LA FINANCIÈRE DE L'ÉCHIQUIER

RESPONSE TO SFDR ARTICLE 10

ECHIQUIER AGRESSOR

La Financière de l'Echiquier

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I. Summary

1) Inclusion of E/S characteristics in the investment strategy

'The financial product implements a financial strategy based on investment in equities of all capitalisations, particularly European. It also systematically integrates an extra-financial approach, although this is not a determining factor in investment decisions.

The responsible investment strategy is based on ESG characteristics highlighting the environmental and/or social characteristics promoted by this financial product, such as:

- Reduction of the environmental impact of businesses in terms of air pollution, biodiversity preservation, corporate recognition of environmental hazards and more.
- Improvement of working conditions, employee protection, anti-discrimination and more.

No specific index has been designated as a benchmark to determine whether the financial product is aligned with the environmental and/or social characteristics it promotes.

2) Asset allocation for the product

A minimum proportion of 90% of net assets is allocated to Category 1 investments, i.e., “Aligned with E/S characteristics,” broken down as follows:

- 10% sustainable investments within the meaning of the SFDR,
- 80% investments aligned with environmental and social characteristics: issuers subject to ESG analysis regarding the fund’s investment strategy.

3) Recognition of the main negative impacts of investments, review of international standards and good governance principles

This financial product accounts for the Main negative impacts of its investments on sustainability factors, by means of the 14 mandatory indicators from Table 1 of Annex I to European Commission Delegated Regulation (EU) 2022/1288, and also includes the following two additional indicators: investments in businesses with no carbon-reduction initiatives and investments in issuers with no workplace accident prevention policy. These are factored into the different parts of the management company’s responsible investing approach.

By taking into account the PAI (Principal Adverse Impacts), specifically the use of the following social PAI, this financial product’s investments are compliant with the OECD Guidelines for Multinational Enterprises and the United Nation’s Guiding Principles on Business and Human Rights:

- Violation of the principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises,
- A lack of processes and mechanisms for monitoring compliance with the principles of the United Nations and the OECD Guidelines for Multinational Enterprises.

The policy for evaluating the good governance practices of investee companies is as follows: the Governance score makes up about 60% of the overall ESG score. This is a historic bias of La Financière de l’Echiquier, which has attached importance to this aspect since its creation. This belief is reinforced by the fact that all ESG analyses produced by La Financière de l’Echiquier benefit from a governance rating that is produced entirely in-house.

4) ESG analysis methodology

The specifics of our assessment methodology are as follows:

- It covers the entirety of the Environment, Social and Governance pillars.
- A significant weight is devoted to governance within the ESG rating (approximately 60%) and in particular to the assessment of the management team's competence.
- The Environment and Social scores within the ESG rating are weighted differently for Manufacturing or Services companies.
- We do not standardise our ESG ratings (by capitalisation size, by sector, etc.)
- The weighting given to each sub-theme of the three pillars was determined by LFDE's RI Research team.
- The rating scale ranges from 0 to 10, with 10 being the best score.
- The existence of a controversy penalty in the calculation of the ESG rating. This directly impacts the ESG rating and sanctions controversial companies on ESG aspects.

Irrespective of the financial product in question managed by La Financière de l'Echiquier, the ESG analysis and evaluation methodology for issuers includes the following steps: Preparatory work, ESG Interview (not mandatory), Summary and Assessment. This methodology draws on multiple internal and external resources (companies' public documentation, MSCI ESG Research database) that are used to support our ESG evaluation of issuers.

As part of our ESG assessment, all internal and external data used are always restated using a weighting system for the E, S and G pillars. The Environmental and Social scores obtained by MSCI ESG Research are reweighted in our ESG score. Details of the weightings are provided above in the answer to the Methodologies question.

5) Control mechanism for including E/S characteristics in the investment strategy

The ESG rating coverage rate of stocks in the portfolio must be at least 90% at any time, and the minimum ESG score of each company in the portfolio must be 4.0/10 or higher. Pre/post-trade controls are conducted on the ESG analysis coverage rate and the minimum ESG score. A tool dedicated to monitoring sustainability indicators and controls is currently being developed and will be delivered in early 2023 so that controls can be conducted more frequently. The pre/post-trade controls will then be conducted daily on both indicators.

