



# Policy for integrating sustainability risks

## Article 3 SFDR - Disclosure Regulation Version No. 1 - 22/03/2021

### Regulation:

- According to Article 3 of the Disclosure Regulation, financial market participants publish on their website information about their policies relating to the integration of sustainability risks into their investment decision-making process.
- Article 3 of SFDR is supplemented in France by Article L. 533-22-1 of the MFC (see Article 29 of the French Energy and Climate Law): 'I. In their sustainability risk policy published in accordance with Article 3 of the Regulation of the European Parliament and of the Council on disclosure of information on sustainable investments and sustainability risks and amending Directive (EU) 2016/2341, portfolio management companies shall include information on the risks associated with climate change as well as on the risks related to biodiversity.'

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## I - Ambitions of the Crédit Mutuel Alliance Fédérale Group

Crédit Mutuel Alliance Fédérale has adopted a corporate purpose that is in line with its values: 'Together, listen and act.' And also becomes the first bank with mission status, with five long-term commitments aimed at affirming its identity and values, and mobilising skills and energies around a common dynamic.

### TOGETHER, LISTEN AND ACT

#### Mission 1:

As a cooperative and mutualist organisation, we support our customers and members in their best interests

#### Mission 2:

The bank for everyone, members and customers, employees and elected representatives, we act for everyone and reject any discrimination

#### Mission 3:

Respecting everyone's privacy, we put technology and innovation at the service of people

#### Mission 4:

A company that supports the community, we contribute to the development of the territories

#### Mission 5:

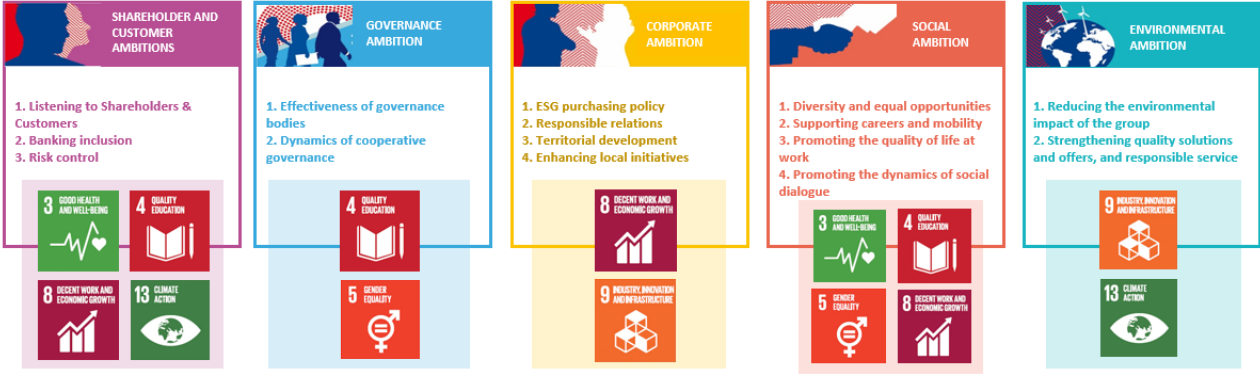
A responsible company, we work for a fairer and more sustainable society

Within this framework, Crédit Mutuel Alliance Fédérale rolled out its Social Responsibility and Mutualist (Responsabilité Sociale et Mutualiste, RSM) policy

The Social Responsibility and Mutualist Policy (RSM) of Crédit Mutuel Alliance Fédérale is a structured approach based on:

- *Compliance with laws and regulations,*
- *Commitment to the Group's founding values,*
- *The implementation of sector policies,*
- *Daily cooperative and mutualist commitments,*
- *Concrete achievements.*

The RSM approach, centred around five ambitions and set out in 15 commitments, carries the values of Crédit Mutuel Alliance Fédérale and highlights environmental, social and societal priorities. Each entity adopts, adapts according to its business lines and deploys the commitments of the RSM policy. It is on the basis of this collective mobilisation based on responsibility and autonomy that the development of the RSM strategy ensures the coherence of actions as close as possible to the territories.



