LA FINANCIÈRE DE L'ÉCHIQUIER

# SFDR POLICY

Article 4 - Principal adverse sustainability impacts statement

## La Financière de l'Echiquier

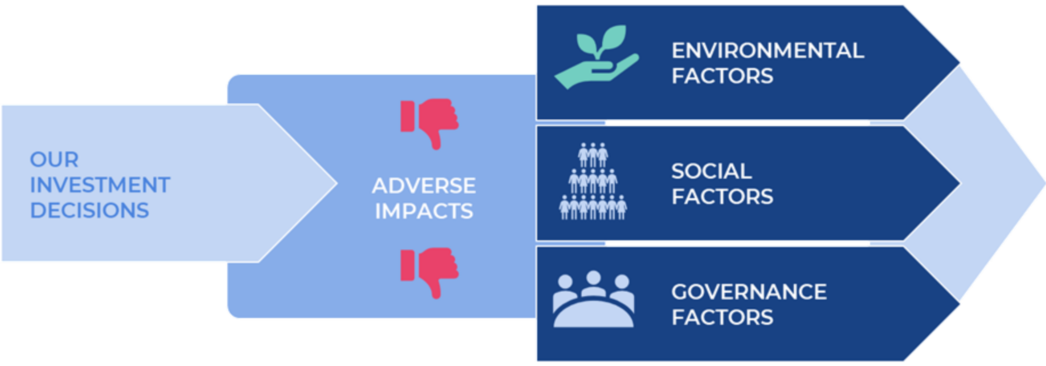
# INTRODUCTION

Since the Paris Climate Agreements and the announcement of the European Commission's action plan for Sustainable Finance, awareness is growing about environmental – particularly climate change – social and governance issues. This is changing the traditional view of finance, with a shift towards more responsible finance.

Against this backdrop, EU Regulation (EU) 2019/2088 the *Sustainable Finance Disclosure Regulation* (SFDR), came into effect on 10 March 2021. It aims to make up for the lack of harmonised rules within the European Union on reporting sustainability information. Intended for end investors, the required disclosures should make it possible to compare the non-financial characteristics and performance of different financial products.

Faced with this new regulatory challenge, La Financière de l'Echiquier (LFDE) – a long-standing responsible investment operator – is fully committed to responding to these new challenges and obligations with regard to sustainable finance. As part of our responsible investment policy, we monitor the reduction of negative risks in our investment decisions also referred to as the "principal adverse sustainability impacts".

Adverse sustainability impacts were introduced by the European SFDR regulation and are defined as negative effects on sustainability factors that may be caused, to a greater or lesser extent, by investment decisions and that are material or likely to be material - affecting environmental matters, social and employee matters, respect for human rights, and anti-corruption matters.




The purpose of this document is to supply information on our responsible investment process and policies to identify, prioritise and mitigate such adverse impacts in our investment decisions.

Adverse impacts are dealt with differently in our investment decisions based on the increasing integration of non-financial criteria to funds' management. La Financière de l'Echiquier acts as a responsible investor in three product categories:

1) **[IMPACT INVESTMENT]**: These funds are based on an "impact" management process, significantly incorporating non-financial criteria. These products also pursue one or more sustainable investment aims. With this type of fund, our aim is to maximise the positive environmental and social impact of each of our investment decisions.

   These funds comply with SFDR article 9 and are also systematically labelled as SRI funds, with at least the French government's SRI Label.

2) **[SUSTAINABLE CONVICTIONS]**: These funds are characterised by an investment process that significantly incorporates non-financial criteria. In this case, analysing non-financial criteria has a material impact on which companies we select for the portfolio. Analysis is used to better identify risks and identify new investment opportunities.

   These funds comply with SFDR article 8 and are also systematically labelled as SRI funds, with at least the French government's SRI Label.

3) **[ESG INTEGRATION]**: For the rest of our directly managed funds, our approach consists of taking account of Environmental, Social and Governance criteria in our investment management. Analysing non-financial criteria, in particular corporate governance, helps us identify ESG best practices and better assess the risks to which companies are exposed. Non-financial criteria have a non-significant influence on which instruments are selected.

   These funds comply with SFDR article 8.

Article 4 of the SFDR: This document represents our response to Article 4 of the SFDR and sets out how the principal adverse sustainability impacts are identified, prioritised and considered in our investments.