6) Engagement policy

The managers and analysts dialogue throughout the year with the companies in which they are invested. The sending of progress reports is not systematic but is strongly recommended. The areas for improvement are therefore sent to the companies as much as possible. ESG issues are increasingly regularly discussed with companies through the areas for improvement identified by the managers and analysts during their ESG analyses.

II. No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have a sustainable development objective.

Nonetheless, this financial product aims to invest at least 10% of its net assets in sustainable investments pursuant to the SFDR.

To ensure that the financial product's sustainable investments do no significant harm (DNSH) to an environmental and social objective, La Financière de l'Echiquier has defined a "DNSH" procedure for products with a sustainable investment objective, including:

- Additional sectoral and normative exclusions to the product's non-financial approach (reiterated below) which make it possible to reduce its exposure to social and environmental harm: Tobacco, all types of weapons, non-conventional and non-controversial fossil fuels, gambling, pornography, alcohol, GMOs, palm oil and biocides.
- Consideration of the Principal Adverse Impacts (PAI) of these investments on sustainability factors.

Regarding adverse impacts, this financial product accounts for 14 mandatory indicators from Table 1 of Annex I to European Commission Delegated Regulation (EU) 2022/1288, and also includes the following two additional indicators: investments in businesses with no carbon-reduction initiatives and investments in issuers with no workplace accident prevention policy. These are factored into the different parts of the management company's responsible investing approach: through the exclusion policy (sectoral and normative), ESG analysis methodology, various Impact scores, measurement and monitoring of ESG performance indicators (carbon intensity, ESG controversy scores) as below:

CLIMATE AND ENVIRONMENT

- Scope 1, 2 and 3 greenhouse gas emissions by measuring and monitoring CO2 emissions and equivalents for all scopes (1, 2, 3),
- Carbon footprint, measured and monitored using the Carbon Impact Ratio methodology (ratio of emissions saved to emissions caused),
- Carbon intensity of investee companies (in teqCO2) calculated using the Weighted Average Carbon Intensity (WACI),
- Exposure of investee companies to fossil fuels taken into account in the ESG analysis,
- Portion of the non-renewable energy consumed and produced as taken into account in the ESG analysis,
- Intensity of energy consumption taken into account in the ESG analysis,
- Impact on biodiversity through ESG analysis and measurement of the biodiversity footprint,
- Tonnes of priority substances discharged into water taken into account in the ESG analysis,
- Tonnes of hazardous waste taken into account in the ESG analysis,
- Investments in companies with no carbon-reduction initiatives in the ESG analysis (additional indicator).

SOCIAL, HUMAN RESOURCES, RESPECT FOR RIGHTS INCLUDING HUMAN RIGHTS

- Portion of issuers implicated in a violation of the United Nations Global Compact or the OECD Guidelines for Multinational Enterprises, through the normative exclusion policy and monitoring of controversies by MSCI ESG Research,
- Portion of investments in issuers having no process or mechanism for monitoring compliance with the principles of the United Nations Global Compact or the OECD Guidelines, through the normative exclusion policy and monitoring of controversies by MSCI ESG Research,
- Gender pay gap taken into account in the ESG analysis,
- Diversity on corporate boards as a % of women according to the various laws between the countries and to the level of proactive measures in that area taken by companies, taken into account in the ESG analysis,
- Exposure to controversial weapons (antipersonnel mines, cluster bombs, etc.) taken into account in the sectoral exclusion policy,
- Investments in issuers having no workplace accident prevention policy taken into account in the ESG analysis (additional indicator).

By taking into account the PAI (Principal Adverse Impacts, specifically the use of the following social PAI, this financial product's investments are compliant with the OECD Guidelines for Multinational Enterprises and the United Nation's Guiding Principles on Business and Human Rights:

- Violation of the principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises,
- A lack of processes and mechanisms for monitoring compliance with the principles of the United Nations and the OECD Guidelines for Multinational Enterprises.

Compliance with this PAI is monitored through the normative exclusion policy and monitoring of controversies by MSCI ESG Research.

III. Environmental and social characteristics of the financial product

The responsible investment strategy is based on ESG characteristics highlighting the environmental and/or social characteristics promoted by this financial product, such as:

- Reduction of the environmental impact of businesses in terms of air pollution, biodiversity preservation, corporate recognition of environmental hazards and more.
- Improvement of working conditions, employee protection, anti-discrimination and more.

