet), and from specialized broker publications (including thematic research):

Main external ESG data providers

› <b>MSCI ESG Research</b>	<u>Climate data &amp; metrics</u> <ul style="list-style-type: none"><li>- GHG emissions</li><li>- Temperature alignment</li><li>- Green share</li><li>- Taxonomy</li><li>- Climate VaR</li></ul> <u>Ratings</u> <p>ESG ratings and qualitative research for +10,000 issuers</p> <u>Controversies</u> <p>UNGC, biodiversity or any other ESG controversies</p>
› <b>Carbone4 Finance</b>	<ul style="list-style-type: none"><li>- Biodiversity impact assessment</li><li>- Transition and physical risks assessment</li></ul>
› <b>SESAMm</b>	Partnership leveraging Artificial Intelligence (AI) and Natural Language Processing (NLP) to detect proactively ESG controversies and positive contributions in terms of Sustainable Development Goals (SDG)
› <b>ISS Proxy Voting</b>	Implementation of our Voting Policy and platform for votes

Source: ODDO BHF Asset Management, 2023

Over the past years, ODDO BHF Asset Management SAS has considerably raised its ESG tools and data budgets to support its ambitions in sustainability. Our overall amount allocated to data providers is approximately €600,000. We expect in 2023 to add additional ESG data providers.

## *2. Actions taken to strengthen the entity's internal capacities*

### **2.1 ESG trainings**

The ESG Research team holds regular in-house training sessions open to all employees, with the aim to clarify and better contextualize issues related to sustainability including regulatory developments (SFDR, EU Taxonomy). Following are some examples of trainings:

- The ESG Research team holds quarterly sector reviews focused on key ESG themes and the climate transition. These presentations are prepared and presented collectively with an ESG analyst and an equity and/or fixed income portfolio manager.
- The ESG team holds in-house training sessions (called “teach-ins”) open to all employees, in order to clarify and better contextualize issues of sustainability, market dynamics, new regulations (SFDR, European Union (EU) Taxonomy, Décret 29 in France, Zielmarktin Germany, etc.) and sustainable finance issues.
- To ensure our ESG reporting is understandable and balanced, portfolio managers receive a thorough review of ESG reporting documents.

### **2.2 ESG infrastructure and data/tools**

We have strengthened our ESG infrastructure and systems and developed tools to enhance the support provided to investment teams. Having an ESG platform and ESG data accessible for the investment teams helps in improving ESG transparency and accountability as well as ensure portfolio managers have access to ESG data when making investment decisions. Some examples of improvements include:

- We upgraded our internal ESG platform to better disseminate sustainability-linked information. This includes our portfolio managers and investment analysts having access to the internal ESG platform to be able to see the full details of all ESG analyses completed, in addition to the internal ESG scores being disseminated on the platform AIM Bloomberg which also hosts ESG data from MSCI.
- We have also implemented a new feature in our internal ESG platform to send company news, updates, ESG scoring actions and Sustainable bond approval directly to portfolio managers within ODDO BHF AM.
- New ESG metrics have been disseminated into AIM: ITR, CO<sub>2</sub>....

## 2.3 Enhanced ESG integration

We strengthened the ESG integration in investment processes of several funds. This may include:

- The implementation of a 2-step ESG process supporting investment decisions based on exclusions and MSCI ESG ratings or internal ESG ratings;
- The implementation of selection rules based on MSCI ESG ratings or internal ESG ratings;
- Sustainable investment objective for SFDR Article 9 requirements

## 2.4 Reporting and transparency

We promoted accountability and ownership of monthly ESG reporting by having portfolio managers reviewing and validating their monthly ESG reports.

### 3° Consideration of ESG criteria at the entity's governance level

#### 1. Governance structure

At ODDO BHF Asset Management, we have an ESG proven track record and have established a dedicated governance structure for ESG across the firm that is supported by two Committees: the ESG Strategic Committee, and the ESG Investment Forum.

The ESG Strategic Committee meets on a quarterly basis with the following objectives:

- › Define and validate ODDO BHF Asset Management’s ESG strategy, processes and practices, and response to market developments
- › Discuss new ESG product concepts, tools, and data to improve our ESG approach
- › Contribute to the harmonization of processes and practices across jurisdictions

The committee is composed of the CEO, the Group Co-CIO, the Global Head of ESG Research, the Global Head of Marketing & Products, the Global Head of Sales, the Chief Risk & Compliance Officer, the Global COO, the Head of Private Debt, the Managing Directors of Private Equity.

The ESG Investment Forum is composed of the Group Co-CIO, the investment teams -equity and fixed income portfolio managers and analysts-, the ESG research team, the Global Head of ESG Research, and meets monthly. The committee discusses ESG investment cases (ESG ratings, companies news and controversies), review lists for investment decision making and sustainable debt approval or dismissal, excluded issuers and complex investment cases vs our internal policies.

Both instances are chaired by the Global Head of ESG Research.

All strategic decisions involving sustainability are submitted to the ODDO BHF Asset Management Executive Committee for the approval. The Global Head of ESG Research is a member of ODDO BHF AM & Private Equity General Management Committees. The Group Chief Sustainability & Marketing Officer is a member of the Group General Management Committee and in in charge of Marketing, Communication and Sustainability for all the Group. The Group Head of Sustainability Policy supports teams in implementing sustainable regulation.



## *2. Compensation policy*

Since 2021, the remuneration policy has been adjusted to integrate sustainability risks:

[https://am.oddo-bhf.com/FRANCE/en/professional\\_investor/DownloadSingleDocumentML?Langue=GB&IdSarray=11364&IdSeqArray=1241629](https://am.oddo-bhf.com/FRANCE/en/professional_investor/DownloadSingleDocumentML?Langue=GB&IdSarray=11364&IdSeqArray=1241629)

## *3. Integration of ESG criteria in the internal rules of the Board of Directors*

ODDO BHF Asset Management Board of Directors oversees all cross-functional operational decisions and their follow-up. It steers the ESG implementation and development in the various units in charge.