Scope: The scope of this document includes all investment vehicles managed by La Financière de l'Echiquier (open-ended funds and institutional discretionary management mandates), dedicated funds, funds managed using allocation strategies, discretionary wealth management for private banking customers and investment advisory. Of the quantitative strategies, investors are reminded, in accordance with SFDR Article 6, that the Africa investment theme and funds of funds do not incorporate ESG criteria and do not therefore monitor principal adverse sustainability impacts.

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## 1. DESCRIPTION OF PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

As part of our responsible investment policy we have identified a number of adverse impacts on sustainability factors related to our activities.

The identification process complies with the list of mandatory sustainability indicators published by European authorities under the SFDR. The following description of adverse impacts covers not only the list of mandatory indicators but also includes other additional indicators (in blue in the table below).

The adverse impacts addressed in this document fall largely into two major themes:

- Adverse impacts related to the Environmental theme, including Climate change
- Adverse impacts related to the Social theme, including Human resources, respect for rights including human rights.

The table below shows details of the adverse impacts we have identified, and the indicators we use to measure them. Each of these is addressed by a corresponding mitigation policy defined in our responsible investment process. The main ways we seek to address each are also detailed in the table and part II of this document.

| PRINCIPAL ADVERSE IMPACTS | INDICATORS | TERMS FOR CONSIDERATION |
|---|---|---|
| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | |
| x Greenhouse gas (GHG) emissions | . Scopes 1, 2 and 3 GHG emissions<br>. Total GHG emissions | x Measuring and monitoring of CO2 emissions for all scopes (1, 2, 3) |
| x Carbon footprint | . Carbon footprint | x Measuring and monitoring the carbon footprint of funds using the Carbon Impact Ratio methodology (ratio of emissions saved to emissions induced) |
| x Carbon intensity of investee companies | . Carbon intensity | x Measuring and monitoring the carbon intensity of funds using the WACI (Weighted Average Carbon Intensity) methodology<br>x Commitment of outperform our SRI-labelled funds on this indicator |
| x Exposure to companies active in the fossil fuel sector | . Share of investments in companies active in the fossil fuel sector | x ESG analysis (Environment > Product environment impact)<br>x Exclusion of fossil fuels for certain SRI-labelled funds (threshold of 5% of turnover) |
| x Share of non-renewable energy consumption and production | . Quantity of renewable energy production<br>. Share of renewable energy consumed in total energy consumption | x ESG analysis (Environment > Policies and actions) |
| x Energy consumption | . Energy consumption in GWh per million euros of turnover | x ESG analysis (Environment > Policies and actions, Results) |
| x Impact on biodiversity | . Share of investments in companies whose sites/operations are located in or near biodiversity-sensitive areas and whose activities have a negative impact on these areas | x ESG analysis (Environment > Policies and actions)<br>x Climate and Biodiversity Maturity Score<br>x Biodiversity footprint |
| x Water consumption | . Water consumption, per million euros of turnover | x ESG analysis (Environment > Policies and actions, Results) |
| x Hazardous waste | . Tonnes of hazardous waste, per million euros of turnover | x ESG analysis (Environment > Policies and actions, Results) |
| x Investments in companies without carbon emission reduction initiatives | . Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement | x ESG analysis (Environment > Policies and actions, Results) |
| SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | |
| x Violations of UN Global Compact principles | . Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises<br>. Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | x Exclusion of companies in violation of United Nations Global Compact |
| x Unadjusted gender pay gap | . Diversity policies<br>. *Gender Pay Gap* | x ESG Analysis (Social > Employee protection) |
| x Board gender diversity | . Percentage of women on the Board | x ESG Analysis (Governance > Check and balances) |
| x Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons) | . Share of investments in investee companies involved in the manufacture or selling of controversial weapons | x Exclusion of controversial weapons for all our funds (threshold of 0% of turnover) |
| x Investments in companies without workplace accident prevention policies | . Share of investments in investee companies without a workplace accident prevention policy | x ESG Analysis (Social > Employee protection) |

For further information see the following documents:

- Transparency Code AFG-FIR
- Climate Strategy
- Exclusion Policy (including Carbon Policy)
- Voting and engagement policy

They are freely available on our website under Responsible Investment, To find out more, LFDE Documents.

# 2. DESCRIPTION OF POLICIES TO IDENTIFY AND PRIORITISE PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS AND GOVERNANCE ISSUES

This section summarises our policies on the identification and prioritisation of adverse impacts. We also explain the limits we have encountered and give details of the responsible investment governance processes at LFDE and the role of the different governance bodies.