No specific index has been designated as a benchmark to determine whether the financial product is aligned with the environmental and/or social characteristics it promotes.

IV. Investment strategy

'The financial product implements a financial strategy based on investment in equities of all capitalisations, particularly European. It also systematically integrates an extra-financial approach, although this is not a determining factor in investment decisions.

The following non-financial approach is incorporated into this financial product's investment strategy:

- Sector and normative exclusions filter: Recreational cannabis, Tobacco production, Controversial weapons under the Ottawa and Oslo Conventions, Thermal coal, company subject to controversy considered very severe by MSCI ESG Research (list containing, among other things, the demonstrated violation of one or more of the ten principles of the United Nations Global Compact) and the companies affected by US sanctions "Executive Order 13959."
- ESG rating coverage ratio: The ESG rating coverage of portfolio securities must be always at least 90%.
- The minimum ESG score of each company in the portfolio must be 4.0/10 or higher. To assess the minimum ESG score, many ESG indicators are used as described in the section "Monitoring Environmental and Social characteristics." If an ESG issuer's ESG rating is below this threshold, it is automatically excluded from the investable universe.
- Controversies are monitored using research from MSCI ESG Research and a controversy penalty is applied that may reduce the ESG score by a maximum of 1 point, and may exclude the stock if this causes the ESG score to fall below the minimum (4.0/10). When the stock is not covered by MSCI ESG Research, analysis is conducted internally and a controversy penalty of up to 2 points may be applied. This penalty is only applied in the event of governance controversies. This difference is explained by the fact that MSCI ESG Research incorporates and penalises, directly in its environmental and social ratings, any controversy that an issuer may have on these two dimensions. Also, should LFDE's teams appeal to it, the Ethics Committee has the power to decide to exclude a security from the portfolios if a serious controversy arises in a company held in one or more portfolios.
- The weighted average ESG rating of the portfolio must be greater than or equal to that of its investment universe.
- At least 40% of net assets must be invested in sustainable investments pursuant to the SFDR. To assess the companies' positive contribution to society and the environment, the financial product uses:
  - The three impact scores developed internally by La Financière de l'Échiquier (SDG Score (focus on nine SDGs), Climate Maturity & Biodiversity Score (MCB), the AAAA Score (focusing on access to health)) and
  - A score constructed internally but based on MSCI ESG Research data called "MSCI SDG score.

If the issuer has a sufficient score on one of these four scores, it will be considered that its economic activity contributes to an environmental or social objective. Finally, if none of the four impact scores mentioned above is available for a company (particularly in the case of a company not covered by MSCI), its contribution to the SDGs will be analysed internally using the internal "SI SDG Score" (broader than the SDG Score because it focuses on 17 SDGs instead of nine).

More information on the impact score methodology mentioned above appears below:

- SDG Score: This score defines the net contribution of companies to the SDGs. In our methodology, we measure this contribution based on two scores. First, the Solutions Score, which is based on an analysis of the products and services. Of the 17 SDGs, nine business-oriented SDGs were selected (3, 4 ,6, 7, 8, 9, 11, 12, 16). We mapped activities that make a positive contribution and activities that make a negative contribution for each of them. The allocation of the company's revenue to these activities gives a net Score out of 100. Second, the Initiatives Score, which is based on an analysis of the company's social and environmental practices. The purpose of this score is to value companies' innovative social and environmental practices that contribute to the SDGs and penalise the practices that detract from one or more SDGs. LFDE has mapped these practices for each of the 17 SDGs. For these two scores, a company's contribution to the SDGs is measured against each SDG's targets. The average of the Solutions and Initiatives Scores gives an SDG Score out of 100. Companies must achieve an SDG score of 25/100 and a Solutions Score of 20/100 to confirm that they make a positive environmental and/or social contribution.

- Climate and Biodiversity Maturity (MCB) Score: This score determines the level of maturity of companies in taking into account the climate and biodiversity issues they face and will face in the future. The MCB score is composed of 3 or 4 pillars (Governance, Climate, Biodiversity, Just Transition) depending on the impact of the company on biodiversity, to which is added a penalty linked to environmental controversies. Companies must obtain a minimum MCB score of 40% to ensure that they are taking climate change and biodiversity decline seriously in their strategy and therefore making a positive environmental contribution.