## 4°Active Ownership Strategy

### *1. Presentation of the active ownership strategy*

Active ownership can be summarized in three ways:

1. Dialogue with companies
2. Individual or collaborative engagement
3. Exercise of voting rights

By using these different actions, we aim to improve invested companies' business practices, foster transparency on environmental, social, and governance issues, and aim to ensure long-term value creation in relation to strategy, risk management and governance. Our active ownership approach is aligned with EFAMA's stewardship code principles.

The perimeter of the companies targeted by the engagement strategy and the description of the approach is summarized in our Shareholder Engagement Policy (incl. ODDO BHF AM Voting Policy). Once a year, we publish a Shareholder Engagement Report describing the results of our active ownership approach. Both documents are available on our website:

[https://am.oddobhf.com/france/en/investisseur\\_professionnel/infos\\_reglementaire](https://am.oddobhf.com/france/en/investisseur_professionnel/infos_reglementaire)

### *2. Investment strategy decisions*

ODDO BHF Asset Management updated its exclusion policy in 2021, to strengthen the exclusion standards of some sectors and to include new ones in the perimeter. Consequently, for investments in the coal industry, we fixed decreasing thresholds to exit from the industry. These thresholds will be lowered to zero by 2030 for EU and OECD countries and by 2040 for the rest of the world. We also added in our exclusion list sectors like tobacco, biodiversity and oil and gas in the Artic.

Moreover, we started a deep review of some emitting sectors (Oil & Gas, Cement, Automotive, Real Estate) focused on the climate transition theme. In our studies, we analyze the main macrotrends and solutions available to decarbonize the sectors as well as highlighting the leaders and the laggards' players. We also organize thematic oriented meetings with the Companies, to get more information and compare

their targets, the reliability of their objectives, but also the investments announced and already deployed. Based on those sector studies, we engage with companies that we consider laggards in the climate transition pathway.

## 5° Information on the European Taxonomy and fossil fuels

### 1. *EU Taxonomy*

- Taxonomy aligned investments based on reported data represent a total of 174 136 126€ or 1,2% and the Taxonomy eligible investments represent 1 823 317 534€ or 12,5% of all ODDO BHF Asset Management SAS AuM<sup>3</sup>.

- Taxonomy aligned investments based on estimated data represent a total of 628 683 452€ or 4,3% of all ODDO BHF Asset Management SAS AuM<sup>4</sup>.

### 2. *Fossil fuels*

- Fossil fuel investments represent 561 365 251 € or 3,5% of all ODDO BHF Asset Management SAS AuM<sup>5</sup>.

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<sup>3</sup> ODDO BHF Asset Management AuM at end 31/12 /2022 when ODDO BHF Asset Management is the Management Company.

<sup>4</sup> ODDO BHF Asset Management AuM at end 31/12 /2022 when ODDO BHF Asset Management is the Management Company.

<sup>5</sup> ODDO BHF Asset Management AuM at end 31/12 /2022 when ODDO BHF Asset Management is the Management Company.

## 6° Strategy of alignment with the international objectives of limiting global warming

### 1. *Our target*

To align our investment strategies with Paris Agreement and SNBC, our strategy and targets are based on three pillars:

1. Decarbonize our open-ended funds
2. Evaluate companies' transition pathway
3. Promote climate solutions

#### 1.1 Decarbonization of our investment strategies

We are currently implementing tools to define and monitor the metrics needed to decarbonize our investment strategies.

Our investment strategies invest across universes that differ widely in terms of carbon. For this reason, we still need to fine tune our targets against the relevant index of each fund. In addition, we still need to select the appropriate baseline year against which the fund will decarbonize.

Moreover, we are currently assessing how to take scope 3 emissions into account. For most sectors, decarbonization is mainly linked to companies' ability to reduce their scope 3 emissions, downstream and upstream and not only limited to the manufacturing process. For the time being, it is still difficult to have comparable data between companies as the way carbon emissions are accounted for may vary and accessing reliable forward-looking data is still challenging. Thus, we have met with several data providers to evaluate their methodologies in order to select the most appropriate provider.

In our 2023 report, we are not able to release our final decarbonization pathway strategy. The roadmap is still discussed and we will be able to disclose it for our next report in 2024.

#### 1.2 Evaluate companies' transition pathway

Since 2017 and as part of the ambition to reach the goals of the Paris Agreement, ODDO BHF Asset Management developed a proprietary Climate Transition Score to assess the progress of each company regarding the global climate situation. As described in section 1° “General approach of the entity”, our

Climate Transition model part of our internal ESG model appraises the quality and ambition of carbon emission reduction targets, determines investments needs toward low-carbon technologies, and estimates regulatory and physical potential risks.

These scores are used by our investment teams to identify leaders and laggards within a sector in the transition to a low carbon economy. For the time being, they only cover our European universe. We expect to extend them to our global coverage by 2024.

### 1.3 Promote climate solutions

We aim to innovate within our fund range to provide our clients low carbon opportunities. We launched several strategies at the forefront of the climate transition such as:

- ODDO BHF Green Planet (article 9 SFDR):  
This global equity fund uses artificial intelligence and quantitative analysis to invest in listed equities worldwide exposed to the theme of the ecological transition via a selection of associated sub-themes: clean energy, energy efficiency, sustainable mobility, and the preservation of natural resources.
- ODDO BHF Green Bond (article 9 SFDR):  
This fixed income fund invests in green bonds from international issuers, as well as sustainability bonds. One of the objective of this fund is to make a positive contribution to climate and environmental protection by financing projects with measurable environmental, climate and social benefits.
- ODDO BHF Artificial Intelligence (article 9 SFDR):  
This global equity fund uses artificial intelligence and quantitative analysis to invest in listed equities exposed to the theme of artificial intelligence while at the same time following a decarbonization trajectory to be carbon neutral by 2050 or earlier.

