



**SFDR -  
SUSTAINABLE  
INVESTMENT**

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**La Financière de  
l'Echiquier**

# SFDR – SUSTAINABLE INVESTMENT DEFINITION

## LA FINANCIERE DE L'ECHIQUIER

### **PREAMBLE**

The methodology described in this document is common to both management companies of the LBP AM Group, composed of LBP AM and La Financière de l'Echiquier ("LFDE"), although its implementation is the responsibility of each management company, based on the data available to them and their understanding of the current regulatory context.

This methodology is subject to modification, to reflect regulatory stipulations that may be made by the European Commission or European and national regulators, to integrate new data deemed more relevant or to make methodological refinements deemed necessary.

**The methodology described in this document is applicable to LFDE from April 1, 2024.**

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## I. CONTRIBUTION TO AN ENVIRONMENTALLY OR SOCIALLY SUSTAINABLE OBJECTIVE

### 1. BACKGROUND

La Financière de l'Echiquier, applies a generalist extra-financial approach to making environmentally and socially sustainable investments.

The **environmental thematic** reflects the European Taxonomy's six objectives, i.e.:

- Climate change mitigation,
- Climate change adaptation,
- The sustainable use and protection of water and marine resources,
- The transition to a circular economy,
- Pollution prevention and control,
- The protection and restoration of biodiversity and ecosystems.

The methodology is unable to measure the contribution by investments, based on the European Taxonomy's definition (i.e., taxonomic alignment of investments).

However, the **contribution of investments to environmental objectives as defined by Article 2(17) of Regulation (EU) 2019/2088 ("SFDR")** is measured via the LBP AM group's own indicators, which are specified hereinafter.

The **social thematic** considers the following objectives:

- Respect for, and promotion of, human rights<sup>1</sup>, including the promotion of fair and decent working conditions, social inclusion through work, and the protection and promotion of the rights of local communities,
- Local and community development, through relations with stakeholders from outside the company and responsible management of value chains, to address socio-economic development challenges, combat social divides, support local actors, and provide access to education,
- Improved access to healthcare, which is essential in addressing challenges of treatment availability, geographical accessibility, affordability, and acceptability.

This generalist strategy does not require that any sustainable investment must address all the aforementioned environmental and social objectives, but that sustainable investments must address at least one of these challenges, while doing no significant harm to the others.

The contribution to one of the aforementioned environmental and social objectives is assessed based on various sources, including:

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<sup>1</sup> Human rights are defined as inalienable standards of treatment to which all persons are entitled, regardless of sex, national or ethnic origin, color, religion, language, disability, sexual orientation or gender, or any other status.

For all **environmental and social objectives**:

- The “GREaT” score, a proprietary quantitative analysis methodology, which covers all environmental and social objectives<sup>2</sup>,
- The “SDG” score, a proprietary qualitative research tool from LFDE that assesses companies’ products, services, and practices, to measure their contribution to meeting the United Nations’ Sustainable Development Goals (SDGs)<sup>3</sup>.

Regarding the specific goals on **climate** and on **biodiversity**:

- The issuer’s commitment to a trajectory for decarbonating its activities that is compatible with the objectives of the Paris Agreement, based on criteria laid down by the investment management company,
- The “Greenfin” score, a quantitative indicator measuring how exposed the issuer’s business model is to eco-activities as defined by the Greenfin French government label, which is dedicated to financing the energy and environmental transition<sup>4</sup>,
- The “Bird” score, a proprietary quantitative indicator which assesses companies mainly on their biodiversity policies, as well as their biodiversity practices and impacts,
- The “Climate & Biodiversity Maturity” score, a proprietary quantitative analysis tool from LFDE to assess how mature companies are in addressing the climate and biodiversity challenges that they face and will face in the future<sup>3</sup>.