Source: Crédit Mutuel Alliance Fédérale

Crédit Mutuel Asset Management is the asset management subsidiary of Crédit Mutuel Alliance Fédérale, and fully supports these five ambitions. Responsible investment is the major application of this in the course of its business.

Crédit Mutuel Asset Management's General Management is responsible for the implementation of the Group RSM policy, in close collaboration with its Board of Directors.

## II - Crédit Mutuel Asset Management Commitments

Crédit Mutuel Asset Management, a committed player in responsible finance for over 15 years, has been a signatory to the United Nations Principles for Responsible Investment (PRI) since 2012 and is committed to complying with them. They are based on recognised international conventions and are intended for institutional investors. Of the six, the PRIs are a set of voluntary and ambitious investment principles that offers a list of possible measures in order to integrate ESG (environment, social and governance) issues into portfolio management activities:

- Take ESG issues into account in our investment decision-making processes
- Integrate ESG issues into our shareholder policies and practices
- Ask companies in which we invest to publish information on their ESG practices with transparency
- Promote the acceptance and application of the Principles among asset management actors
- Report on our activities and progress in implementing the United Nations Principles for Responsible Investment
- Work in partnership with financial sector players who are committed to adhering to the principles to increase our effectiveness

Since 2019, Crédit Mutuel Asset Management has signed up to the Finance for Tomorrow initiative launched by Paris Europlace, thereby committing itself to helping to reorient financial flows towards a low-carbon and inclusive economy, in line with the Paris Agreement and the UN's Sustainable Development Goals (SDGs).

The company is engaged in the following market initiatives:

- Member of the FIR (Forum de l'investissement responsable, Responsible investment forum) since 2004, of Eurosif (support for academic research receiving the FIR-PRI 2020 prize)
- Member of the CDP water programme (formerly the Carbon Disclosure Project) since 2010, associated with its carbon programme since 2011 and its forestry programme since 2013; participation in the SBTi 2020-2021 campaign with issuers on the alignment with net 0 emissions by 2050
- Signatory to the Global Investor Statement to Governments on Climate Change
- Has adhered to the AFG-FIR transparency code since its creation
- Member of the Green Bonds Principles initiative since 2015
- Signatory of the Paris Pledge for Action since December 2015 within the framework of COP21
- Signatory to Access to Medicine Index signatory since 2017
- Signatory of the declaration 'Vers une généralisation de la notation extra-financière' (Towards a widespread application of non-financial rating) since 2017
- Signatory of Finance for Tomorrow since 2019
- Signatory of the 30% Club France Investor Group since 2021

### Responsible investment: Crédit Mutuel Asset Management's approach

A responsible and committed player for more than 15 years



In late 2018, Crédit Mutuel Asset Management launched its strategic project, 'Towards Responsible and Sustainable Finance', which is fully in line with the Crédit Mutuel Alliance Fédérale's medium-term plan, Ensemble#nouveau monde ( Together#new world). In 2020, Crédit Mutuel Asset Management participated in the 'CDP Science-Based Target' campaign calling on more than 1,800 companies to set climate targets based on science, in line with the international ambition to limit global warming to 1.5°C.

As a responsible investor, Crédit Mutuel Asset Management undertakes to communicate its activities transparently to all customers and partners. As such, we provide them with several documents on our website:

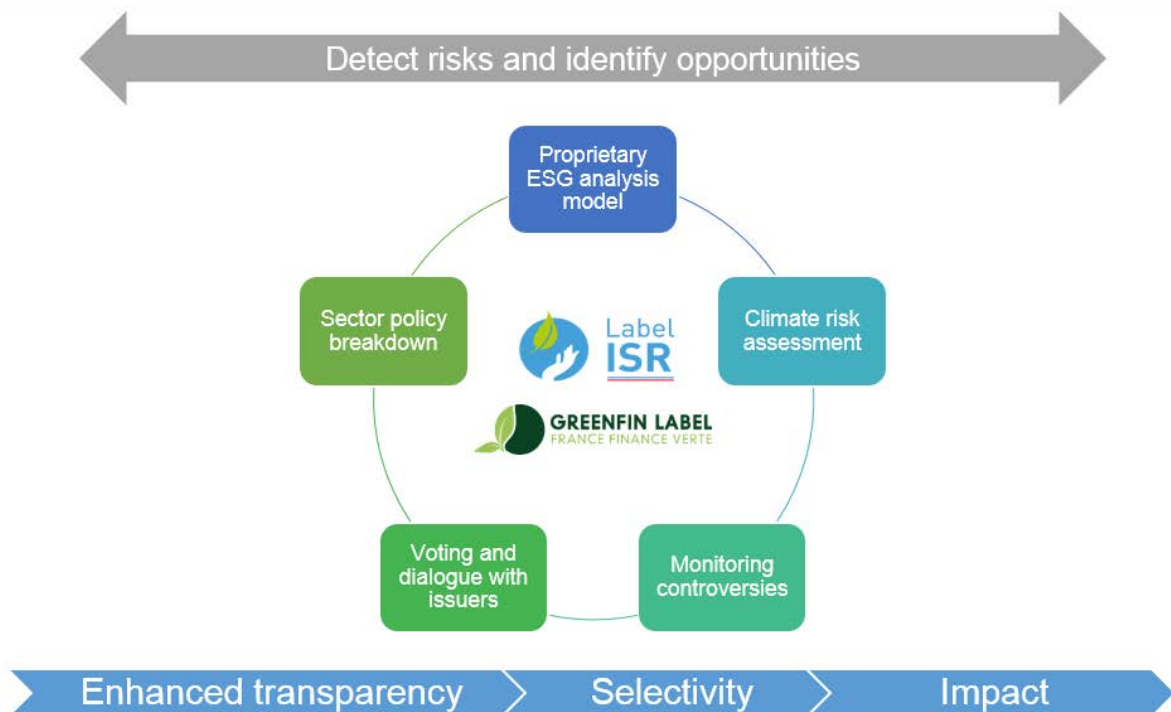
- Publication Article 173: [https://www.cmcic-am.fr/fr/institutionnels/nos-expertises-et-services/finance-responsable/rapport-article-173\\_loi-sur-la-transition-energetique.html](https://www.cmcic-am.fr/fr/institutionnels/nos-expertises-et-services/finance-responsable/rapport-article-173_loi-sur-la-transition-energetique.html)
- Responsible investment policy: <https://www.cmcic-am.fr/partage/fr/CC/CM-CIC-AM/telechargements/politique-investissement-responsable.pdf>

- Coal sector policy: [https://www.cmcic-am.fr/partage/fr/CC/CM-CIC-AM/telechargements/Politique\\_Secteur\\_Charbon\\_2\\_BD.pdf](https://www.cmcic-am.fr/partage/fr/CC/CM-CIC-AM/telechargements/Politique_Secteur_Charbon_2_BD.pdf)
- Defence and security sector policy: [https://www.cmcic-am.fr/partage/fr/CC/CM-CIC-AM/telechargements/Politique\\_Defense\\_Securite.pdf](https://www.cmcic-am.fr/partage/fr/CC/CM-CIC-AM/telechargements/Politique_Defense_Securite.pdf)
- Carbon policy: <https://www.cmcic-am.fr/partage/fr/CC/CM-CIC-AM/telechargements/politique-carbone.pdf>
- Voting policy: <https://www.cmcic-am.fr/lu/informations-reglementaires/politique-de-vote.html>

### III - Integrating sustainability risks

Responsible investment gradually covers all of Crédit Mutuel Asset Management's activities, through an ESG integration scheme for most funds and an SRI approach for a targeted range of funds for all our customers.