It is interesting to mention that we have implemented several mandates at the request of our clients, including decarbonization trajectories.

## 2. Methodology

As indicated above, regarding our decarbonization strategy, we are in the middle of the process of defining our targets, which will be available from next year.

In terms of the tools and data we currently have at our disposal, we use our Climate Transition Score to assess the companies from a transition risk/opportunity angle. We also use MSCI carbon data to measure the carbon intensity of our investment strategies on a monthly basis. Indeed, we disclose the weighted average carbon intensity scopes 1+2 of our funds compared to their benchmark every month. We have also recently updated our methodology of carbon intensity calculation. Starting January 31st, 2023, when reported carbon values are unavailable or inconsistent, estimated carbon values are used. The estimations are based on average carbon value (scope 1+2 emissions) of sectoral peers normalized by revenue. The weighted average carbon intensity is computed as follow:

$$\text{Weighted Average Carbon Intensity} = \sum_{i=1}^N \text{weight}_i * \frac{\text{carbon emissions scopes 1 + 2}_i}{\text{revenues}_i}$$

*N* being the total number of companies in the portfolio or benchmark, while *i* refers to a specific company.

The Implied Temperature Rise (ITR) is a tool provided by MSCI that estimates the temperature increase by 2100 if the whole economy was on a warming path similar to that of an issuer. To do this, MSCI compares, on the one hand, sectoral decarbonization pathways with, on the other hand, company's current emissions and targets, to assesses the alignment or misalignment of an issuer and hence deduce the warming implications. For more information, please have a look at the ITR methodology of MSCI available through the following link:

<https://www.msci.com/our-solutions/climate-investing/implied-temperature-rise>

Considering a larger scope regarding climate change, we have an additional module from MSCI: the climate Value at Risk. Mitigating global warming and adapting to the consequences of a changing climate expose companies to transition risks, physical risks, and potential opportunities. MSCI has developed the Climate Value at Risk tool to combine these dimensions and estimate their impact on companies' valuation. For more information, please have a look at MSCI references:

<https://www.msci.com/our-solutions/climate-investing/climate-and-net-zero-solutions/scenario-analysis>

Finally, having a full and accurate picture of all the GHG emissions of an issuer can be challenging, notably for scope 3 emissions. Scope 3 emissions are those from supply chains, product-use and product end-of-life and are very complex to assess for companies themselves. To have a complete and harmonized view of these emissions, MSCI has developed a granular methodology to estimate the full scope 3 emissions of an issuer. These estimations are used to feed their models. For more information on the estimation methodologies of MSCI, please have a look at the link below:

<https://www.msci.com/www/blog-posts/scope-3-carbon-emissions-seeing/02092372761>

### 3. Indicators

In accordance with the requirements of Article 29 LEC, funds and mandates with AuM of more than €500m are included in measuring key performance indicators:

EQUITY	BOND	MULTI-ASSETS
› ODDO BHF Avenir	› ODDO BHF Euro Credit Short Duration	› A.A. Oddo Tactique
› ODDO BHF Avenir Europe	› ODDO BHF Sustainable Euro Corporate Bond	

#### 3.1 Carbon intensity

##### Carbon intensity of main funds and mandates as of 31 December 2022

Fund name	Fund		Benchmark	
	Coverage rate	Weighted carbon intensity	Coverage rate	Weighted carbon intensity
ODDO BHF Avenir	90.9%	43.6	89.9%	106,4
ODDO BHF Avenir Europe	96.5%	35.5	99.0%	127.8
ODDO BHF Euro Credit Short Duration	70.7%	171.0	-	-
ODDO BHF Sustainable Euro Corporate Bond	80.6%	81.1	92.6%	134.5
A.A. ODDO Tactique	100%	67.0	100%	110.9

Source: ODDO BHF Asset Management, MSCI

N.B. for A.A. ODDO Tactique, the computations were made with the new computation rule explained above

### 3.2 Brown share activities

#### Exposure to fossil fuels of main funds and mandates as of 31 December 2022

Fund name	Brown share activities	
	Fund	Benchmark
ODDO BHF Avenir	0%	0.1%
ODDO BHF Avenir Europe	0%	2.0%
ODDO BHF Euro Credit Short Duration	0.9%	-
ODDO BHF Sustainable Euro Corporate Bond	4.2%	7.7%
A.A. Oddo Tactique	7.6%	3.5%

Source: ODDO BHF Asset Management, MSCI ESG Research

### 3.3 Green solutions exposure

#### Green Share exposure of main funds and mandates as of 31 December 2022

Fund name	Green solutions exposure	
	Fund	Benchmark
ODDO BHF Avenir	21.6%	41.1%
ODDO BHF Avenir Europe	24.9%	38.3%
ODDO BHF Euro Credit Short Duration	28.2%	-
ODDO BHF Sustainable Euro Corporate Bond	27.8%	33.7%
A.A. Oddo Tactique	20.8%	16.1%

Source: ODDO BHF Asset Management, MSCI ESG Research

### 3.4 Climate trajectory

#### Implied Temperature Rise of main funds and mandates as of 31 December 2022

Fund name	ITR	
	Fund	Benchmark
ODDO BHF Avenir	2.2	2.0
ODDO BHF Avenir Europe	2.7	2.3
ODDO BHF Euro Credit Short Duration	2.3	-
ODDO BHF Sustainable Euro Corporate Bond	1.9	2.0
A.A. Oddo Tactique	2.0	2.1

Source: ODDO BHF Asset Management SAS, MSCI ESG Research (ITR data as of June 2023)



## *4. Integration into our ESG rating framework*

Without having finalized our global decarbonization trajectory at the entity level yet which will be in place from next year onwards, only some investment strategies have investment constraints regarding their carbon footprint.