## 2.1. IDENTIFICATION AND PRIORITISATION OF ADVERSE IMPACTS

Identifying and prioritising adverse impacts is key to our Responsible Investment policy. Not all adverse impacts require the same level of attention. We have identified three levels of response:

- **Application of a sector and normative exclusions screen**

Our sector exclusion policy consists of removing from our investment universes companies that generate a significant proportion of their revenues in sectors that are considered controversial due to their adverse environmental and/or social impact.

Furthermore, on a normative basis, we exclude the most controversial companies (identified by MSCI ESG Research), in particular those guilty of violating one or more of the ten principles of the United Nations Global Compact.

A set of exclusions shared by all funds managed by LFDE. Additional exclusions apply to Sustainable Convictions and Impact funds. These are set out in LFDE's Transparency Code.

- **Selectivity screening through ESG analysis**

This screen consists of reducing the fund investment universe on the basis of Environmental, Social & Governance (ESG) criteria. This process works differently depending on the degree to which ESG criteria are taken into account within the funds. It is systematically based on a high coverage rate of ESG ratings of companies in the portfolio, as well as the application of a minimum ESG score.

[ESG INTEGRATION] For funds managed on the basis of an ESG Integration approach, La Financière de l'Echiquier's approach to taking account of ESG criteria is based on three main commitments:

- The ESG rating coverage rate of stocks in the portfolio must be at least 90% at any time.
- The weighted average ESG performance of funds must exceed that of their investment universe at any time.
- The minimum ESG score of each company in the portfolio must be 4.0/10 or higher.

[SUSTAINABLE CONVICTIONS] [IMPACT INVESTMENT] For funds in both categories, ESG research - in particular issuers' ESG scores - plays a particularly important role in putting together portfolios:

- The ESG rating coverage rate of stocks in the portfolio must be at least 100% at any time for Equity funds and 95% for Bond and Multi-Asset funds.

- The minimum ESG score of each company in the portfolio must be 5.5 to 6.5/10 or higher, depending on the fund. This minimum threshold for ESG scores depends on the non-financial objective set for the fund, as well as the ESG quality of its investment universe.
- The exclusion policy and the minimum ESG score of the fund should allow for the exclusion of at least 20% of its investment universe – in keeping with the specifications of the French government's SRI Label.

Funds in the [IMPACT INVESTMENT] category apply a more demanding selectivity process, by adding an additional screen for corporate impact, based on dedicated proprietary methodologies.

Furthermore, for funds that are compliant with SFDR articles 8 and 9 must, no later than 1 January 2023, provide ex-ante information to investors about taking account of the adverse impacts using various environmental and social indicators defined by the regulator.

- **Management of adverse impacts**

This stage consists of measuring and managing the adverse impacts of our investments, including:

- Carbon intensity: We report on our funds' carbon intensity compared to their benchmark index) using WACI (Weighted Average Carbon Intensity) methodology. This choice is consistent with the implementation of La Financière de l'Echiquier's Climate Strategy. This indicator, recommended by the TCFD, allows us to cover the three scopes for greenhouse gas emissions, align our practice with that of the sector and manage this negative impact. As a holder of the French State SRI Label, we undertake that any SRI labelled funds outperform their benchmark index on this indicator.
- Carbon footprint: We also report the carbon impact ratio (CIR), which is the ratio of emissions saved (avoided + reduced) to total emissions generated. This indicator is measured by Carbon4Finance (C4F) to estimate the contribution of a company's business to climate change challenges. The higher the CIR, the greater the company's contribution to the transition to a low-carbon economy. For a given company, a CIR above 1 means the company's business avoids more greenhouse gas emissions than it causes.
- Biodiversity: As biodiversity protection is an integral part of the fight against climate change, we decided in 2021 to strengthen the integration of this dimension in our investment decisions. We therefore integrated the biodiversity theme into our proprietary "Climate and Biodiversity Maturity Score". The biodiversity element of this score is based on the greater or lesser impact of each industry on this theme and allows us to measure the company's impact on biodiversity.
- Biodiversity: Since 2021, we have reported the biodiversity footprint of part of our portfolios. We do this using C4F data which measures a company's biodiversity impact according to the MSAppb indicator per billion euros invested. We will be reporting this indicator for the all our funds by end-2023 at the latest.
- Controversy score: We report on the global exposure to controversies of companies in our portfolios. The controversy score - from 0 (worst) to 10 (best) - is provided by MSCI ESG Research. This governance indicator allows us both to identify the risk exposure of the companies we invest in and recognise examples of good governance, investing in companies where good governance and managerial excellence inspire social and environmental initiatives.

