



ODDO BHF
ASSET MANAGEMENT

Sustainable investments methodology

ODDO BHF Asset Management

SEPTEMBER 2023



I) Regulatory context, perimeter, and eligible assets

A) Regulatory context

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

B) Perimeter

This document explains the 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

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, 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

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

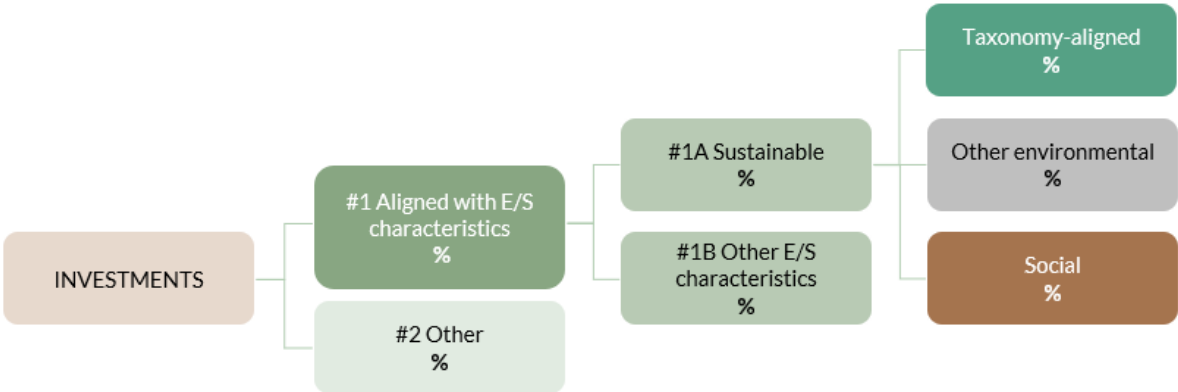
Many ODDO BHF Asset Management investment products classified as Article 8 SFDR have sustainable investment commitments in their pre-contractual information. As a result, ODDO BHF Asset Management has defined its own harmonized approach across ODDO BHF AM SAS (France), ODDO BHF AM GmbH (Germany), ODDO BHF AM Lux (Luxembourg), and METROPOLE Gestion (France) 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 following steps:

1. Attribution of an ESG rating
2. Economic contribution to environmental and/or social objectives
3. Do not significant harm (DNSH) and good governance practices
4. Computation of the sustainable investments share

Step 1: Attribution of an ESG rating

All equity and fixed-income investments have an ESG rating, either internal or external (MSCI ESG Ratings is the provider), before being eligible to the sustainable investments computation. The ESG rating is indeed used as a criterion to demonstrate the promotion of environmental or social characteristics (#1 in the SFDR investments allocation below).

Graph 1: SFDR investments allocation in pre-contractual and periodic information



Step 2: Definition of economic activity contribution to the environmental or social objectives



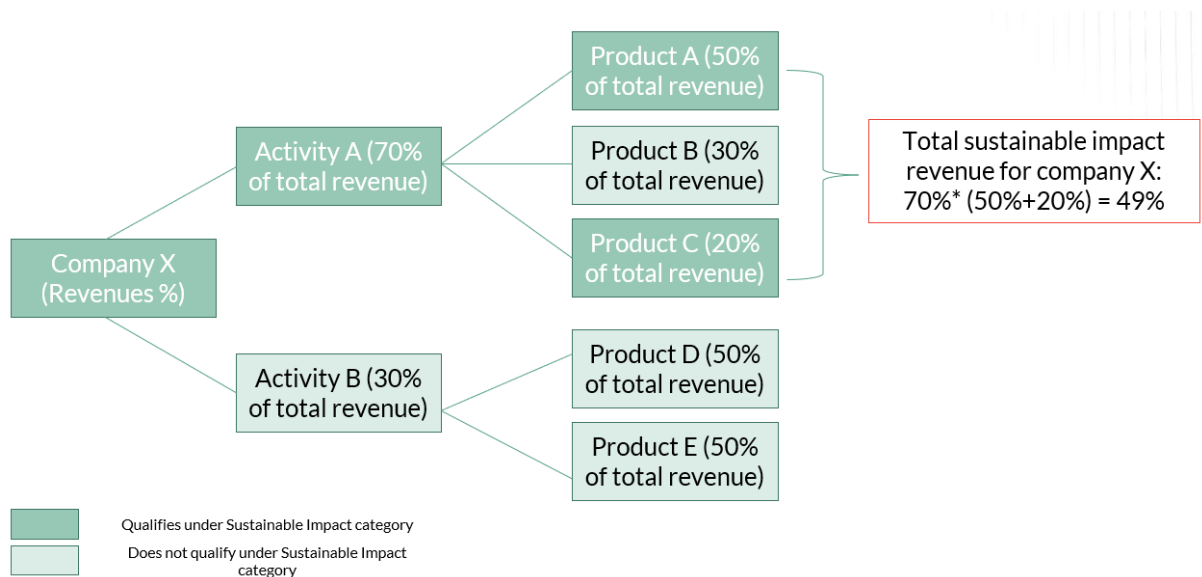
ODDO BHF Asset Management uses the MSCI “Sustainable Impact Revenue” data field to demonstrate that an economic activity contributes to specific environmental or social objectives. MSCI has a dedicated methodological document that explains what the “sustainable impact revenue” data point really covers. In this document published in July 2021, it is said that the following impact categories are considered:

Picture 1

Pillar	Themes	Categories
Environmental Impact	Climate Change	Alternative energy Energy efficiency Green building
	Natural Capital	Sustainable water Pollution prevention and control Sustainable agriculture
Social Impact	Basic needs	Nutrition Major disease treatments Sanitation Affordable real estate
	Empowerment	SME finance Education Connectivity - Digital divide

Source: MSCI (2021)

MSCI analyses how companies’ revenue contribute to the aforementioned impact categories. These categories can be considered as the sustainable investment objectives of the financial products following a sustainable investment objective. The “Sustainable Impact Revenue” is the indicator determining the total contribution to these sustainable investment objectives. The “Sustainable Impact Revenue” is between 0% and 100% and represents a specific share of companies’ overall revenue.



Source : adapted from MSCI (2021)

Step 3: 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). Let’s take the example of a solar company with 80% of its revenue contributing to low carbon energy production. At first sight, that company could be considered as a “sustainable investment”. However, this company is violating human rights along its supply chain and has a bad track-record in terms of corruption practices. As a consequence, the investment in this company cannot be considered as a “sustainable investment” because it violates the DNSH principle.

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.

- 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 have sustainable impact revenue as defined in step 2.

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.

Step 4: Computation of the sustainable investments

Based on the “sustainable impact revenue” data point from MSCI, ODDO BHF Asset Management has defined the following rules for sustainable investments computation:

$$\sum_{i=1}^k \left(\begin{matrix} \text{investee company's} \\ \text{weight} \\ \text{in portfolio} \end{matrix} \right) + \sum_{i=1} \left(\begin{matrix} \text{(green, social} \\ \text{and} \\ \text{sustainability} \\ \text{bonds weight in portfolio)} \end{matrix} \right)$$

k = number of companies with sustainable revenue ≥5% and not on the DNSH list

Source : ODDO BHF Asset Management

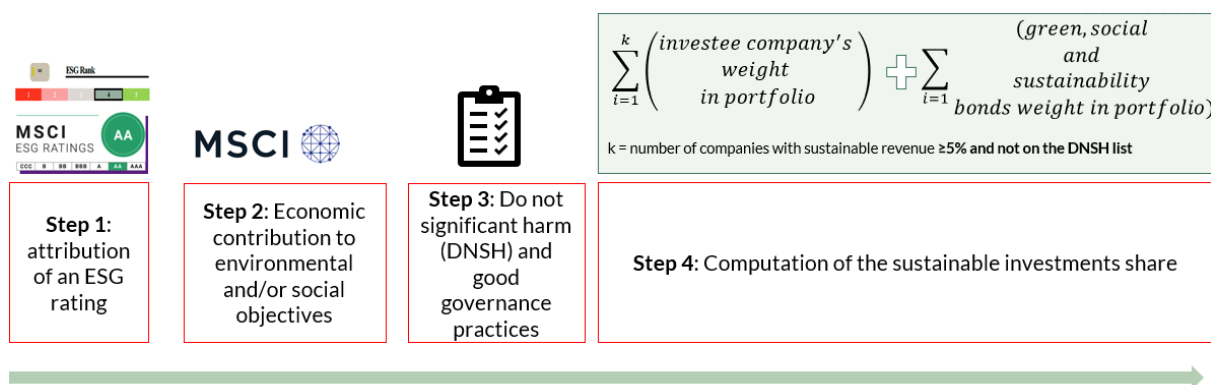
As regards the first component of the formula, if a company has a sustainable impact revenue >=5% AND if the “Do Not Significant Harm” principle is respected (see step 3), then the entire weight of the company in the fund (based on the NAV as the denominator) will be considered as a sustainable investment.

As regards the second component of the formula, if green, social and sustainability bonds are ICMA (International Capital Market Association) compliant, then the entire weight of these bonds in the fund (based on the NAV as the denominator) will be considered as a sustainable investment. It is worth mentioning that the “Do Not Significant Harm” principle should not be done at the level of the bond’s issuer, but at the level of the projects financed by the green, social and sustainability bonds.



Unfortunately, bonds issuers are not sharing enough information to allow investors to perform a “Do Not Significant Harm” analysis at the project level so far. As a consequence, we consider that the alignment with the ICMA principles for green, social and sustainability bonds is sufficient at this stage to demonstrate a “Do Not Significant Harm” status.

Sum-up of the process



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 2 and page 5 for the computation of sustainable investments in direct 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 “sustainable impact revenue” data from MSCI is either not available or below 5% revenue. As the estimate given by MSCI may not reflect the alignment



of the investment with the environmental 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) A). The rationale of this list is to ensure that article 9 investments products with an environmental sustainable investment objective can demonstrate more than 75% of sustainable investments based on the net asset value (NAV).

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 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 defined on page 4

ODDO BHF Asset Management

am.oddo-bhf.com