



ODDO BHF
ASSET MANAGEMENT

Sustainable investments methodology

ODDO BHF Asset Management

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I) Regulatory context, perimeter, and eligible assets

A) Regulatory context

SFDR means “Sustainable Finance Disclosure Regulation” (Regulation (EU) 2019/2088)¹. It was introduced in March 2018 by the European Commission (EC) as part of the Action Plan on Sustainable Finance. The SFDR regulation was published officially in December 2019 and applies since March 2021 through “Level 1” requirements. The final report of the Regulatory Technical Standards² adopted in October 2021 specifies the disclosures in terms of sustainable investments percentage for Article 8 and Article 9 in the pre-contractual information, periodic reports, and on the website.

SFDR is not a labeling requirement but is instead a disclosure requirement, asking investors to provide more transparency to support their sustainability claims while requiring investors to self-classify their investment strategies as Article 6, 8, or 9 and particularly funds promoting ESG credentials (Art 8 funds) and those with sustainable investment objectives (Art 9 funds) by setting strict minimum-disclosure standards to prevent greenwashing.

The EU Action Plan and SFDR in particular concern entities in the EU, but also entities outside of the EU wishing to manufacture or sell financial products to EU clients.

Under this regulation, sustainable investment has been defined as:

- a) an investment in an economic activity that contributes to an environmental or social objective;
- b) the investment does not significantly harm any environmental or social objective; and
- c) investee companies follow good governance practices in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

It is worth mentioning that despite this definition from the regulator, it remains relatively unregulated. As a consequence, the methodologies for “Sustainable Investments” qualification differ from one financial institution to another (approach, indicators, data sources etc.).

B) Perimeter

ODDO BHF Asset Management is the Asset Management division of the ODDO BHF Group. It is the common brand of three legally separate Asset Management companies: ODDO BHF AM SAS (France), ODDO BHF AM GmbH (Germany), ODDO BHF AM Lux (Luxembourg). In accordance with the

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

² https://www.esma.europa.eu/sites/default/files/library/jc_2021_50_-_final_report_on_taxonomy-related_product_closure_rts.pdf

Regulation 2019/2088 of 27 November 2019 (“SFDR”), we disclose more information about ODDO BHF AM’s methodology to define and compute sustainable investments across article 8 and article 9 SFDR listed and unlisted products.

This document explains our methodology to define and compute sustainable investments for the following categories of products:

- Article 8 financial products invested in listed assets that have a minimum commitment to sustainable investments in their pre-contractual information
- Article 8 financial products invested in private assets that have a minimum commitment to sustainable investments in their pre-contractual information
- Article 9 financial products invested in listed assets that have a minimum commitment to sustainable investments in their pre-contractual information

It means that Article 6 financial products and Article 8 financial products without any sustainable investments commitment are out of scope.

C) Eligible assets

Our methodology of “sustainable investments” analysis applies at issuer level. For financial products invested in listed assets, direct equity, fixed income, ETFs, and funds are eligible to the sustainable investments methodology. It means that cash, other ancillary assets, sovereign and derivatives are out of scope.

For financial products invested in private assets, only investments in private debt funds and private equity funds are eligible to the sustainable investments methodology. It means that direct investments (equity and debt), cash, other ancillary assets, and derivatives are out of scope for the time being.