For example, one of our open-ended fund selected a Climate Transition Benchmark (CTB), which is progressively reducing its carbon footprint overtime. As a trajectory, the fund commits to have at least a 30% GHG intensity reduction compared to its benchmark as well as a 30% GHG intensity reduction by 2030. The portfolio managers monitor the companies progress in emissions reduction on the 3 scopes by focusing on companies' trajectories certified by the SBTi. If the company's climate strategy is not certified by the SBTi, a carbon footprint threshold is set at 399 tons (Mt) of CO<sub>2</sub>eq./million of revenue.

As mentioned above, the different metrics (Climate Transition Score, carbon intensity, ITR) at our disposal allow to guide our portfolio managers in their investment decisions.

## *5. Impact on our investment strategies*

To comply with the Paris Agreement and the goal to limit global warming to 1.5°C, the share of fossil fuels in the global energy mix must be reduced, given their weight in global CO<sub>2</sub> emissions. To cite one example, the International Energy Agency estimates that thermal coal accounts for about 40% of global greenhouse gas emissions, and coal-fired electricity has a carbon intensity twice as high as that produced by natural gas. To this end, our exclusion policy includes restrictions on coal, non-conventional oil & gas, and exploration and production of both conventional and non-conventional oil & gas in the Arctic region in the common base of exclusions, which, accordingly, apply to all our open-ended funds.

## Fossil fuel related exclusions from the common base of exclusions

Sectors	Exclusion thresholds	Activities	AuM covered by the exclusion criteria
 <b>Coal</b>	>8 millions tonnes ou 5% <sup>1</sup>	Coal mining – EU & OECD : 0% (2030), Rest of the world: 0% (2040)	<i>Common base</i>  <i>&gt;&gt; all AuM<sup>4</sup></i>
	>20% <sup>2</sup>	Power generation - EU & OECD countries: 15% (2024) – 10% (2026) – 5% (2028) – 0% (2030)	
	0	Any company developing new projects involving thermal coal, regardless of the project's size	
 <b>Unconventional oil &amp; gas<sup>3</sup></b>	>5% <sup>1</sup>	Exploration-production & exploitation	<i>Common base</i>  <i>&gt;&gt; all AuM<sup>4</sup></i>
 <b>Arctic exploration</b>	>10% <sup>1</sup>	Exploration-production & exploitation of (conventional & unconventional) oil & gas in the Arctic	<i>Common base</i>  <i>&gt;&gt; all AuM<sup>4</sup></i>

All details in ODDO BHF AM Exclusion Policy.

<sup>1</sup> % of revenues | <sup>2</sup> % of production mix or of installed capacity | <sup>3</sup> Incl. shale oil & gas, oil sands | <sup>4</sup> Except ODDO BHF AIF PLC

Source: ODDO BHF Asset Management, 2023

Regarding coal, ODDO BHF AM adheres to the 2030 exit deadline for EU and OECD countries and the 2040 deadline for the rest of the world. Regarding non-conventional oil & gas, we are determining a timetable and a process for regularly monitoring our progress.

## 6. Frequency of assessment

The frequency of assessment depends on the metric considered. Our Climate Transition scores are reviewed as and when new information are available or at a maximum of 18-24 months. For the carbon intensity, it is reviewed on a monthly basis. The ITR is reviewed on an annual basis.

## 7° Strategy for alignment with long-term biodiversity objectives

### *1. Measuring compliance with the objectives of the Convention on Biological Diversity*

#### **1.1. Biodiversity loss is a systemic risk**

Biological diversity is essential in preserving ecosystem services which are essential for our well-being, development, and economic growth. IPBES identifies 18 ecosystem services under 3 categories - supply services with for ex. food or materials; regulation services with for ex. climate control or water quality; intangible contributions with for ex. creation and maintenance of habitats - that are contributions of nature to people, 14 of which are in decline today<sup>6</sup>.

The destruction of ecosystems is accelerating. 25% of all animal and plant species known to man (about 1 million species) are currently threatened with extinction according to the IPBES<sup>7</sup>, while the WWF reported<sup>8</sup> an average 68% drop of vertebrate species populations worldwide from 1970 to 2016. The causes of this drop include artificialization of land (an estimated 75% of ice-free land 66% of the marine environment have been modified considerably by human activities<sup>9</sup>), overexploitation of resources, climate change, pollution, and invasive species.

The depletion of ecosystem resilience also constitutes a major indirect risk and an aggravating factor in the climate crisis, as natural ecosystems (oceans, soil and forests) are important carbon sinks that sequester about 60% of global anthropic emissions of GHGs<sup>10</sup>; their destruction undermines this property and accelerates the climate crisis, with a feedback loop that is especially hard to stop.

The massive worsening of the quantity, quality and resilience of ecosystem services worldwide poses a primary systemic economic risk. The economic value of biodiversity (via ecosystemic services) is estimated at \$150,000bn annually, or about twice global GDP<sup>11</sup>. Researchers have pointed out the world's

<sup>6</sup> IPBES, *Global assessment report on biodiversity and ecosystem services*, 2019

<sup>7</sup> IPBES, *Global assessment report on biodiversity and ecosystem services*, 2019

<sup>8</sup> WWF, *Living Planet Report*, 2020

<sup>9</sup> World Bank Group, *The Economic Case for Nature – A global Earth-economy model to assess development policy pathways*, 2021

<sup>10</sup> World Economic Forum, *Nature Risk Rising: why the crisis engulfing nature matters for Business and the Economy*, 2020

<sup>11</sup> Boston Consulting Group, *The Biodiversity Crisis is a Business Crisis*, 2021



economies' close dependence on natural capital, particularly in low- or medium-income countries. As much as 50% of global GDP is estimated to depend directly on ecosystemic services and are vulnerable to their depletion.<sup>12</sup> The four value chains – food, energy, infrastructures, and clothing – are estimated to be responsible for more than 90% of the pressure that people exert on biodiversity<sup>13</sup>.