For further information on the sector and normative exclusion policy and the ESG analysis process please refer to our Transparency Code, available on the La Financière de l'Echiquier website: Responsible Investment, To find out more, LFDE Documents – Approach and Methodologies. These policies were valid as of the most recent update to this document, see page 3.

Our first report on the major adverse impacts will be published by 30 June 2023 covering a period from 1 January 2022 to 31 December 2022.

### 2.2. LIMITS ON OUR ADVERSE IMPACT PROCESS

Our policy for taking account of adverse impacts described above has a number of limits, which break down into four headings:

- Selection bias: The European supervisory authorities ask asset management companies to select two additional indicators relating to adverse impacts under the SFDR, in addition to the 14 mandatory indicators. The choice of these optional indicators may be influenced by selection bias caused by the quality or availability of data.

- Prioritisation: Adverse impacts may change over time and an issue which might not have been considered material to a company may quickly become important. The level of prioritisation given to adverse impacts identified is therefore not static and can change over time. The information above therefore reflects our current grading level for adverse impacts at the publication date of this policy.

- Availability of information and methodology: At the moment, there is as yet only limited data available on how companies account for these adverse impacts. This prevents us from anticipating all the potential negative impacts of our investment decisions on sustainability factors. Also, for some adverse impacts there are currently no reliable data available. The methodologies offered by different non-financial rating agencies also vary, which makes it hard to get harmonised data. Given this lack of maturity in data and methodologies, our approach is to adopt a continuous improvement process.

- Maturity of companies: European supervisory authorities ask asset management companies to track 14 mandatory and 2 additional indicators for measuring adverse impacts under the SFDR. However, at the moment, the investee companies in our portfolios cannot provide satisfactory results for all our indicators. This may impair the level of maturity with which they consider these adverse impacts in their non-financial policies and the resources they can deploy in response.

### 2.3. GOVERNANCE AND DEDICATED HUMAN RESOURCES

The systems for taking account of adverse impacts are monitored and controlled by our internal teams on multiple levels:

- LFDE management team: Responsible investment is supported by the LFDE Management Committee, which is composed of the CEO, the Deputy CEO & Chief Investment Officer, the

Deputy CEO in charge of Retail Development, the Corporate Secretary, the Head of Marketing and Communications, the Chief Operating Officer, the Chief Compliance Officer and the Business Development Manager, French Institutional Investors & Key Accounts.

- Responsible Investment (RI) Research team: La Financière de l'Echiquier has a dedicated RI Research team of four people: the head of RI Research and three SRI analysts who perform ESG analyses on companies and assist the investment team. This team is in charge of supporting all investment management teams in taking account of adverse impacts in our funds.

- Dedicated impact investment team: Our investment team includes a team dedicated to the impact investment theme, responsible for management of funds in the [IMPACT INVESTMENT] category, backed by the RI Research team. These funds make use of impact analysis methodologies developed for the Impact funds: "SDG score" and "Climate and Biodiversity Maturity Score".

For further information on our policies for identification and prioritisation of adverse impacts and our governance, please refer to our Transparency Code, available on the La Financière de l'Echiquier website: Responsible Investment, To find out more, LFDE Documents – Approach and Methodologies.

## 3. ENGAGEMENT POLICIES AND ESCALATION PROCEDURE IF PERFORMANCE ON IDENTIFIED ADVERSE IMPACTS FAILS TO IMPROVE

Our engagement policy for dealing with the adverse sustainability impacts above, particularly unmitigated adverse impacts, is of key importance.

### 3.1. SHAREHOLDER DIALOGUE WITH INVESTEE COMPANIES

At La Financière de l'Echiquier, shareholder votes and engagement are two ways we can help attenuate the adverse impacts of our investee companies.

Voting is an integral part of our responsible investment approach, and in particular, our goal to be a responsible shareholder. In 2018, we undertook to vote on a systematic basis for all our funds, regardless of the percentage of capital or voting rights we hold. We therefore look closely at any resolutions that may prove unfavourable to the interests of the company or of the minority shareholders, as well as resolutions of an environmental and social nature.

