



March 2020

PORTFOLIO CARBON POLICY

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GENERAL PHILOSOPHY

■ GENERAL FRAMEWORK

As a responsible investor, Crédit Mutuel Asset Management pays particular attention to the issue of combating climate change in its investment decisions.

Like the coal sector policy, the carbon policy is part of a general framework aimed at allowing respectful and responsible economic development that does not harm future generations. To this end, the preferred and desired climate change scenario limits the rise in temperature to 2°C (degree Celsius) by the end of the century.

Crédit Mutuel Asset Management implements a set of indicators in its management processes designed to:

- Measure the impact of its investments on the climate
- Reduce the negative effects, in particular greenhouse gas (GHG) emissions
- Fight global warming by enabling a shared climate transition

In addition to the periodic portfolio reporting aspects, these indicators are intended to impact decisions in order to achieve the temperature target.

■ DYNAMIC VISION

Crédit Mutuel Asset Management favours a dynamic analysis of the carbon policies of the economic agents it invests in in order to promote the most proactive policies.

Each agent is analysed in relation to the trajectory taken, within its business sector.

Crédit Mutuel Asset Management thereby seeks to highlight companies that have fully integrated environmental issues into their strategy and reduce those that emit a lot of greenhouse gases (GHGs) or that own potentially unusable fossil fuel reserves (stranded assets) due to future regulations on environmental protection and the fight against global warming.

■ TRANSPARENCY

Crédit Mutuel Asset Management encourages the utmost transparency in the periodic financial and non-financial reports issued by the companies in which its funds invest.

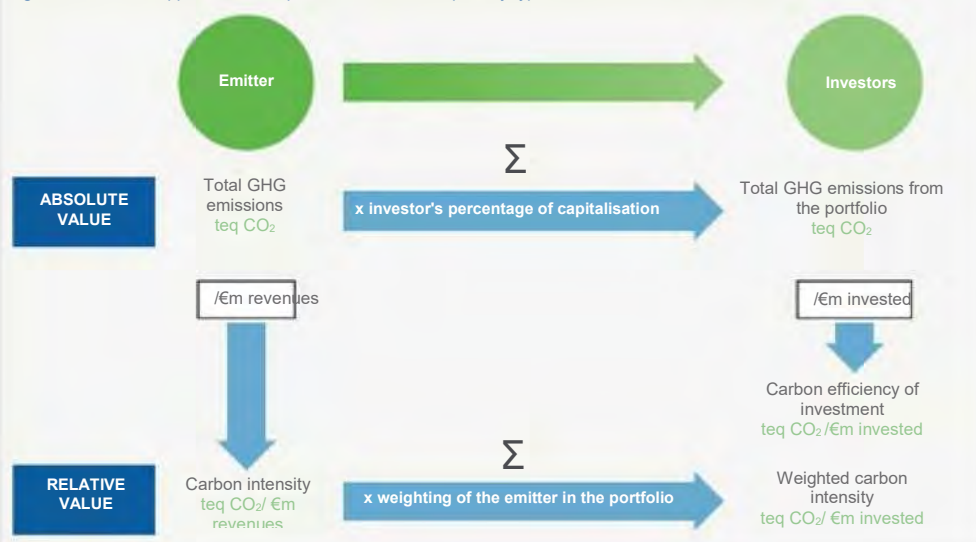
Each failure to publish climate data will lead the Crédit Mutuel Asset Management teams to take a negative view of the contribution of the company in question.

It is essential that the publication of climate indicators, and in particular GHG emissions, be as comprehensive as possible. Accordingly, details on the 1+2+3 scopes are expected from each agent (see Implementation).

In turn, Crédit Mutuel Asset Management will produce an annual measurement of the carbon footprint of its main portfolios. This measurement will be put into perspective and compared to that of a consistent investment universe.



Figure 3 - Different approaches to a portfolio's carbon footprint by type of financial actor



SOURCE: FIR, 2017

CARBON INDICATORS

GHG emissions - The main carbon measurement of an economic agent (company) is the equivalent tonnes of CO₂ emitted; this data can be used in several ways:

Total GHG emissions (weighted by portfolio weighting)/revenues

The equivalent tonnes of CO₂ emitted divided by revenues (for economic agents that have revenues) is a measurement of carbon intensity. It enables comparison between agents in the same sector and is a selection criterion in the investment process.

Special feature of utilities: it is more relevant to use the annual power generation volume (TWh or terawatt-hour, an energy measurement unit) as the denominator rather than revenues. The ratio CO₂ emissions (millions of tonnes) /annual power generation (TWh) specifically measures the carbon intensity of the generation mix.

Total GHG emissions (weighted by portfolio weighting)/€m invested

This measurement represents the carbon efficiency of the investment. It is particularly useful in periodic portfolio reports.

GHG emissions avoided (weighted by portfolio weighting)/€m invested

This calculation consists in subtracting an economic agent's GHG emissions produced under a baseline scenario from the emissions produced taking into account the projects analysed.