## 1.2 Our strategy

On the 5<sup>th</sup> of June 1992, the Convention on Biological Diversity (CBD) was adopted with three main objectives defined:

1. The conservation of biological diversity
2. The sustainable use of its components
3. The fair and equitable sharing of the benefits arising out of the utilization of genetic resources

Since then, 4 targets have been set on a 2050-horizon with intermediary targets for 2030:

1. 15% improvement in biodiversity (area, connectivity, integrity)
2. Valuation, maintenance, and enhancement of ecosystem services
3. Fair and equitable sharing of benefits from resource use
4. Closing the gap between what is needed and what is available

In 2022, we reviewed the three pillars of our sustainability strategy to improve the integration of biodiversity and better align with the CBD. As for our general sustainability strategy, we adopted a risk-based approach through a double materiality angle when it concerns biodiversity:

1. The environmental materiality meaning the impact of company activities on biodiversity and nature, using natural resources use, soil exploitation, as well as its impact in terms of pollution and indirectly through its impact on global warming (feedback effect)
2. The financial materiality meaning companies' exposure to losses resulting from the declining performance their economic activities or their assets that depend upon biodiversity.

### 1.2.1 Exclusions

We drew up two exclusion lists specific to biodiversity:

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<sup>12</sup> World Economic Forum, *Nature Risk Rising: why the crisis engulfing nature matters for Business and the Economy*, 2020

<sup>13</sup> Boston Consulting Group, *The Biodiversity Crisis is a Business Crisis*, 2021

- 1. The first is based on non-sustainable environmental practices in the palm oil sector including companies that generate more than 5% of their revenues from various activities in the palm oil industry<sup>14</sup> and that violate sustainability principles as defined by certification bodies (e.g. Roundtable on Sustainable Palm Oil (RSPO));
- 2. The second is focused on highly environmentally controversial companies with high negative impacts on biodiversity.

The Exclusion Policy includes other activities, which may negatively impact biodiversity such as coal related ones.



To find out more on these exclusions, go to our Exclusion Policy at:

[https://am.oddo-bhf.com/france/en/professional\\_investor/ad/sustainable\\_investment/1339/publication/1380](https://am.oddo-bhf.com/france/en/professional_investor/ad/sustainable_investment/1339/publication/1380)

1.2.2 Integration

We updated our internal ESG model for corporates in September 2022 and to better define how we address and integrate biodiversity risks and opportunities.

Biodiversity risks and opportunities integrated into our internal ESG model for corporates

<div>DOUBLE MATERIALITY APPROACH</div>			
Direct effects			
› Biodiversity footprint (BIA-GBS)	(1)	› Natural capital risk	(1)
› Use of resources	(2)	› Waste & pollution risk	(1)
› Waste management & pollution	(2)		
Indirect effects			
› Climate change	(7)	› Climate risk	(3)

( ) : number of criteria to score in our internal ESG model for corporates

Source: ODDO BHF Asset Management, 2023

<sup>14</sup> Production, processing, trade, consumer goods based on palm oil.



Companies' impacts on their environment are assessed through 12 criteria, 5 being directly linked to pressures on biodiversity and 7 through indirect effects linked to climate change. Some data points are directly imported from MSCI and supplemented with our own qualitative evaluation.

In May 2022, we signed a partnership with Carbon4 Finance, a supplier of extra-financial data and a specialist in the biodiversity footprint of companies' activities, which developed the BIA-GBS tool in 2021. They provide a biodiversity footprint for 2,550 companies expressed in mean species abundance (MSA). Thus, we established a ranking by sector using the footprint in intensity to decrease a company size bias.

### Use of resources

We capture the risks linked to the main raw materials used such as deforestation or soil erosion as well as a company's water consumption and its location in water stress areas. We assess the policies and processes that are put in place to limit these risks, consider external certifications, judge the credibility of the strategy, and look to understand whether alternatives are considered. Some examples include:

- Water risks: looking at the amount of water consumed (in comparison with similar companies), the location of a company's direct and indirect activities in areas of hydric stress, the existence of an effective strategy for limiting water consumption, setting up circular systems (particularly for cooling systems), and considering the water needs of all stakeholders on a territorial scale, etc.
- Waste management and pollution: we are particularly interested in systems and policies to prevent high impacts as well as the strategy that is adopted and its different targets. For example, we look at waste levels (in comparison with similar companies), strategies to limit toxic waste and plastic use (particularly disposable plastic), waste-recycling rate, reducing percentage of waste sent to landfills, circularity strategy, etc.

### Climate change

Climate change is appraised from two perspectives: the current situation of the company and its transition strategy to align on a 1.5°C trajectory.

The external impacts on the company are evaluated based on 5 criteria. This is more of a qualitative analysis that allows for a better contextualization of the perception of the regulations and the market concerning the company's activity.