Regarding the specific thematic of **access to healthcare**:

- The “AAAA” score (Availability, Accessibility, Affordability, Acceptability), a proprietary qualitative research tool from LFDE aiming to assess companies’ contribution, through their products and services, to the four dimensions of healthcare access (Availability, Geographical Accessibility, Financial Accessibility, Acceptability) inspired by the work of the World Health Organization (WHO) in this area<sup>3</sup>.

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<sup>2</sup> A fuller description of the “GREaT” research methodology is available in LBP AM’s Responsible Investment report at: <https://www.lbpam.com/en/publications/responsible-investment-report>.

<sup>3</sup> A fuller description of the research methodology is available in LFDE’s Transparency Code at: [https://cdn.lfde.com/upload/partner/202402\\_Transparency\\_Code\\_AFG-FIR\\_EN.pdf](https://cdn.lfde.com/upload/partner/202402_Transparency_Code_AFG-FIR_EN.pdf)

<sup>4</sup> The list of eco-activities is available on the Greenfin’s website at: <https://www.ecologie.gouv.fr/label-greenfin>

## 2. THRESHOLDS APPLIED

An investment is assumed to contribute to one of the aforementioned objectives when it complies with one of the following conditions in the indicators stated below:

**“GREaT” score:** The issuer has obtained a rating below 3/10<sup>5</sup> on one of the criteria of the GREaT ESG research methodology for allowing to identify a contribution to an environmentally or socially sustainable objective.

- In the environmental thematic, the criteria considered are as follows: Biodiversity and Water, Pollution and Waste, and Energy Transition Solutions. Regarding Biodiversity and Water, the contribution is not considered on the scale of the entire economy but on a sub-group of sectors whose activities are deemed relevant, based on research by the LBP AM group, for contributing to protecting biodiversity and water resources.
- On the social thematic, the following criteria are considered: Employee Fundamental Rights, Responsible Practices with Communities, Responsible Practices with Suppliers, and Management of the Societal Impact of Products and Services. The contribution on the social thematic is not considered on the scale of the entire economy but on a sub-group of sectors whose activities are deemed relevant, based on research by the LBP AM group, for contributing to the social thematic.

Moreover, and to ensure sufficient representativity of issuers’ ratings regarding their actual practices, a minimum coverage rate of 33% is required in underlying data used to calculate the GREaT score<sup>6</sup>.

**“SDGs” score:** The score assesses companies’ contribution to SDGs in two dimensions:

- The net “Solutions Score”, based on an analysis of companies’ products, and services, measures the weight of activities making a positive or negative contribution to nine SDGs selected for their strong economic materiality<sup>7</sup>. The distribution of a company’s revenue among these SDGs produces a net “Solutions Score” out of 100.
- The net “Initiatives Score”, based on an analysis of companies’ social and environmental practices, aiming to value the advanced social and environmental practices of companies contributing to the SDGs and to penalize practices that contribute negatively to one or more SDGs.

The average of Solutions and Initiatives scores produces a net “SDG Score”. For the SDG contribution to be approved, an issuer must achieve a net “SDG score” of at least 25/100 and a net “Solutions” of at least 20/100<sup>8</sup>.

**Decarbonation trajectory:** The issuer must have an SBTi-approved Net 0 trajectory. To ensure that this commitment will result in real-world actions, the investment management company demands that the issuer provide evidence of its short-term carbon emissions reduction objectives covering more than 70% of scopes 1 and 2 emissions.

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<sup>5</sup> With 1 being the best score and 10 the worst.

<sup>6</sup> An issuer having a score below 3/10 on the criteria listed below but not achieving a 50% coverage ratio would not have its contribution approved.

<sup>7</sup> These involve SDGs 3, 4, 6, 7, 8, 9, 11, 12, and 16.

<sup>8</sup> 100 being the best score and 0 the worst.

**“Greenfin” score:** The issuer must generate at least 20% of its revenues or EBIDTA in eco-activities as defined by the Greenfin French government label dedicated to financing the energy and environmental transition.