This measurement is particularly interesting when project and financing are perfectly matched. It lends itself very well to Green Bonds.

Specific case of public sector bond issuers

GHG emissions from sovereign, supranational and local authority issuers are analysed from one of the following two angles:

- GHG emissions in relation to total public debt,
- GHG emissions in relation to GDP.

CARBON AND PORTFOLIO MEASUREMENTS

SCOPE OF CARBON MEASUREMENT TAKEN INTO ACCOUNT

The carbon measurement coverage ratio

The coverage ratio of the carbon measurement of an economic agent must be at least 95% of revenues to be significant. Below this standard, the agent in question will be assigned the lowest score in its sector

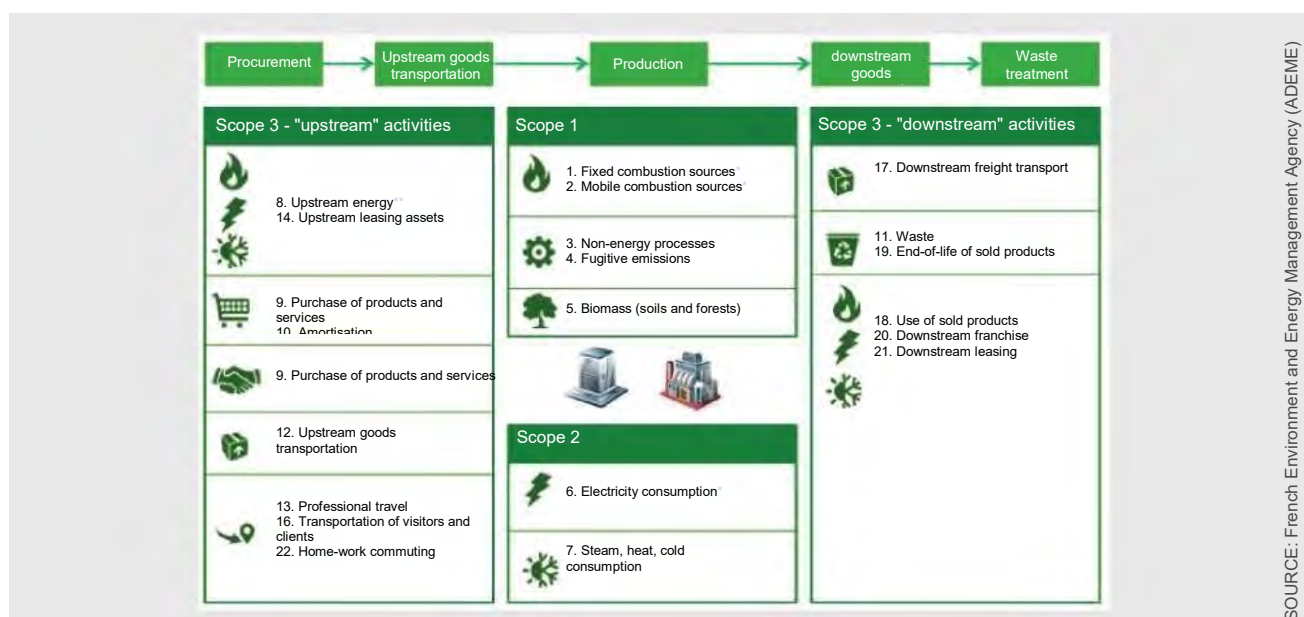
Scopes

The Green House Gas Protocol provides for three measurements of greenhouse gas emissions. These levels correspond to GHG emissions at different stages of the company's activity.

- **Scope 1** or direct emissions: corresponds to emissions resulting from the combustion of fossil fuels (gas, oil, coal, etc.),
- **Scope 2** or indirect emissions related to energy consumption: relative to indirect emissions related to the consumption of electricity, heat or steam required to manufacture a product.

For many industries, this is the largest share of a company's emissions.

- **Scope 3** corresponds to other indirect emissions, such as the extraction of materials purchased by the company for the production of the product or emissions related to other stages of the life cycle than just manufacturing.



Scope 3 is not without its drawbacks (difficulty of calculation, risk of double counting, diffusion still imperfect). It sometimes requires the data provider (Trucost) to carry out a complex specific assessment. However, the gradually more widespread use of this scope in the market combined with the progress of its measurement makes the overall Scope 1+2+3 calculation a guarantee of the quality of any carbon policy.

Crédit Mutuel Asset Management is in favour of using this overall measure.

As data availability is not yet complete, the use of a partial "Direct + First Tier Indirect" calculation will be implemented. This measurement includes Scope 1, Scope 2 and all emissions from Tier 1 suppliers.