### Climate risks and opportunities

For the climate risk, three components are inspected: transition, physical, and regulatory risks:

- Transition risk: The assessment of the good alignment in a decarbonization trajectory thanks to our Climate Transition score combining both quantitative and qualitative factors. We also rely on additional indicators such as the share of issuers with SBTi certification, maximization of revenues aligned with the European Taxonomy or maximization of the "green share" and minimization of the "brown share".
- Physical risks: These are an integral part of climate change risks. The study of their impact on the valuation of assets is indeed necessary. To do so, we rely on MSCI's Climate Value-At-Risk (Climate VaR) impact measurement tool. This tool allows us to measure the potential impact on the valuation of companies.

Companies showing progress by implementing preventive measures may represent some opportunities.

### Natural capital

Depending on the company's operating sector, we could look at the raw material supply risk, the regulatory limits on the use of some specific raw materials, or even at consumer preferences/perception regarding some practices.

Concerning the waste & pollution risk, we may be interested in tightening regulations on the use of plastic, or on chemicals, the countries' infrastructure available for disposing/recycling waste, etc.

### Controversies

Lastly, we set a penalty for environmental controversies ensuring that we follow upon a company's negative impacts on biodiversity with the help of MSCI and the work done by NGOs.

#### 1.2.3 Dialogue & active ownership

As explained above, we structure our active ownership approach in three ways: dialogue with companies, individual or collaborative engagement, exercise of voting rights.

On the first axis, we address biodiversity through different themes as in our internal ESG model. The statistics can be found in our Shareholder Engagement report available on:

[https://am.oddo-bhf.com/france/en/professional\\_investor/infos\\_reglementaire](https://am.oddo-bhf.com/france/en/professional_investor/infos_reglementaire)

A review of the sector materiality matrices has been conducted end 2022. Biodiversity has been flagged for the 18 following sectors and sub-sectors:



- Aerospace & defense
- Automobiles & components
- Chemicals
- Commercial services sub-sector (waste treatment)
- Construction materials
- Consumer discretionary distribution & retail
- Consumer durables & apparel
- Consumer services sub-sectors (hotels, restaurant)
- Energy
- Financials
- Food & staples retailing
- Food, beverage & tobacco
- Metals & mining
- Pharma, biotech & life science
- Real estate
- Semiconductors & semiconductor equipment
- Technology hardware & equipment
- Utilities

Since then, we have addressed biodiversity in our discussions with the companies we met that are exposed to high risks in these sectors.

Regarding individual initiatives, we initiated an engagement with a European chemical company serving different industries globally regarding a long-standing case of a harmful pesticide, suspected of causing serious harm to the survival of bees. Unfortunately, it ended in deadlock with the company maintaining the position that their activity does not interfere with the law. We also started an engagement process with oil & gas majors on their climate transition, covering also issues related to biodiversity. For more details, please refer to our Shareholder Engagement report.

ODDO BHF Asset Management SAS decided to be more active in the field of biodiversity following the rise of European and global initiatives involving a broad range of financial actors. In 2021, we became a signatory to the *Finance for Biodiversity Pledge* and a member of the *Foundation Finance for Biodiversity*.

The Finance for Biodiversity Pledge was launched on 25 September 2020 and now has 126 financial institutions from 21 countries among its signatories. The objective is to protect and restore biodiversity through finance and investment activities. It implies different actions by 2024 at the latest:

- › collaboration and knowledge sharing on the complex issues around biodiversity;
- › engagement with companies to reduce negative footprint on nature by promoting better practices;
- › assessing the impacts of financing and investment activities;
- › setting targets to increase significant positive and reduce significant negative impacts on biodiversity;
- › reporting publicly on the committed financial institutions' contribution to global biodiversity goals.



We also follow up on those initiatives that are the most structural in nature in building a joint methodological framework and tools to measure and monitor biodiversity indicators. For example, we support the work of the Taskforce on Nature-related Financial Disclosures (TNFD), which is developing an overarching framework for disclosing biodiversity risks. We continue to review our engagement in initiatives and join new ones as and when appropriate.

*2. Contribution to the reduction of the main pressures and impacts on biodiversity*

For the time being, establishing clear alignment paths still presents challenges for several reasons.

Firstly, measuring the impact of companies on biodiversity requires the consideration of a multiplicity of variables, in comparison of measuring climate impact of an investment or a portfolio through the carbon emissions or intensity. Thus, it makes it complicated to reduce the measure to a final score or equivalent.

Secondly, the data availability for each of the variables ranges from correct to non-existent, and the expectation of a biodiversity data disclosed by companies in a harmonized way seems very limited for the moment. This is particularly a challenge for fixed income High Yield asset classes and small cap companies for instance.

Thirdly, impacts on ecosystems are more geolocated in contrast to impacts on climate, which are more global. This complicates even more the measurement exercise at a company level.

Finally, the methodologies for measuring the impact on biodiversity vary widely from one provider to the other and not harmonized. We expect improvements through the work of TNFD and SBTn.

Therefore, we set the following targets as a first step to reduce the main pressures and impacts on biodiversity:

Deadline	Target
From now on	Start our newly dedicated engagement plan to biodiversity
By 2024	Disclose the biodiversity footprint of the art. 8-9 SFDR funds into their respective ESG reports.



## 2.1 Dedicated engagement plan to biodiversity

In line with our engagement strategy, we are assessing the biodiversity thematic on two axes: collaborative engagements and individual dialogues with companies.

Together with a group of investors members of the Foundation Finance for Biodiversity, we referred to the report of Rainforest Foundation Norway (2021) assessing the impact of the automotive industry on the deforestation in Brazil, to start a dialogue with few French companies of the automotive sector on that thematic. The aim is firstly to assess the exposure of company's business activities to the leather supply chain, secondly, to look at its policies, monitoring and prevention strategies on deforestation, and finally, to analyze its risk exposure and think about possible best practices that could be implemented into their business activities.