**“Bird” score:** The issuer must have achieved a Bird score equal to, or greater than, 5/10<sup>9</sup>. The Bird score is based on three pillars assessing companies’ policies and commitments to protecting Biodiversity, their “biodiversity footprint”, i.e., the change in natural spaces caused by their activities and their “practices” for limiting their impact on various thematic, such as water management, deforestation biodiversity-sensitive areas. For this score, the contribution is not considered on the scale of the entire economy but on a sub-group of sectors deemed relevant, based on the analysis of the LBP AM group, to providing a contribution to biodiversity protection challenges<sup>10</sup>.

**“Climate and Biodiversity Maturity” (CBM):** Companies must achieve a CBM score of at least 40%, to ensure that they are taking climate change and biodiversity depletion seriously into account and hence their positive environmental contribution. The CBM qualitative score consists of four pillars (Governance, Climate, Biodiversity, and Fair Transition) based on the company’s biodiversity impact, plus a malus for environmental controversies.

**“AAAA” score:** The AAAA score assesses companies’ contributions in two dimensions:

- Companies must contribute the equivalent of at least 20% of their revenues to at least one of the four healthcare access dimensions (Acceptability Accessibility, Affordability, Availability).
- In addition, through their activities and practices, companies must do no harm to any of the four healthcare challenges. Companies are evaluated on about 20 criteria defined in the four challenges.

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<sup>9</sup> 10 being the best score and 0 the worst.

<sup>10</sup> The sub-sectors are the same as for the contribution linked to the “GREaT” score on biodiversity and water.

## **II. CHECKS TO ENSURE THAT NO SIGNIFICANT HARM IS DONE TO ENVIRONMENTALLY OR SOCIALLY SUSTAINABLE OBJECTIVES (DNSH)**

### **1. BACKGROUND**

To ensure that an investment contributes to a sustainability goal, based on the aforementioned research model, does not significantly harm to any environmentally or socially sustainable investment goal, and respects the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights OECD Guidelines for Multinational Enterprises, the methodology applied by the LBP AM group considers systematically and cumulatively:

- The issuer's practices in managing environmental resources and respect for human rights. This point is checked using "GREaT", the proprietary extra-financial research methodology,
- The issuer's exposure to environmentally and socially sensitive sectors (thermal coal, oil & gas, deforestation, biodiversity, OGM, biocides, palm oil, controversial weapons, tobacco, pornography, alcohol, gambling, and recreational cannabis) in connection with exclusion policies applicable to management companies of the LBP AM group,
- The issuer's exposure to a severe environmental, social or governance controversy or to a critical risk of severe violation of the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

Furthermore, Delegated Regulation (UE) 2022/1288 of the Commission (hereinafter the "SFDR Delegated Regulation") lays out a list of indicators for measuring an issuer's adverse impact on environmental and social sustainability factors (hereinafter the "principal adverse impact indicators").

Principal adverse impact indicators are calculated for each issuer, when the data are available, and integrated into the extra-financial research tool.

Some other indicators are integrated directly either into the GREaT proprietary rating methodology used for identifying a positive or significant negative impact, into the aforementioned controversy indicator, or into exclusion policies. These indicators are as follows:

- PAI 1: Scope 1 and 2 GHG emissions,
- PAI 2: Carbon footprint (scope 1 and 2),
- PAI 10: Violation of the principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises,
- PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises,
- PAI 12: Unadjusted gender pay gap,
- PAI 14: Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons).



## 2. THRESHOLDS APPLIED

The thresholds applied on the aforementioned control points are as follows:

**“GREaT” score:** The issuer’s practices in respecting human rights and managing environmental resources, as well as adhering to the OECD Guidelines for Multinational Enterprises, are analyzed using a set of “GREaT” indicators, a proprietary research methodology. The indicators considered are as follows: Biodiversity and Water, Pollution and Waste, Human Resources, Fundamental Employee Rights, Responsible Practices with Customers, Responsible Practices with Communities, Responsible Practices with Suppliers and Managing the Societal Impact of Products and Services. An issuer rated higher than 8/10<sup>11</sup> on any of these indicators is assumed to cause significant harm to sustainability objectives.