CARBON AND PORTFOLIO MEASUREMENTS

■ COMPLEMENTARY METRICS

Carbon measurement is not the only way to calibrate the positioning of an economic agent in the climate transition. Additional measurements include:

- The energy mix:
Several calculations exist: fossil energy/total energy + transition strategy from "Brown" to "Green"
- 2° alignment and/or temperature measurement (warming potential)
- Stranded assets by regulation

■ CASE OF INVESTMENTS IN PUBLIC SECTOR ISSUERS' SECURITIES

Since the methodology for calculating GHG emissions of a sovereign issuer or a local authority is by nature very different from that of an economic agent that has revenues, the measurement of the carbon footprint of a diversified portfolio can be broken down into two results:

- Companies in the broadest sense
- Sovereign and similar

CARBON SCORING

In addition to measuring absolute greenhouse gas emissions, Crédit Mutuel Asset Management implements a carbon scoring process aimed at positioning each economic agent within its sector.

■ SECTORAL CLASSIFICATION

The selected sectoral classification is "enhanced GICS".

The Global Industry Classification Standard divides private economic actors into 11 sectors, 24 industry groups, 69 industries and 158 sub-industries.

A complementary classification will be implemented to allow the inclusion of public sector agents (states, local authorities, supranationals, etc.)

Level 2 "Industry Groups" will be used for carbon scoring.

■ CARBON SCALE AND ANALYSIS HORIZON

Each agent is positioned by quintile on a scale of 1 to 5, with 5 being the best score.

A +, = or - sign corresponding to the change observed over a period of several years is added to this note.

The economic agent is therefore assessed along two axes:

- Static ranking on the given date.
- Dynamic ranking that looks at the change over three years (five years if possible).

Dynamic ranking is preferred in the analysis for decision-making.

■ PORTFOLIO UNIVERSE AND COVERAGE

In order to enable a relative positioning of the fund in terms of GHG emissions, a universe is defined for each fund analysed.

Broad universe

The carbon theme knows no boundaries. By default, the preferred universe is therefore global, without geographical segmentation.

Limited universe

For specific management purposes, the same valuation methodology may be used in a smaller geographical or sectoral universe.

Coverage ratio

The portfolio coverage ratio should be as high as possible. Any periodic carbon report shall include carbon data on at least 90% of the investments.



METHODS FOR APPLYING THE CARBON POLICY

■ ORGANISATION OF CARBON FOOTPRINT MEASUREMENT: WHO DOES WHAT?

Crédit Mutuel Asset Management is setting up an organisation designed to enable it to develop its carbon policy in the best interests of its customers. To this end, the functions are distributed as follows:

Carbon and climate data provider: Trucost

Trucost's role is to:

- Provide information to all Crédit Mutuel Asset Management's climate databases;
- Implement standardised portfolio reporting on request,
- Provide any methodological element that would enable a better consideration of the theme in carbon measurement in the management activity.

Responsible and Sustainable Finance Department (FReD)

On the carbon issue, the FReD department is the interface between Trucost and the Management departments.

FReD also provides all the analyses needed to make decisions on carbon and climate issues, also drawing on data from the Carbon Disclosure Project and companies. All methodological elements are validated by FReD.

The carbon scoring is prepared by FReD at least once a year.

An ongoing dialogue between Management and FReD promotes the dissemination of knowledge and information, with the aim of the greatest possible dissemination of expertise.

Management

The management processes for carbon and climate funds and their applications in the portfolios are the sole responsibility of the Management departments.

■ CARBON ASSESSMENT OF PORTFOLIOS

At least once a year, Crédit Mutuel Asset Management assesses the carbon footprint of its main portfolios.

This assessment can take several forms:

Portfolio audit

Production by Trucost of a pre-formatted report with:

- As a standard metric, absolute emissions per €m invested,
- Comparison with the benchmark universe.

Specific reporting

Preparation by Crédit Mutuel Asset Management of specific reporting with:

- Sectoral contributions,
- Focus on high consumption sectors (energy, basic materials, transport, etc.),
- Time comparisons n-x years (on constant portfolio or actual portfolio),
- Main "contributors",
- Selection effects and allocation effects.

■ CARBON MANAGEMENT ELEMENTS FOR THEMATIC FUNDS

Using the dedicated carbon tools provided by Trucost (Eboard, data injected directly into Crédit Mutuel Asset Management repositories by FTP flows, etc.), Management develops processes for selecting investments based on carbon consumption criteria.

CONTINUED ->



METHODS FOR APPLYING THE CARBON POLICY

Measures in addition to those already mentioned

- Carbon intensity /Market capitalisation,
- Carbon intensity/Enterprise value,
- Carbon intensity/Revenues,
- "Saved" emissions (measured with today's revenues and carbon Intensity of a reference date).

Active use of carbon and trajectory scoring

The carbon score of an emitter, and by extension the carbon score of the portfolio analysed, become investment decision elements. Its use is developed in the management processes of the relevant funds.

The trajectories examined cover at least three years.

The carbon policy described above is based on the latest methodologies and measures developed by the best specialists on climate impact in investment portfolios. Crédit Mutuel AM is committed to developing this policy and implementing innovative and evolving processes. The systems and measurements referred to in this note are therefore intended to be amended and improved with the objective of achieving carbon neutrality in the portfolios managed as part of its third-party asset management activity.



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Crédit Mutuel
Asset Management

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