  AAAA Score: This score defines a company's contribution through its products and services to at least one of the four dimensions of access to health (Availability, Geographical Accessibility, Financial Accessibility, Acceptability) inspired by the work of the World Health Organisation (WHO) on the subject. At least 20% of a company's revenue must contribute to at least one of the four dimensions without significantly harming these issues (Do No Significant Harm). Companies must achieve an AAAA Score of 20% and pass the DNSH filter to confirm that they make a positive social contribution.

- MSCI SDG Score: This score, developed internally using MSCI ESG Research data, identifies companies that contribute positively through their products and services and/or their operations to the achievement of at least one of the 17 SDGs. This contribution is measured using three scores ("PRODUCT", "OPERATIONAL", "NET") provided by MSCI ESG Research. Each of these scores ranges from -10 to +10. To determine the positive contribution to at least one of the 17 SDGs, the company must validate two steps. Firstly, it must have between 10% and 25% of its turnover contributing to an SDG ("PRODUCT" score greater than or equal to +5, considered as aligned or very aligned according to MSCI) and/or have its operations considered as aligned or very aligned with the achievement of this same SDG ("OPERATIONAL" score greater than or equal to +5 according to MSCI). On the other hand, the average of these two scores (NET Score according to MSCI) must be greater than or equal to +2.5 in order to ensure their positive environmental and/or social contribution.

- SI SDG Score: This score helps define the net contribution of the companies to the SDGs. It is constructed in the same way as the SDG Score presented above, except that the Solutions Score covers all 17 SDGs (instead of nine). Companies must achieve an SDG score of 25/100 and a Solutions Score of 20/100 to confirm that they make a positive environmental and/or social contribution.

The policy for evaluating the good governance practices of investee companies, as it applies to sound management structures and tax compliance, is as follows: the Governance score makes up about 60% of the overall ESG score:

- Governance:
  - Management team skills:
    - For the chief executive officer: industry legitimacy, track record, managerial capacity, leadership and structure of the compensation scheme.
    - For the executive committee: composition, diversity, relevance of the functions represented and CSR engagement.
  - Checks and balances: sources of checks and balances within the board, anticipating the CEO's succession, matching of director profiles with the company's needs, gender diversity on the board, geographical diversity, availability and involvement of directors.
  - Respect for minority shareholders: benefits for the company to be listed, anti-takeover mechanisms and financial reporting transparency.

    Evaluation of ESG risks: ESG risk identification and management, anti-corruption and responsible taxation, quality of reporting and CSR discourse and progress on ESG issues.

This is a historic bias of La Financière de l'Echiquier, which has attached importance to this aspect since its creation. This belief is reinforced by the fact that all ESG analyses produced by La Financière de l'Echiquier benefit from a governance rating that is produced entirely in-house.

As detailed below, governance controversies are analysed during the ESG analysis of companies, which can result in a penalty of 1 to 2 points applied to the ESG score.

In terms of employee relations and pay, these topics are assessed using the Responsibility score (40% of the ESG score) and the Social score, which is weighted according to the type of company being analysed:

- For Manufacturing companies: the social and environmental criteria are equally weighted within the Responsibility score.
- For Services companies: the social score represents 2/3 of the total Responsibility score whereas the Environmental score represents 1/3.

V. Proportion of investments

The asset allocation planned for this financial product is as follows:

- The proportion of "#1 Aligned with E/S characteristics" investment is at least 90%.
- Investments included in the subfund's "Other" category represent up to 10% of investments.

Investments in the category "#1 Aligned with E/S characteristics" include, at least:

- 10% sustainable investments within the meaning of SFDR.
- 80% other E/S characteristics: issuers subject to ESG analysis regarding the fund's investment strategy.

As to the proportion of sustainable investment:

- The minimum share of sustainable investments with an environmental objective that are not aligned with the EU taxonomy is 100%.
- At this time, the minimum share of investments in transitional or enabling activities is 0% of net assets.

- At this time, the financial product may invest in environmentally sustainable economic activities; nonetheless, this financial product's investments do not consider the European Union criteria on environmentally sustainable economic activities. The financial product is committed to 0% alignment with the European Taxonomy.
- At this time, the methodology for calculating sustainable investments does not accurately identify the sustainable investments that only meet social objectives.