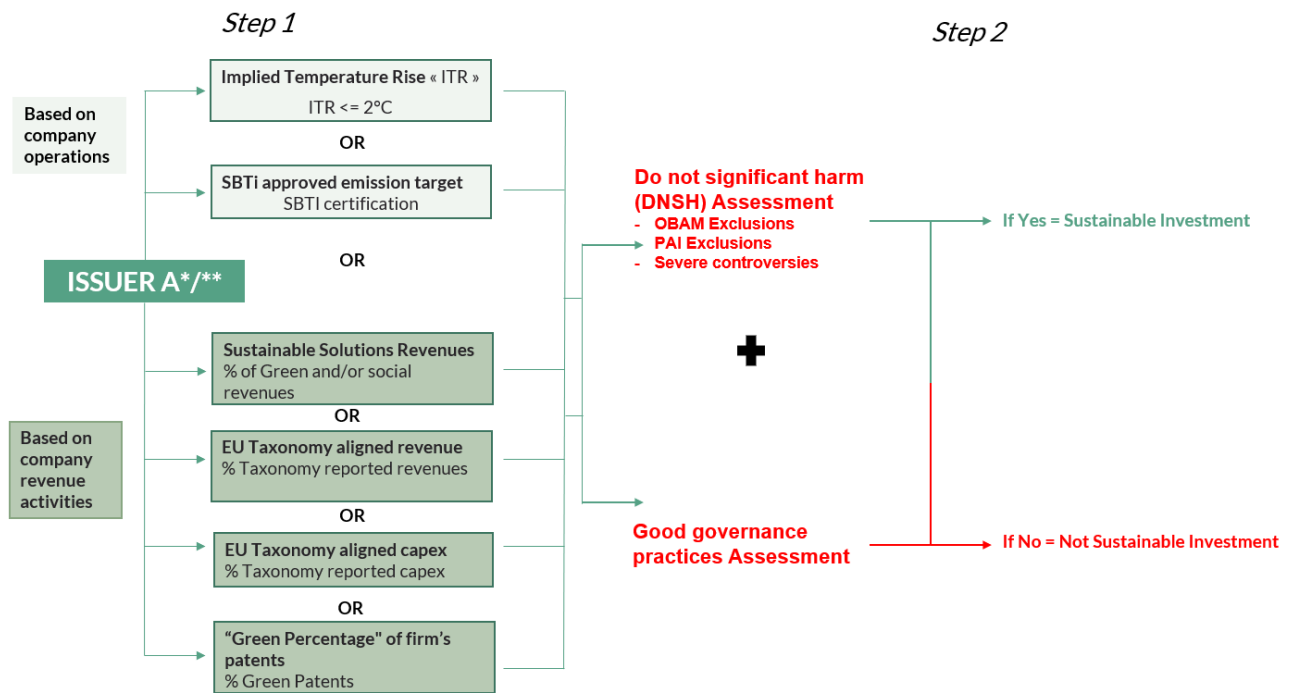
II) Presentation of the methodology

Our proprietary methodology enables us to assess whether an issuer can be qualified as a “Sustainable Investment” according to Article 2 (17) of the SFDR and as such accounted when calculating the funds exposure and when monitoring alignment with fund commitments.

Over the last year, we updated our methodology. As mentioned above, the definition of “Sustainable Investments” states that it is an investment in an economic activity that contributes to an environmental or social objective while not harming other environmental and social objectives and assessing company’s good governance practices. Our new methodology captures both aspects of a company output: it’s positive environmental and/or social output contribution coming from companies’s products and/or services revenues or it’s contribution to environmental and/or social objective thanks to companies’ wide operations when aligned with environmental and/or social targets.



ODDO BHF Asset Management Sustainable Investment Methodology



*Data point for Equities and Fixed Income. Fund of funds, sovereigns, derivatives, and cash are not in the scope of this approach.
** For the time being green, social, sustainability bonds in mainstream fixed income funds are not taken in the calculation of SI due to technical issues. Over time they will be integrated.
PE and PD funds out of this process

A) Sustainable investments for direct listed equity and fixed income investments in Article 8 SFDR investment products

Many ODDO BHF Asset Management investment products classified as Article 8 SFDR have sustainable investment commitments in their pre-contractual information. As a result, ODDO BHF Asset Management has defined its own harmonized approach across ODDO BHF AM SAS (France), ODDO BHF AM GmbH (Germany), ODDO BHF AM Lux (Luxembourg), to compute sustainable investments in direct listed equity and fixed income investments. The methodology to define and compute sustainable investments for listed assets is based on the steps mentioned above. To be eligible as a Sustainable Investment, a company must pass at least one of the criteria mentioned above and detailed below:

Step 1: Pass or Fail test³:

a) Criteria “based on company operations”:

- Implied Temperature Rise « ITR »:
- Company operations for which climate targets initiatives are maintaining temperature rise below or equal to 2°C, in line with Paris Agreement’s pathway of 2°C or below, is considered to contribute to an environmental objective and as such qualify as a Sustainable Investment. We use MSCI ITR data to assess the temperature alignment.
- SBTi approved emission targets:

Greenhouse gas emissions are mentioned as one possibility to measure an environmental objective. Our approach to measuring sustainable investments also includes companies that have their GHG emissions reduction targets approved by the Science-Based Targets initiative (SBTi).

b) Criteria “based on company revenue activities”:

- Sustainable Solutions Revenues:

We assess how an economic activity contributes to specific environmental or social objectives. In that respect we use MSCI “Sustainable Impact Revenue” data field. The “Sustainable Impact Revenue” is between 0% and 100% and represents a specific share of companies’ overall revenue.

- EU Taxonomy aligned revenue:

The EU Taxonomy is designed to identify economic activities that tackle environmental or social objectives. However, only two of the six defined environmental objectives are fully scoped for the time being. For a company, we will use the taxonomy alignment as reported as the percentage of revenue that are generated by taxonomy aligned activities.

- EU Taxonomy aligned capex:

For a company, we will use the taxonomy alignment as reported as the percentage of capital expenditures that are generated by taxonomy aligned activities.

- “Green percentage” of a firm patent:

This indicator helps us to identify companies that derived revenues and held patents on emission-reduction technologies and practices to be contributing to an environmental objective.

Step 2: Do not significant harm (DNSH) and good governance practices

As mentioned in the “sustainable investment” definition described in the Article 2 (17) of SFDR, a “sustainable investment” must follow good governance practices but must not harm significantly other social and environmental objectives (what we call the “DNSH” assessment).

We have defined a DNSH list to gather all companies that are causing significant harm on social or environmental sustainability matters or demonstrating bad governance practices.

³ All data sources are coming from MSCI. The pass or fail test follows a waterfall approach.



- Companies on the exclusion lists defined for the PAI 7 (biodiversity exclusion list), the PAI 10 (UN Global Compact exclusion list), or the PAI 14 (controversial weapons exclusion list)
- Companies with very severe controversies: 0/10 for social and governance, 0/10 or 1/10 for environment according to MSCI

All companies meeting at least one of the aforementioned criteria cannot be considered as a sustainable investment, even if they fulfill criteria as defined in step 1.

The good governance practices control is done through the internal and external ESG rating system (MSCI ESG Research) that we are using as well as the UNGC exclusion list as detailed in our ODDO BHF Asset Management Exclusion Policy.

Computation of the sustainable investments:

Based on the Step 1 and 2 mentioned above, ODDO BHF Asset Management has defined the following rules for sustainable investments computation:

$$\sum_{i=1}^k (\text{investee company's weight in portfolio with } ITR \leq 2^{\circ}\text{C or SBTi Certified})$$

$k = \text{number of companies with } ITR \leq 2^{\circ}\text{C or SBTi Certified and not on the DNSH list}$

$$\sum_{i=1}^n \left(\begin{array}{l} \text{maximum share of revenue of Sustainable Impact Revenue, or Taxonomy revenue aligned,} \\ \text{or Taxonomy capex aligned or Green Patent} * \text{investee company's weight in portfolio} \end{array} \right)$$

$n = \text{number of companies without } ITR \leq 2^{\circ}\text{C or SBTi Certified and not on the DNSH list}$

For Green Bonds Fund:

$$\sum (\text{green, social or sustainability bonds' weight in portfolio})$$

Source : ODDO BHF Asset Management

B) Sustainable investments for fund of funds in Article 8 SFDR investment products

ODDO BHF Asset Management fund of funds that do have a sustainable investment objective compute the share of sustainable investments based on the Article 9 SFDR classification of the underlying funds they invest in . As a result, if an underlying fund is classified Article 9 according to SFDR, the entire weight of the fund (based on the NAV as the denominator) will be considered as a sustainable investment. It means that the portfolio managers of the Article 9 SFDR underlying funds are responsible for being compliant with Article 9 SFDR requirements (e.g., do not significant harm control, good governance practices, clear sustainable investment objectives).