In addition to this policy for voting at general meetings, La Financière de l'Echiquier has also practised for a number of years an approach of engagement with the companies in which it invests. This approach takes the form of bilateral dialogue and sharing areas of progress with investee companies, recommendations that are followed up over the long term.

Our engagement process seeks to support companies in improving their ESG practices, particularly on adverse impacts (see Section 3. B). Where there is a failure to improve on issues we consider material, we apply an escalation procedure that can ultimately lead to the company being divested (see Section 3. C).

In 2019, La Financière de l'Echiquier strengthened its engagement with collaborative engagement systems, alongside other players such as asset managers. We have signed up to several initiatives that allow us to discuss with companies themes that are more difficult to address individually.

Each year, La Financière de l'Echiquier publishes the results of its exercise of voting rights and engagement in a dedicated report. This educational and illustrative document highlights all our shareholder dialogue efforts with companies throughout the life cycle of our investments. It also allows us to track companies' developments relative to the areas of progress shared with them.

## 3.2. ESCALATION PROCEDURE

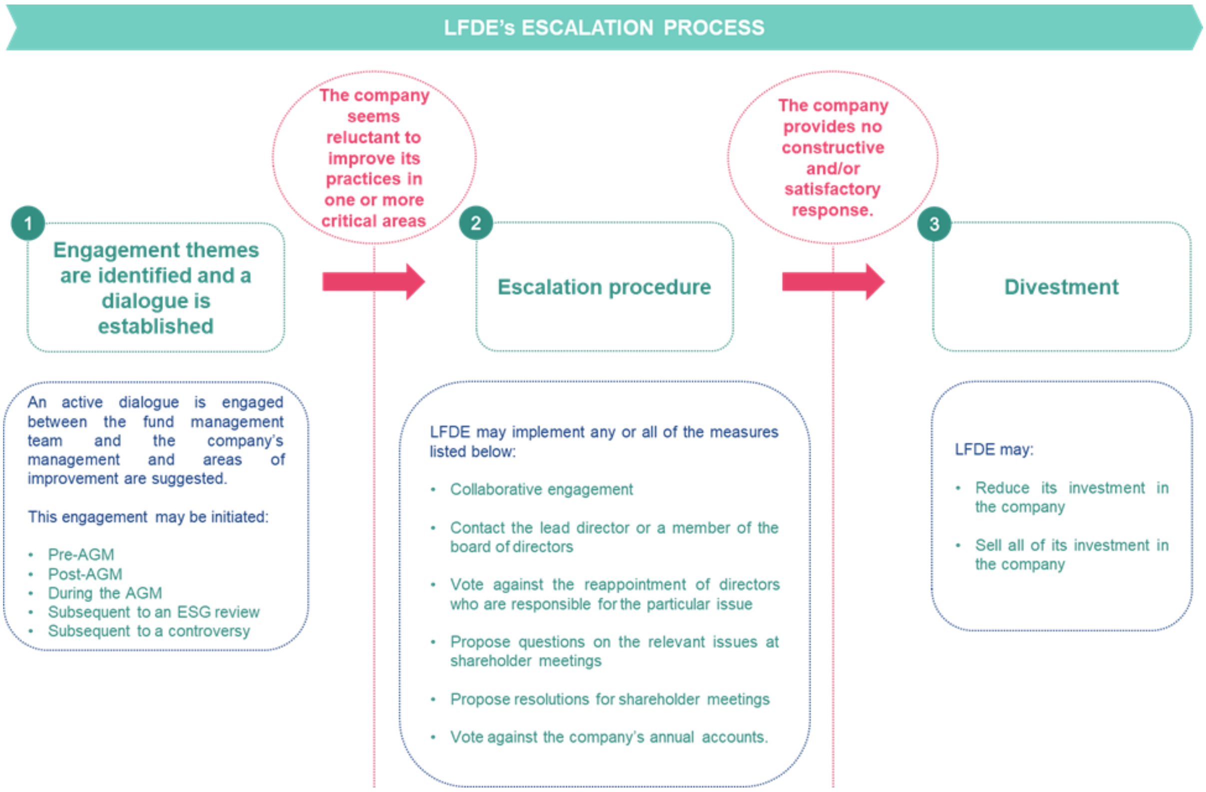
It may happen that some companies do not engage with a positive process on certain adverse sustainability impacts which our investment management team nonetheless consider critical, despite our engagement. LFDE will then invoke the escalation procedure described below, which sets forth the various engagement actions which fund managers and analysts may undertake, and which go so far as divestment if unsuccessful.