Investments included in the "Other" category of the sub-fund represent up to 10% of the investments and are:

- Forward financial instruments (derivatives) traded on regulated or organised markets, to expose and hedge the portfolio,
- Cash and cash equivalents,
- Unrated issuers.

Derivatives, cash and unrated issuers do not provide environmental or social guarantees.

VI. Monitoring of environmental or social characteristics

For this financial product, the research on environmental and social criteria is carried out with the support of MSCI ESG Research, which has its own analysis framework. Their criteria are adapted to the sector and the challenges of each of the companies analysed. In the absence of MSCI ESG research available on certain companies, the analysis of environmental and social characteristics is then internalised in its entirety.

The main sustainability indicators used to measure the achievement of each of the environmental or social characteristics promoted by the financial product are the following:

- Environment:
  - Policy and actions: the existence of an environmental roadmap (with precise and time-dated objectives that enable progress to be measured), the choice of performance indicators for this roadmap, the level of the company's commitment to its environmental objectives, the environmental actions implemented to achieve the objectives set, the existence of an environmental management system and a policy for protecting biodiversity.
  - Results: the company's communication on the results of its action plan (results presented over a long period and progress), evolution of the main environmental ratios (water consumption, CO_2 emissions, energy consumption, waste production and treatment of waste including plastics, use of chemicals, etc.) and investments made to reduce the company's environmental impact.
  - Suppliers: their exposure to environmental risks, the complexity of the supply chain, dependence on suppliers, monitoring of suppliers and helping them improve their practices.
  - Environmental impact of products: positive or negative environmental impact of products, eco-design approach, existence of product life cycle analyses, circular

economy, green share of the company’s annual revenue and management of the end of product life.

- Social:
  - Employee loyalty & development: attractiveness of the employer brand, capacity to recruit, employee satisfaction, employee loyalty policy, career management, training policy and employee retention potential.
  - Employee Protection: anti-discrimination policy, diversity, health and safety protection for employees, respect for union rights, promotion and quality of social dialogue and support for employees in the event of restructuring.
  - Suppliers: their exposure to social risks, the complexity of the supply chain, dependence on suppliers, support provided to improve practices and supplier monitoring.
  - Product social impact: for the customer and the company (see avoided costs) and product accessibility.
  - Relations with civil society: the company’s philanthropic approach (including skills-based philanthropy), relations with local communities, customer satisfaction and participation in financial sector CSR initiatives.

Furthermore, for this financial product, we track several ESG performance indicators.

Also, as part of this financial product, we track an environmental performance indicator: Induced Emissions Intensity for all scopes of the financial product (compared to its benchmark) according to Carbon4 Finance's WACI (Weighted Average Carbon Intensity) methodology. The calculation method used is described in the LFDE Transparency Code.

As detailed in the question "Investment strategy for products with environmental or social characteristics", the ESG rating coverage rate of the securities in the portfolio must be at least 90% at all times and the minimum ESG rating of each company in the portfolio must be greater than or equal to 4.0/10.

These indicators are monitored pre-trade and/or post-trade:

- Coverage on ESG analysis: A pre-trade check is performed as an alert (not a block) for this financial product which cannot exceed a certain threshold of unrated securities. For this financial product, a maximum of 10% unrated issuers is authorised. The alert warns the fund manager that they are attempting to place an order on a security that has no ESG rating. A daily post-trade check is also performed which covers any excess liability.
- ESG ratings: Post-trade monitoring is carried out each month on the weighted average ESG score of the financial product and is compared to that of its investable universe, whose score is calculated every six months.

A tool dedicated to monitoring sustainability indicators and controls is currently being developed and will be delivered in early 2023 so that controls can be conducted more frequently. The pre/post-trade controls will then be conducted daily on both indicators.

VII. Methodologies

Our methodology is used to attribute each issuer an ESG rating on a scale out of 10. This score is broken down as follows:

- Governance: The Governance rating represents approximately 60% of the overall ESG rating.
- Environmental and Social: Environmental and social criteria together constitute the Responsibility score. How the latter is calculated depends on the type of company involved:
  - For Manufacturing companies: the social and environmental criteria are equally weighted within the Responsibility score.
  - For Services companies: the social score represents 2/3 of the total Responsibility score whereas the Environmental score represents 1/3.
- An ESG controversy penalty is considered and directly impacts the ESG rating.