5 pillars enabling the integration of sustainability risk have been defined within Crédit Mutuel Asset Management:



CM AM's funds were classified in accordance with the Disclosure Regulation and also taking into account the AMF position recommendation 2020-03. This categorisation has been modulated according to the monitoring of the 5 pillars in accordance with the table below:

CM AM Classification =>	Funds significantly committed to ESG criteria		Funds committed to ESG criteria	Uncommitted funds	
<i>AMF Position recommendation 2020-03</i>					
AMF category 2020-03 =>	1		2	3	
AMF definition =>	<i>Approaches based on significant engagement in management</i>		<i>Approaches that are not based significantly on engagement in management</i>	<i>Approaches that do not meet central or reduced communications standards</i>	
Sustainability risk: ESG constraints =>	<p>To choose:</p> <ul style="list-style-type: none"> <li>- Improving the score in relation to the investable universe after elimination of a minimum of 20% of the lowest rated stocks</li> <li>- Selectivity relative to the investable universe: Reduction of at least 20%</li> <li>- Other methods based on improving a non-financial indicator relative to the investable universe</li> </ul>		<ul style="list-style-type: none"> <li>- The approach taken based on a rating or an indicator, the average rating or indicator of the UCI must be greater than the average rating or indicator of the investment universe.</li> </ul>	-	
Sustainability risk: ESG coverage rate =>	Non-financial analysis rate of at least 90%		<ul style="list-style-type: none"> <li>- 90% for equities issued by large cap companies having their registered office in 'developed' countries, debt securities and money market instruments with investment grade credit ratings, sovereign debt issued by developed countries</li> <li>- 75% for equities issued by large cap companies with their registered office in 'emerging' countries, equity securities issued by small and mid cap companies, debt securities and money market instruments with high yield credit ratings, and sovereign debt issued by 'emerging' countries</li> </ul>	-	
<i>SFDR</i>					
Reference to SFDR Article =>	Article 9	Article 8	Article 8	Article 6	Article 6 (Index funds and formula funds created prior to 2019)
Negative impact risk: Tracking constraint =>	18 key performance indicators minimum	18 key performance indicators minimum	18 key performance indicators minimum	-	-
Other indicator =>	<ul style="list-style-type: none"> <li>- Measurable impact objective (in E and S)</li> <li>- 'Do No Significant Harm' (DNSH)</li> </ul>	- 'Do No Significant Harm' (DNSH)	- 'Do No Significant Harm' (DNSH)	-	-
Sustainability risk: Monitoring the constraints of the voting policy component =>	Yes	Yes	Yes	Yes	Yes
Sustainability risk: Monitoring of the constraints of the controversial component =>	Yes	Yes	Yes	Yes	-
Sustainability risk: Monitoring of the constraints of the Climate component =>	Yes	Yes	Yes	Yes	Yes
Sustainability risk: Monitoring the constraints of the sector policy component =>	Yes	Yes	Yes	Yes	-

## A) 1<sup>st</sup> pillar: Sector policies

Crédit Mutuel Asset Management is fully committed to the Social Responsibility and Mutualist (RSM) ambitions of Crédit Mutuel Alliance Fédérale. As such, Crédit Mutuel Asset Management has adopted the Group's sector policies in view of the specific characteristics of its business as an asset manager on behalf of third parties. Key elements of the management company's risk management system, sector policies aim to define a scope of action and to set criteria and principles for carrying out the activities of the structure in areas with the highest social and environmental impacts.

The latter, for example, relate to the coal and weapons sectors. Crédit Mutuel Asset Management applies these sector policies in view of its asset management activities on behalf of third parties, in accordance with the principles set by the Group.

They apply to the management companies listed below:

- Crédit Mutuel Asset Management
- Crédit Mutuel Gestion (assets under delegation of management)
- Dubly Transatlantique Gestion (assets under delegation of management)

The assets covered by the policy are:

- Directly invested securities in the 'Corporate' issuers universe (consolidated group)

These assets may be held in open or dedicated funds as well as in third party mandates or advisory portfolio services (Gestion Conseillée) unless otherwise instructed by the customer; where applicable, a reasoned warning must be issued justifying the company's exclusion from the investment universe (advisory duty) and records of the exchanges with the customer must be maintained.