**Exclusions:** Criteria and thresholds applied are stated in the policies available on the websites of LBP AM group management companies. The policies applied are as follows:

- **LBP AM policies:** all exclusion policies are applied<sup>12</sup>.
- **LFDE policies:** tobacco, recreational cannabis, all types of weapons, non-conventional and controversial hydrocarbons, thermal coal, gambling, pornography, alcohol, GMOs, palm oil and biocides<sup>13</sup>.
- Regarding compliance with OECD Guidelines for Multinational Enterprises, the LBP AM group may decide to exclude companies for which there exists an unacceptable risk that they will cause or contribute to especially serious violations of the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights and the 10 Principles of the United Nations Global Compact. Details on analysis and exclusion policy applied are provided in the “Human rights policy”<sup>14</sup>.

All aforementioned policies are systemically applied to DNSH (do no significant harm) controls, regardless of which LBP AM group investment management company made the investment.

**Controversies:** The issuer’s exposure to a severe environmental or social controversy or posing a critical risk of violating the OECD Guidelines, is analyzed using a proprietary indicator integrating data from MSCI and Moody’s ESG. A controversy is deemed severe if it meets one of the following four conditions:

- MSCI Social-Controversy Score = 0,
- MSCI Environment-Controversy Score = 0,
- Moody’s ESG Controversy Risk Assessment – Overall Severity = critical and (MSCI Social - Controversy Score = 1 or MSCI Environment-Controversy Score = 1),
- Moody’s ESG PAI 11<sup>15</sup> Score ≥ 50% and (MSCI Social-Controversy Score = 1 or MSCI Environment-Controversy Score = 1).

**Adverse impact indicators:** Regarding “adverse impact indicators” as defined by Delegated Regulation (EU) 2022/1288 of the Commission and integrated into the extra-financial research tool, no quantitative threshold is systematically applied to identify significant harm to sustainable objectives.

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<sup>11</sup> With 1 being the best score and 10 the worst.

<sup>12</sup> LBP AM Exclusion Policy: <https://www.lbpam.com/en/publications/exclusion-policy>

<sup>13</sup> LFDE Exclusion Policy: [https://cdn.lfde.com/upload/partner/2023\\_Politique\\_Exclusion\\_EN.pdf](https://cdn.lfde.com/upload/partner/2023_Politique_Exclusion_EN.pdf)

<sup>14</sup> LBP AM Human Rights policy: <https://www.lbpam.com/fr/publications/politique-droits-humains>

<sup>15</sup> Lack of compliance processes and mechanisms for ensuring adherence to the principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.

### **III. CHECKS TO ENSURE THAT GOOD GOVERNANCE PRINCIPLES ARE APPLIED**

#### **1. BACKGROUND**

Checks to ensure that good governance principles are applied by issuers are based on two indicators:

- A quantitative indicator from the Governance pillar of the “GREaT” proprietary research methodology, which covers, among other things, balance of powers, equitable remuneration and business ethics.
- An indicator from LFDE’s in-house qualitative research. Among other things, research covers issues involving manager competence, the existence of checks and balances, diversity on the board, respect for minority shareholders, and the assessment of extra-financial risks.

An issuer is deemed to have applied principles of good governance if suggested by one of the two aforementioned indicators.

#### **2. THRESHOLDS APPLIED**

The Methodology LBP AM group deems that an issuer applies good governance principles when it meets at least one of the following two criteria:

- The issuer has obtained a score on GREaT Governance pillar score below 6/10<sup>16</sup>,
- The issuer has obtained a qualitative governance rating from LFDE greater than, or equal to 5.5/10<sup>17</sup>.

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<sup>16</sup> With 1 being the best score and 10 the worst.

<sup>17</sup> With 10 being the best score and 0 the worst.



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