<u>The specifics of our assessment methodology are as follows:</u>

- It covers the entirety of the Environment, Social and Governance pillars.
- A significant weight is devoted to governance within the ESG rating (approximately 60%) and in particular to the assessment of the management team's competence.
- The Environment and Social scores within the ESG rating are weighted differently for Manufacturing or Services companies.
- We do not standardise our ESG ratings (by capitalisation size, by sector, etc.)
- The weighting given to each sub-theme of the three pillars was determined by LFDE's RI Research team.
- The rating scale ranges from 0 to 10, with 10 being the best score.
- The existence of a controversy penalty in the calculation of the ESG rating. This directly impacts the ESG rating and sanctions controversial companies on ESG aspects.

Irrespective of the financial product in question managed by La Financière de l'Echiquier, the ESG analysis and evaluation methodology for issuers includes the following steps:

- Preparatory work: The ESG analysis of issuers begins with a document review phase using all the internal and external resources described in this document. This preliminary analysis is guided by our proprietary assessment matrix covering all ESG aspects detailed above. For this financial product, fund managers and analysts mainly focus on analysing corporate governance, with environmental and social dimensions analysed with the support of MSCI ESG Research.
- ESG interview: The ESG interview is not a mandatory part of the process for this financial product. It will be conducted at the discretion of fund managers and analysts. However, to increase their knowledge about the companies, they are also encouraged to address the most important ESG topics during the numerous company meetings throughout the year. The areas of improvement for companies, which managers and analysts systematically draft after each ESG analysis, help to feed these exchanges. In the event that certain stocks in the investment universe are not covered by MSCI ESG Research (mainly small cap companies), it is common for this interview to take place within the framework detailed above.
- Summary and Assessment: At the end of the preparatory work and/or the ESG interview, a summary of all the information obtained is produced. It allows us both to draw up a qualitative report on our analysis, to monitor the company over time and to carry out a quantitative

assessment so as to define the issuer's ESG rating in question. Since 2007, this latter assessment has been produced using a proprietary matrix for evaluating companies based on three established pillars: Environment, Social and Governance.

VIII. Data sources and processing

As part of our responsible investment approach and in order to achieve each of the environmental or social characteristics promoted by the financial product, we use a combination of internal and external resources to conduct our issuer ESG assessment. Our analyses are fed by our regular meetings with company management and their long-term support through our shareholder engagement approach. The use of non-financial rating agencies is complementary to our internal analytical work.

Multiple external resources are used to support our ESG evaluation of issuers, such as:

- Reading the company's public documentation (annual reports, CSR reports, etc.)
- Consulting brokers or NGO reports
- Reading press articles
- Visits to companies and meetings with various executives (chief executive officer, chief financial officer, head of human resources, quality manager, chief environmental officer, legal officer, etc.)
- Subscription to MSCI ESG Research, which allows us to access the ESG profiles of numerous companies, and is of particular use for our E and S pillar ESG ratings, and E, S and G controversy monitoring.
- Subscription to ISS governance research, which provides us with a detailed report on each investee company at its Annual General Meeting period.
- Subscriptions to Gerson Lehrman Group and Third Bridge, for more in-depth knowledge of specific subjects
- Subscription to OFG research on governance, for additional insight on the quality of the boards of directors of French companies
- Subscription to Capital Iq, for corporate governance and other information
- The Carbon Disclosure Project (CDP) environmental data platform
- The Global Coal Exit List published by German NGO Urgewald.
- Subscription to the C4F Analytics platform of Carbon4 Finance,
- The ENCORE biodiversity data platform
- The UN Global Compact Database

To guarantee data quality, we ensure that the methodological consistency of each of the external methods used to complete our ESG assessment. Meetings with non-financial data providers are held regularly in case there are specific questions about data quality or methodology. In addition, whenever possible, we compare the data used to achieve each of the environmental or social characteristics promoted by the financial product between the different external data sources available to us.

As part of our ESG assessment, all internal and external data used are always restated using a weighting system for the E, S and G pillars. The Environmental and Social scores obtained by MSCI ESG Research are reweighted in our ESG score. Details of the weightings are provided above in the answer to the Methodologies question.