C) Sustainable investments for Private Equity in Article 8 SFDR investment products

Some private equity funds managed by ODDO BHF Asset Management have a sustainable investment objective. Given the fact that our private equity teams are doing primarily primaries, secondaries, and co-investments, we have favored the following approach to compute sustainable investments:

1. We consider only investments in private equity and private debt sub-Funds classified article 9 SFDR as sustainable investments.
2. The entire weight in the article 9 SFDR sub-Funds will be considered as sustainable investments.
3. The managers of the article 9 SFDR sub-Funds are responsible for the respect of all article 9 SFDR requirements (e.g., do not significant harm control, good governance practices, clear sustainable investment objectives).

D) Sustainable investment for direct private equity and private debt investments in Article 8 SFDR investment products

Our direct private equity and private debt investment funds do not have any sustainable investments commitments for the time being.

E) Sustainable investments for direct listed equity and fixed income investments in Article 9 SFDR investment products

Article 9 investment products with an environmental sustainable investment objective

Some Article 9 investment funds have an environmental sustainable investment objective. In this case, they shall apply the following rules:

1. Follow the methodology detailed between page 3 to 5 for the computation of sustainable investments in listed equity and fixed income investments classified as Article 8 SFDR.
2. An additional eligibility list of sustainable investments is determined by the ODDO BHF Asset Management ESG team when the accuracy of the data from MSCI is either not available or



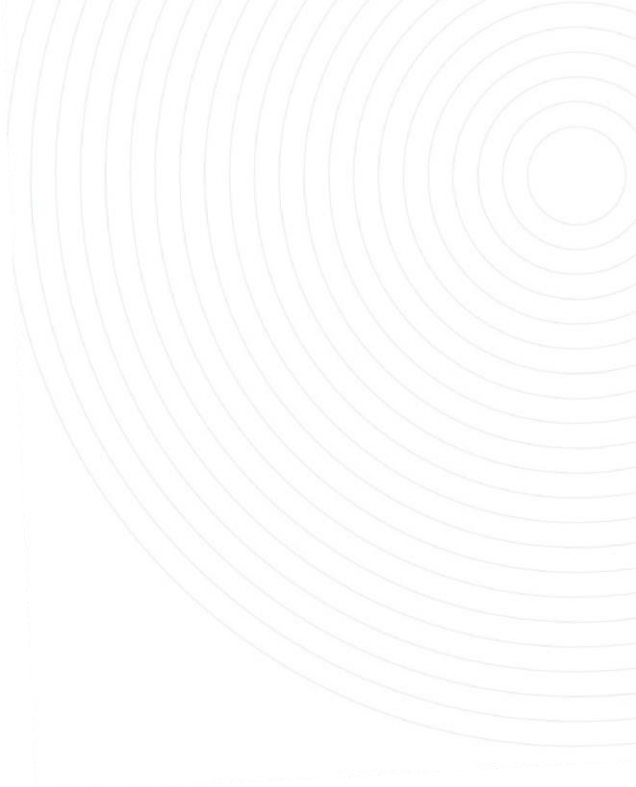
not up to date. As the estimate given by MSCI may not reflect the alignment of the investment with the environmental and/or social sustainable investment objective determined by the Fund, the ESG team defines an eligibility list that should be an exception to the methodology defined in II). Up to 15% of the fund investments can apply this exception.

The ESG team is defining this eligibility list by assessing to what extent eligible companies' revenue align with the environmental objectives set by the concerned investment products (e.g., energy efficiency, renewable energies, sustainable resources, sustainable mobility).

Article 9 investment products with Green House Gases (GHG) emissions reduction as a sustainable investment objective

One Article 9 (3) SFDR investment fund has specifically set GHG emissions reduction as a sustainable investment objective . In this case, it shall apply the following internal rules that are different to those set for article 9 investment products with an environmental sustainable investment objective:

1. All investments shall either be committed to the Science Based Targets Initiative (SBTi), have their targets validated by the SBTi, or display a GHG intensity below 399 (tons/million revenue)
2. All investments meeting the criterion 1) shall not be on the Do Not Significant Harm list and good governance practices defined on page 4 to 5.



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