Due to their technical specificity, two types of funds are excluded from the scope of this policy:

- index funds
- old formula funds established prior to November 2019

### 1) Coal sector policy

The Group's Coal Sector Policy has two components:

- Exclusion of companies belonging to the Global Coal Exit List (GCEL) and identified as developers of new coal capacities (Coal Developers)
- Study, based on quantitative and qualitative criteria with a view to possible exclusion, of companies involved in the coal sector but not identified as developers of new coal capacities on the GCEL list. The quantitative criteria are as follows:

- ✓ Annual coal production < 10 MT
- ✓ Installed capacity based on coal < 5 GW
- ✓ Coal's share of sales < 20%
- ✓ Share of coal in the energy mix < 20%



For example, to keep a coal business in the investment universe, these four criteria have to be met. Failing that, if the company has put in place and communicated a plan to exit coal assets, it could be reintegrated into the investment universe after analysis.

The management rules associated with the conclusions are as follows:

Conclusion	Colour Code	Description
Authorised company	Green	The company has published an exit plan for the coal assets which appears credible (see ESG rating, controversy monitoring, dialogue with the company). The company is authorised but closely monitored by the ESG analyst team in order to regularly (every 12 months) verify that it has fulfilled its commitments.
A company under supervision	Orange	The company has issued a dated plan of exit from the coal assets. However, the ESG analysis department has some reservations about the robustness of the latter (see ESG rating, monitoring of controversies, dialogue with the company) or the latter is subject to long time frames. The company is authorised but is alerted by the Responsible and sustainable finance division (Finance Responsable et Durable, FReD) and closely monitored (every six months) to ensure that its commitments are met.
Excluded company	Red	The company has issued a dated plan of exit from the coal assets. However, the ESG analysis department has strong reservations about the robustness of the latter (see ESG rating, monitoring of controversies, dialogue with the company) or the latter is subject to long time frames. The company has not issued a dated coal exit plan and does not comply with the principles of the Coal Sector Policy.

As a reminder, the issuers concerned are those that do not meet the quantitative criteria of the 2<sup>nd</sup> pillar of the sector policy, and which have therefore been the subject of analysis by the specialist analyst division.

An escalation process will be put in place to track companies classified orange and green:

- Dialogue with companies classified orange every 6 months at the end of the CSR Committee Meeting in order to take stock of the monitoring of commitments to exit coal assets
- Annual documented and quantified state of the coal asset exit plan
- In the event of non-compliance (trajectory) and lack of justification of the situation
  - 12 months after the CSR Committee having ruled, companies previously classified as green turn to orange (alerts)
  - 18 months after the CSR Committee having ruled, companies previously classified as orange are excluded

## 2) Defence and security sector policy

The Defence and security sector policy is composed of two main principles:

- Exclusion of companies involved in the area of controversial weapons, non-conventional weapons, and weapons of mass destruction:
  - Anti-personnel mines
  - Submunition weapons
  - Non-conventional weapons and weapons of mass destruction that are subject to national or international regulation (nuclear, biological and chemical weapons)
  
- Monitoring of controversies relating to companies involved in military combat armament:
  - With regard to activities related to conventional weapons, the specialised division ensures particular vigilance with regard to companies involved in military combat armament and which are the subject of very severe controversies related to defence and security activities. This analysis may lead to exclusion.

Analysis criterion	Value leading to analysis
Involvement in activities related to the production, sale or supply of services related to military combat equipment, including military equipment having a destructive effect.	Yes
Share of the company's revenue from involvement in combat equipment and services.	> 5%

## 3) Controls

In order to ensure compliance with the lists of prohibitions defined by the CSR Committee, CM AM has put in place pre-trade and post-trade controls on, respectively, the tools for ordering and the tools for monitoring ratios.