Likewise, reprocessing can be done by applying an ESG controversy penalty which may vary by 1 to 2 points based on whether MSCI ESG Research is used on the environmental and social criteria.

With regard to the proportion of estimated data, our ESG rating model is based above all on qualitative data when research is 100% internalised. With regard to MSCI ESG Research on environmental and social criteria, we do not have enough information to assess the share of data that are estimated.

IX. Limitations to methodologies and data

The methodological limitations of the ESG approach primarily pertain to the reliability of non-financial data published by the issuers and the subjective nature of the rating applied by the management company.

The corporate SRI analysis approach used by La Financière de l'Echiquier is based on a qualitative analysis of the environmental, social and governance practices of these operators. Several limitations can be identified, in connection with the management company's methodology but also, more broadly, with the quality of available information on these topics.

Indeed, a major portion of the analysis is based on qualitative and quantitative data shared by the companies themselves and is therefore dependent on the quality and availability of this information. Although continuously improving, the companies' ESG reporting is still piecemeal and uneven.

To make its analysis as relevant as possible, La Financière de l'Echiquier focuses on the points most likely to have a concrete impact on the companies under review and on society as a whole. These key challenges are defined on a case-by-case basis and are not, by definition, comprehensive.

Lastly, although the objective of the management company's analysis methodology is to integrate prospective items to ensure the environmental and social quality of the companies in which it invests, it is still difficult to anticipate controversy, which may cause it to revise its opinion on the ESG quality of an issuer in the portfolio after the fact.

X. Due diligence

La Financière de l'Echiquier has implemented a due diligence controls plan to ensure that the financial product managed in accordance with their ESG rules.

Internal control features:

- Responsible Investment Research Team: The RI Research team is mainly responsible for ensuring that fund managers comply with the ESG analysis methodology and ESG management rules. Its role is to assist the fund management team members on the respect of these constraints. In addition, its awareness and rigour when assigning ESG ratings to issuers aims to avoid any non-compliance. The RI Research team provides the investment team with various tools to help them manage the ESG performance of their portfolios ex-ante.

- Pre-trade controls: Pre-trade controls are performed by our Order Management System software, which fund managers use to place orders to buy or sell the securities in fund portfolios:
  - Exclusions: For all funds managed by La Financière de l'Echiquier, a pre-trade control is carried out to ensure that portfolios comply with the sectorial and normative exclusion rules set for each fund. MSCI ESG Research provides us with the list of issuers to be excluded, except for thermal coal issuers, the list of which is provided by the German NGO Urgewald (see the Global Coal Exit List). These lists are integrated into our Order Management System (OMS), which automatically blocks the purchase of any security on these lists. The Internal Control team updates MSCI ESG Research's list quarterly and Urgewald's list annually. If a security in the portfolio becomes non-investable under the applicable sector and normative exclusion rules, a roadmap for investment will be agreed with the fund manager and the internal control team, within a reasonable time and in the best interest of investors. Under no circumstances may the portfolio increase its position in this security.
  - ESG ratings: for this financial product, this pre-trade control takes the form of an alert (and not a block). This alerts the manager if he wishes to place an order on a security that does not have a sufficient ESG rating or that does not have an ESG rating. This difference in pre-trade control is linked, at this stage, to technical implementation difficulties. In addition, a pre-trade alert is put in place for these same financial products which must not exceed a certain threshold of unrated securities. threshold of unrated securities. For this financial product, a maximum of 10% of unrated issuers is authorised.

  Post-trade controls: They are performed by using our Portfolio Management Software (PMS), which monitors the portfolios daily. The PMS helps to identify any breaches in the previous controls. If non-compliance is detected, the PMS immediately alerts the Middle Office and Risk teams. After analysing the alert and if the non-compliance is confirmed, an alert is sent directly to the relevant fund managers with copy to the relevant Internal Control department. Should the fund managers not take corrective action, an escalation process will be implemented. The CIO will be informed of the situation as well as, if necessary, the executive committee.
  - ESG ratings: ESG ratings are checked daily to ensure they do not fall below the minimum ratings set for the fund portfolios. Furthermore, the daily checks allow us to highlight the issuers in portfolios whose ESG ratings do not respect the minimum rating required following an update. In the case of issuers that have been downgraded following an update of ESG rating, the fund manager can no longer strengthen the position of security in question and has a period from 6 to 12 months maximum to divest the entire position, in the best interest of the holders.