LFDE's escalation procedure has three stages:

1. Engagement themes are identified and a dialogue is established: Fund managers and analysts begin by initiating an active dialogue with the company's management and providing areas of improvement on the SRI themes on which the company is expected to make progress over the short or medium term.

2. Escalation procedure: If the company is reluctant to change its practices on the most critical issues, the fund manager or analyst can insist on the importance of these issues by adopting a more "activist" approach.

3. Reduction and Divestment: If the escalation measures fail to bring about a positive change in the company's practices and we consider that we have not obtained a constructive and satisfactory response, as a responsible investor we may partially or even completely divest our investment in the company, in the best interests of our clients.




Further information on our voting and engagement policy is available on our website under: Responsible Investment, To find out more, LFDE Documents – Voting Rights and Engagement.

## 4. REFERENCES TO INTERNATIONAL STANDARDS AND ALIGNMENT WITH PARIS AGREEMENT

### 4.1. REFERENCES TO INTERNATIONAL STANDARDS

When considering adverse impacts, La Financière de l'Echiquier relies on the United Nations Sustainable Development Goals (SDGs) and the body of international agreements and standards, including:

- The ten principles of the UN Global Compact,
- The OECD principles of corporate governance,
- The OECD guidelines for multinational enterprises,
- The universal declaration of human rights,
- The UN Guiding Principles on Business and Human Rights,
- Children's Rights and Business Principles,
- International Labour Organisation (ILO) fundamental conventions,
- The United Nations Declaration on Environment and Development,
- The United Nations convention against corruption,
- The Oslo and Ottawa conventions on cluster munitions and anti-personnel mines,
- The Paris Climate Agreement.

These agreements and standards provide us with a frame of reference for analysing respect for rights by the companies we invest in. Companies responsible for serious controversies including companies in violation of one of the ten UN Global Compact principles are excluded from all our funds. Our investments favour companies that comply with the undertakings under Paris Climate Agreement with the object of progressively aligning our portfolios with the Agreement.

Besides signing up to these international standards, La Financière de l'Echiquier is a stakeholder in a number of major generalist, environmental/climate-related and/or social initiatives which fit with our responsible investor process and policy. We are members of the UN PRI (Principles for Responsible Investment), the AFG (French Asset Management Association), FIR (Responsible Investment Forum) and GIIN (Global Impact Investing Network). For further information on our participation in initiatives, see the Transparency Code on our website under “Responsible Investment”, “To find out more”, “LFDE Documents”.

Since early 2019, La Financière de l’Echiquier has increased its participation in market initiatives and thematic working groups (UN Sustainable Development Goals, SRI labels, impact, etc.). It also strengthened its involvement in collaborative engagement approaches with other investors.

Our membership of Environmental/Climate initiatives such as the CDP (Climate Disclosure Project), TCFD (Task Force on Climate-related Financial Disclosures), the Finance for Biodiversity Foundation, or the Net Zero Asset Managers Initiatives form an integral part of our response to climate change.

### 4.2. ALIGNMENT WITH THE PARIS AGREEMENT OBJECTIVES

The consideration of adverse impacts, including those relating to climate change, has been central to La Financière de l’Echiquier’s responsible investment approach for many years, whether in terms of identifying the risks or analysing opportunities in this area for each of our investments. These risks and opportunities are assessed in our various proprietary methodologies used to analyse companies within our various funds: the environmental pillar of our ESG analysis, “SDG Score” and “Climate and Biodiversity Maturity Score”. Analysis of the carbon and biodiversity footprint of our funds also allows us to take greater account of climate and biodiversity risks.

LFDE strengthened its commitment to fight climate change and to meet the objectives of the Paris Agreement in early 2021, by publishing its Climate Strategy, which contains a policy to regulate the financing of thermal coal. Engagement with companies is a key component of this strategy.
A specific engagement procedure has been defined for the companies in the **thermal coal industry**, to support them in their total withdrawal from thermal coal activities by 2030. In addition to this, companies that are considered to play an important role in the environmental transition are also subject to an enhanced engagement procedure. In both of these cases, our engagement is based on a **detailed analysis using our proprietary "Climate and Biodiversity Maturity" methodology.**

LFDE’s Climate Strategy and Coal Policy are available on our website under: Responsible Investment, To find out more, LFDE Documents - Climate.

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