On the individual side, we are defining a benchmark of companies on specific biodiversity metrics with the help of the BIA-GBS data from Carbon 4 Finance. The benchmark is built by sector, considering those that - based our internal materiality map - are the most exposed to natural capital loss. The aim is to engage with companies invested in funds classified SFDR art. 8 and art.9, which are at the bottom of our ranking following our data screening.

## 3. *Biodiversity footprint indicator*

ODDO BHF AM use the Biodiversity Impact Analytics database developed by CDC Biodiversité and Carbon4 Finance. The model is built on a regression using Exiobase and the GLOBIO3 model providing companies' biodiversity footprint in one aggregated metric in MSA (Mean Species Abundance). The model has the following characteristics:

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	› 5 terrestrial pressures
<b>Pressures</b>	› 6 aquatic pressures
	› Marine is not covered yet (2024)

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<b>Time</b>	› Static
<b>accountancy</b>	› Dynamic

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	<div>› Scope 1</div> <div>› Scope 2</div> <div>› Scope 3 upstream (downstream in a case by case)</div>
Value chain	
Metric	<div>MSA (mean species abundance):</div> <div>› It represents the ratio of observed biodiversity to intact biodiversity (optimal baseline without human impact), a measure of the quality of observed biodiversity</div>
Basic indicator	<div>MSA.km2:</div> <div>› The loss of 1 MSA.km<sup>2</sup> = artificialization of 1 km<sup>2</sup> of intact biodiversity</div>
Available indicators	<div><pre>graph LR; A[MSA.km2_aquatic/static] --&gt; B[MSAppb_static]; C[MSA.km2_terrestrial/static] --&gt; B; D[MSA.km2_aquatic/dynamic] --&gt; E[MSAppb_dynamic]; F[MSA.km2_terrestrial/dynamic] --&gt; E; B --&gt; G[MSAppb*]; E --&gt; G</pre></div> <div>Each indicator can be used in intensity (in investment intensity (per b€ of enterprise value) or in revenue intensity)</div>

With these characteristics, BIA-GBS data is aligned with the CBD and other international objectives and can be used to identify the main pressures and impacts on biodiversity to reduce them. First, considering biodiversity realms and time accountancy allows to better capture the different dimensions of an ecosystem. Second, all IPBES pressures are covered except for invasive species, which is planned for the following years. Third, it covers most of the value chain. Finally, the metric is the one used by the IPBES, the CBD, and the IPCC.



More information can be found on Carbon4 Finance's website:

<https://www.carbon4finance.com/product/biodiversity-impacts>

However, we identify two main limits that encourage us to adopt a cautious approach for the moment. Firstly, the marine realm is not covered yet. It is quite difficult to predict the impact on aggregate MSAppb\* scores once it will be available. However, considering that the terrestrial and aquatic impacts are strongly correlated to the size of their respective ecosystems, we could expect an important change in the aggregate score. Secondly, the coverage is still limited even with 2,550 companies compared to our universe of invested companies. Even if the database is progressively expanding, it may not be representative for some portfolios such as for the ones focused on small and medium capitalizations. Therefore, we defined an action plan described in the previous section to gradually tend to a trajectory on biodiversity.

## 8° Consideration of ESG criteria in risk management

### *1. Description of the risk management process*

The ESG Research team is responsible of rating companies, which reflect sustainability risks. Sustainability risks are then managed by the seven-person Risks & Compliance team, which is independent of the management teams and reports directly to the CEO of ODDO BHF Asset Management SAS. The Risks & Compliance team is in charge of analyzing and monitoring the market, liquidity and counterparty risks of the funds managed by ODDO BHF Asset Management SAS, as well as sounding the alert on high ESG risks while handling internal compliance and controls.

The first step in identifying and managing sustainability risks is our exclusion policy. As mentioned above, exclusion rules may vary from one fund or mandate to another, but, at the very least the common base applies. The exclusion lists are drawn up monthly by the ESG Research team and sent to the fund management teams, as well as to the Risks & Compliance team to be implemented in the control system.

The second step in identifying and managing sustainability risks involves our own rules for our Article 8-9 funds and mandates. Examples of these are internal exclusion filters in the areas of a company's human capital and governance, the exclusion of some ratings based on our internal model, an improvement in the portfolio's climate profile or external exclusion filters, based on data from our external provider.

The exclusion lists and ESG selection rules are configured into the Bloomberg AIM pre-trade compliance system. This option is used to apply an exclusion list to funds or mandates and to generate blocking messages before transactions are executed or orders sent to the desk:

- › On a pre-trade basis in Bloomberg AIM (buy-side blocking), based on portfolios in real time;
- › On a post-trade basis via the in-house Sentinel tool (which sends out a reminder in the event of non-compliance), based on accounting inventories.

When there are certain investment limits to be complied with, the managers are informed immediately by the Risks department of any incident or breach of such limits. Corrections are then made in the portfolios as soon as the fund management team is informed of them. For all breaches that have already been processed but not yet resolved, the internal controls team first sends reminders by email. There is also an escalation procedure in place. All proven breaches are reported by email to the managers concerned and to the desk head and are filed in an audit trail. In the event of a persistent breach, the Compliance Committee or, failing that, the Executive Committee, is asked to rule on the matter. To ensure regular



monitoring of the situation, material breaches are reported weekly by email to the Compliance and Internal Controls Department and to the Group Co-Chief Investment Officer.

Even without the use of the aforementioned tools, our ESG analysis platform routinely alerts the fund management teams of any investment in a company with the lowest score (1/5) or deemed to have high ESG risk.

To ensure compliance with these rules and a better understanding of sustainability challenges, there are regular contacts between Risk & Compliance, the fund management teams and the ESG Research team. In the case of Article 8-9 funds, prior to investing in a new company not covered by an ESG rating, the management team in charge of the funds or mandates contacts the ESG analysts to ensure that the issuer in question does not present any material extra-financial risks.