External control/audit measures:

In June 2018, all La Financière de l'Echiquier's responsible investment activities (internal processes, reporting and external communications) were audited by KPMG, subsequent to the outsourcing of the management company's periodic control tasks. These controls revealed no significant anomalies, and the areas of improvement identified were addressed by the RI Research team.

In July 2019, as part of its obligation to monitor the management company, BNP Paribas Securities Services (the main custodian of our funds) conducted a thematic assessment on SRI management. Its objective was to ensure that our commitments on responsible investment matched our internal organisation. At the end, all the items analysed were satisfactory and no recommendations were made.

The controls cited above are not recurring and are conducted on a sporadic basis.

XI. Engagement policies

In 2013, we formalised our engagement approach based on the monitoring of the ESG progress of the companies in which we are invested. This enables us to prioritise companies that are committed to improvement, in accordance with the Best Effort approach.

For this financial product, the managers and analysts dialogue throughout the year with the companies in which they are invested. The sending of progress reports is not systematic but is strongly recommended. The areas for improvement are therefore sent to the companies as much as possible. ESG issues are increasingly regularly included in their discussions with companies through the areas for improvement identified by the managers and analysts during their ESG analyses.

In addition to the individual engagement approach with companies, La Financière de l'Echiquier has initiated a collaborative engagement approach in 2019, alongside other players such as management companies, for example. Several initiatives have been joined, enabling us to address issues with companies that are more difficult to tackle individually. You will find details of the initiatives in which we have participated in the Transparency Code and in our report on the exercise of voting and engagement rights.

At La Financière de l’Echiquier, managing issuers’ ESG controversies is part of our engagement policy. They are managed by our teams, with the support of MSCI ESG Research, as follows:

- For the initial ESG analysis of companies: Since 2017, our ESG analysis methodology has included a controversy penalty in the calculation of the ESG rating. This directly impacts the ESG rating. This allows us to sanction more directly companies that we consider deserve to have their ESG rating reduced following one or more significant controversies. In addition, the history of the company’s ESG controversies will impact our vision of the company on all three ESG pillars. For this financial product, the maximum penalty is 1 point and only sanctions governance controversies. This difference is explained by the fact that MSCI ESG Research incorporates and penalises, directly in its environmental and social ratings, any controversy that an issuer may have on these two dimensions.

- For subsequent monitoring of investee companies: A daily monitoring of the ESG controversies of companies in our portfolios is carried out by our teams with the support of the research from MSCI ESG Research. For this purpose, a controversy alert system has been set up on the MSCI ESG Research platform to directly notify fund managers and investment teams when a new ESG controversy on a security is detected and/or if a controversy situation significantly improves or deteriorates. After establishing a dialogue with the company to determine its level of severity, a significant controversy involving a company will have a direct impact on its ESG rating. If the controversy occurs while the issuer is already present in our portfolio, its ESG rating will be lowered. If the ESG rating falls below the eligibility threshold (4.0/10 for this financial product), it will be removed from the portfolio within one month, in the best interest of investors.

- By the Ethics Committee: LFDE's Ethics Committee is at the core of its responsible investment approach. Created in 2018, its aim is to address the controversial issues (at company and sector level) that come before us both internally and externally. The committee can rule on a given case but has an additional responsibility to demonstrate to the different stakeholders of La Financière de l'Echiquier (clients, employees, etc.) that we act conscientiously on all these issues. This committee is a forum for discussion. Its debates and conclusions are shared through reports, within our community, on a dedicated platform. It allows us to progress collectively towards better risk management and to safeguard our reputation. The Ethics Committee meets at least once a year to review the list of securities and sectors excluded from La Financière de l'Echiquier as well as on a case-by-case basis according to needs. The committee may meet at the request of any LFDE stakeholder if said request is deemed legitimate by the RI Research team. Ethics Committee meetings are generally held to define exclusion lists, to address a client question or a serious controversy involving a portfolio company, or to consider investment in a highly controversial company. If the Ethics Committee decides not to maintain a position in a portfolio, the fund manager has up to two months to exit the position, in the best interest of investors.

XII. Designated reference benchmark

The financial product has no designated reference benchmark that is aligned with the environmental and/or social characteristics that the product promotes.