- Pre-trade:

### **Objective:**

- Limiting the operational and non-compliance risks associated with the purchase of prohibited securities, the aim is to implement pre-trade control to control purchase orders on prohibited securities.
- Controlling buy orders on prohibited securities, while leaving the manager the possibility to request a 'waiver' from the heads of management divisions in order to manage possible reference errors. This pre-trade verification system is rolled out within Crédit Mutuel Asset Management based on the tools used.

- Post-trade

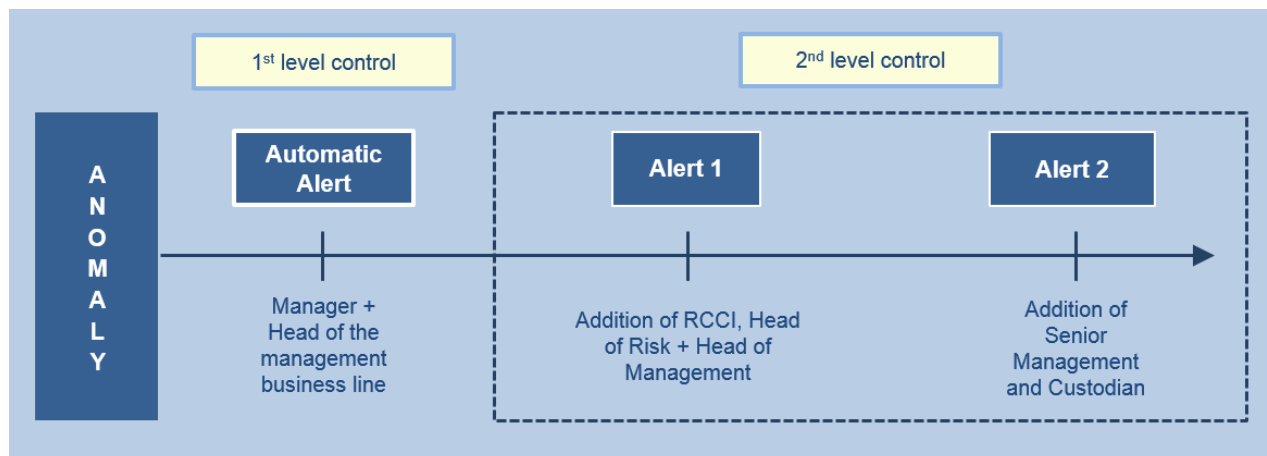
### **Objective:**

- In addition to the pre-trade monitoring system, post-trade controls have been set up within the Risk Department in order to identify cases of non-compliance related to the purchase of prohibited securities.

- The aim of the system is to put in place automated rules for reporting and alerting management of prohibited securities held in funds within the scope of the sector policies.

#### Application:

- Prohibited issuers are configured in the tool for monitoring the regulatory and statutory ratios of CM AM.
- The system for responding to anomalies in ratios is applied to sector policies. If the anomaly detected is real, the permanent control of Crédit Mutuel Asset Management issues alerts from the second week of the anomaly observed and until its regularisation.



Alerts 1 and 2 are sent to the various contacts concerned within management and control departments. Alert 2 also enables the management of Crédit Mutuel Asset Management to take the necessary measures to correct the anomaly.

This escalation procedure has proved to be a first step in the consideration of sustainability risk through asset management and executive management.

#### Scope:

This system applies to funds of the following management companies:

- Crédit Mutuel Asset Management
- Crédit Mutuel Gestion (assets under delegation of management)
- Dubly Transatlantique Gestion (assets under delegation of management)

Two types of funds are excluded from the scope of the configured rules:

- Index funds
- Formula funds established prior to November 2019

➤ Control portal

CM AM's control plan is available on a dedicated portal of the Crédit Mutuel Alliance Fédérale group. First- and second-level controls have been deployed to manage and secure the processes described above in order to ensure compliance with sector policies.