To find out more about our policy on integrating sustainability risks into the decision-making process under Article 3 of the SFDR, please refer to:

[https://am.oddobhf.com/france/en/professional\\_investor/infos\\_reglementaire](https://am.oddobhf.com/france/en/professional_investor/infos_reglementaire)

## *2. Sustainability risks*

- › **Regulatory risk:** Our model captures the regulatory risks of the companies under a double materiality approach, i.e., how the company's practices fit into the regulatory framework, how the company is positioned to anticipate regulatory changes and how stringent the regulation is expected.
- › **Operational risks:** Here we assess the operational risks and the way the companies manage it.
- › **Strategic risks:** They are mostly appraised through the quality of the governance, the executive committee in place but they also include for example the current situation of the labor market (saturation, disfunctions, etc.).
- › **Risks linked to controversies:** Controversy tracking helps us to assess companies' exposure to risks.. In our model, controversies are reviewed on the three pillars, E, S, and G and a penalty is applied to each sub-score according to the severity and frequency of the controversies.
- › **Transition risks:** Transition risks are potential financial impacts, whether positive or negative, resulting from the impact of transforming business models towards a low carbon economy.

- › **Physical risks:** Physical risks are directly linked to the consequences of climate change. Physical risks can directly impact companies through the geographical locations of their operations, as well as indirectly through their supply chains. They can increase operating costs, impact employee productivity, or trigger temporary business disruptions.

In 2022, the ESG Research Team updated its sector materiality roadmap to take into consideration the most recent research on sustainability risks and challenges. The weighting of the internal ESG model for corporates has been adjusted for some sectors.

You can find below an extract of the risk assessment, the associated criteria from our internal ESG model, and some of the sources and/or tools that we use.

Risk	Criteria	Source
<b>Transition risk</b>	<ul style="list-style-type: none"> <li>› Decarbonization strategy</li> <li>› Carbon price</li> <li>› Energy transition strategy</li> <li>› Green CapEx</li> <li>› Product offer</li> <li>› Stranded assets</li> </ul>	<ul style="list-style-type: none"> <li>› Companies' annual/sustainability report</li> <li>› Dialogue with companies</li> <li>› CDP</li> <li>› Bloomberg</li> <li>› MSCI ESG Research</li> <li>› News flow</li> </ul>
<b>Physical risk</b>	<ul style="list-style-type: none"> <li>› Locations of production sites</li> <li>› Locations of suppliers</li> <li>› Type of weather events</li> </ul>	<ul style="list-style-type: none"> <li>› MSCI Climate VaR</li> <li>› Bloomberg</li> </ul>
<b>Biodiversity loss</b>	<ul style="list-style-type: none"> <li>› Type of business activities</li> <li>› Location of business activities and associated risk such as deforestation, water-stressed areas, etc.</li> <li>› Companies' biodiversity policies and preventive measures</li> </ul>	<ul style="list-style-type: none"> <li>› BIA-GBS developed by Carbon4 Finance and CDC Biodiversité</li> <li>› CDP</li> </ul>
<b>Risk of controversies</b>	<ul style="list-style-type: none"> <li>› Policies and risk exposure</li> <li>› Risk management (governance structure)</li> </ul>	<ul style="list-style-type: none"> <li>› MSCI ESG Research</li> <li>› SESAMm</li> <li>› News flow</li> <li>› Dialogue with companies</li> </ul>



### 3. Frequency of review of the risk management framework

The risk management framework is reviewed on an annual basis

### 4. Action plan to reduce sustainability risks

Our ESG strategy at entity level described in section 1 of this document has been structured to reduce sustainability risks during the entire investment cycle.

Pillar	How it reduces sustainability risks
<b>Exclusions</b>	Our Exclusions Policy is structured in two parts. First, a common base of exclusion applies to all open-ended funds managed by the various legal entities operating under the single brand "ODDO BHF Asset Management" apart from some specific products <sup>15</sup> . Second, more specific exclusions may be applied on some products, which align on the investment strategy and philosophy of the product concerned. Reviewed on a monthly frequency, they are directly integrated into the risk and control management tools by the Risk & Compliance team. These rules are controlled on a pre- and post-trade basis.
<b>ESG &amp; Climate Integration</b>	Based on internal ESG scores or external scores from MSCI ESG Research depending on the product's strategy, restrictive investment rules can be implemented for companies with a risky ESG profile. Once again, these rules are controlled by the Risk & Compliance team on a pre- and post-trade basis.
<b>Active Ownership</b>	Our Active Ownership approach represents a key step for reducing sustainability risks. We dialogue with companies to gain a better understanding of the risks and opportunities of our invested companies. We also initiate individual and collaborative engagement with companies when we believe they face significant ESG risks and issues, or they could improve their ESG practices.

All investment rules can be found in the respective product prospectus and transparency codes available on our funds page: [https://am.oddo-bhf.com/france/en/professional\\_investor/fundspage](https://am.oddo-bhf.com/france/en/professional_investor/fundspage)

### 5. Financial impact of the main sustainability risks

As a precautionary measure, we do not yet wish to provide a quantitative estimate of the financial impact of the main sustainability risks. We have access to MSCI ESG Research's Climate VaR module, but due to our cross-asset exposure, we are not yet in a position to provide satisfactory quality and coverage.

<sup>15</sup> As described in the policy available on: [https://am.oddo-bhf.com/france/en/professional\\_investor/GetRequestDocument?Cod-eDoc=PEX&CodPageWeb=FICHE\\_FONDS](https://am.oddo-bhf.com/france/en/professional_investor/GetRequestDocument?Cod-eDoc=PEX&CodPageWeb=FICHE_FONDS)



**ODDO BHF Asset Management SAS (France)**

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