*This portal formalises the sustainability risk integration policy in this area and thus ensures its audit trail.*

## B) 2<sup>nd</sup> pillar: Proprietary ESG analysis model

The ESG analysis model for the issuers of Crédit Mutuel Asset Management is structured around 5 independent and complementary pillars composed of 15 categories:

- Social
- Environmental
- Economic and societal
- Governance
- Commitment of the company to a socially responsible approach

As the information needs to be normalised and standardised for comparison, a weighting of the 5 pillars is tailored to the specificities of each of the issuers' business sectors.

### 1) Methodology for corporate issuers

**Quantitative stage:** there are a number of indicators within the 15 categories. Taking non-financial criteria into account in Crédit Mutuel Asset Management's funds is based on a proprietary ESG analysis model, in support of selected rating agencies (Sustainalytics, ISS Oekom, Trucost).

Pillar <b>E</b> Environment	Pillar <b>S</b> Social	Pillar <b>G</b> Governance	Pillar <b>ES</b> Economic and Social	Pillar <b>D</b> Commitment to the Socially Responsible Approach
<ul style="list-style-type: none"> <li>▪ Environmental approach of the company</li> <li>▪ Carbon policy</li> <li>▪ Water, waste and biodiversity management</li> <li>▪ Design and life cycle of products and services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Respect for the individual and non-discrimination</li> <li>▪ Human resources policy</li> <li>▪ Hygiene and Safety</li> <li>▪ Training</li> </ul>	<ul style="list-style-type: none"> <li>▪ Organisation of the company</li> <li>▪ Operation of the Board of Directors</li> <li>▪ Voting rights and relations with minority shareholders</li> </ul>	<ul style="list-style-type: none"> <li>▪ The company in its value chain</li> <li>▪ Relations with the economic community and civil society</li> </ul>	<ul style="list-style-type: none"> <li>▪ Steering of the company's approach</li> <li>▪ Team involvement</li> </ul>

**Qualitative stage:** In addition, a qualitative analysis (based in particular on dialogue with company executives) is conducted internally by a team of experts on ESG topics. This approach aims to assess on a trend basis, at least over 3 years, the company's ability to integrate and innovate on the 5 ESG pillars of our approach. It is the findings of the Responsible and sustainable finance (Finance Responsable et Durable, FReD) team in terms of rating that prevails.

The model allows for the normalisation and standardisation of information collected on a monthly basis (based on an overall score of 1 to 10, 1 representing a low contribution to ESG factors and 10 a high contribution), followed by the classification of companies according to 5 distinct groups in terms of their current non-financial performance.

Classification	Description	Colour
<b>1 = Negative</b>	High ESG risk Potentially frozen assets	
<b>2 = Not very involved</b>	More indifferent than opposing	
<b>3 = Neutral administration</b>	Neutral administrative system in accordance with its sector regulations	
<b>4 = Engaged</b>	Engaged the trajectory Best-in-Trend	
<b>5 = Best-in-Class</b>	Real relevance Best-in-Class	

## Methodology for public issuers & green bonds

### a) Green bonds

Likewise, Crédit Mutuel Asset Management's ESG analysis model of green bonds helps encourage issuers in their initiatives to actively participate in the energy and ecological transition. The selection process is rigorous:

- Analysis of the issue project (70% of the final rating) and the issuer (30% of the final rating)
- Selective approach to projects: elimination if the projects financed do not comply with the exclusions of the Greenfin label (fossil fuels, nuclear segment, etc.), elimination if the projects are aligned to less than 90% with the Greenfin label
- Great vigilance to avoid controversies: Green bond controversy over a 'green' project (for environmental benefit)
- An analysis is conducted by the Responsible and Sustainable Finance Division (FRéD) to assess the controversy in 3 areas (Frequency, Seriousness and Reactivity)

### b) Public issuers

Crédit Mutuel Asset Management has developed an internal model for the non-financial valuation of the so-called 'Public' Entities. The model aims to identify the public issuers best positioned to tackle the societal and sustainable development challenges that lie ahead.

The methodology for analysing 'Public Entities' is based on Crédit Mutuel Asset Management's recognition of the Universal Values of Human Rights, Democracy, Equality between Citizens, Anti-Corruption, Right to Work, Combating Poverty, Health, Social Cohesion, Respect for Natural Resources and Biodiversity, the Right to Living in a Healthy Environment, Combating Climate Change, etc. These values are reflected in the selection of Key Performance Indicators. The purpose of the 'Public Entities' model of non-financial analysis is therefore to offer a summary view (in the form of a score) of these issuers' adherence to the Universal Values.

## 1- Source of Scoring: ISS ESG

The model uses 108 Key Performance Indicators (KPIs) furnished by one of our providers. These digital data come from many government sources (Eurostat, US State Department, etc.), supranational (OECD, World Bank, WHO, FAO, etc.) and NGOs (Amnesty International, Transparency International, Germanwatch, etc.).

## 2- Methodology

The Entities concerned by the methodology are classified as follows:

### Public Entities

- Sovereign Entities
- Local Authorities
- Supranational
- Agencies

The Scoring applies to the Sovereign Entities. The assessment of the 3 other categories of Public Entities is derived from their connection to one or more Sovereign Entities.

Each Entity is rated on 3 pillars: Environment, Social and Governance, even divided into Classes comprising the KPIs.

The pillars shall be weighted in the same way for each Entity under review:

- Environment 40%
- Social 30%
- Governance 30%

<b>Environment</b>	<b>40%</b>	<b>44</b>	<b>Key Performance Indicators</b>
Natural resources		7.70%	13 indicators
Energy and climate change		20.70%	10 indicators
Production and consumption		11.60%	21 indicators
<b>Social</b>	<b>30%</b>	<b>28</b>	<b>Key Performance Indicators</b>
Health Care		5.70%	5 indicators
Education and communication		6.10%	4 indicators
Labour		8.70%	10 indicators
Social Cohesion		9.50%	9 indicators
<b>Governance</b>	<b>30%</b>	<b>36</b>	<b>Key Performance Indicators</b>
Political system and governance		17.00%	14 indicators
Human rights and fundamental freedoms		13.00%	22 indicators

A score is produced for each pillar on the rating scale of 1 (lowest score) to 10 (best score) by Crédit Mutuel Asset Management.

A global ESG weighted score is then produced on the same scale. The overall ESG score obtained is finally positioned in the classification table used by Crédit Mutuel Asset Management (see above). With the Sovereign ESG score coming from 108 indicators developed and measured by many institutions throughout the year, the score is updated on a monthly basis.

## 2) Controls

The control system on ESG ratings is based on a series of first- and second-level controls. These control points enable the risks associated with a failure to comply with the measures described above to be understood and controlled.

First-level control:

- Compliance with the coverage of the fund's ESG ratings and the approach in selectivity of the investment universe for funds significantly committed to ESG criteria.
- Compliance with the fund's ESG ratings coverage and rating enhancement approach for Funds engaged in ESG criteria.
- Specific monitoring of thematic funds and related management constraints (Climate Change, Ecological Transition, Green Bonds, etc.).
- SRI investment process.

Second-level control:

- Monitoring of SRI label constraints and ESG ratings linked to funds significantly committed to ESG criteria via the escalation procedure in the event of a failure of the first-level controls.
- Monitoring of Fund constraints committed to ESG criteria via escalation procedure in case of a failure of first-level controls.
- Analysis of the consistency of the investment universe defined for funds using rating enhancement and selectivity approaches.
- Validation of the internal ESG rating methodology in relation to the defined process (sector weighting, committee, etc.).

## C) 3<sup>rd</sup> pillar: Monitoring of controversies

### 1) Scope

All companies present in Crédit Mutuel Asset Management's proprietary ESG Database are concerned. The decisions apply to all funds of which Crédit Mutuel AM is a Management Company and for which it invests 'directly', with the exception of CM AM Green Bonds, whose controversy monitoring process is specific and linked to the specific non-financial analysis provider of the UCI.

### 2) Definition and source

#### ➤ Controversy

Controversy is defined as a public element leading to the first materialisation of an ESG risk. It first incurs reputational risk, and then, once the materiality of the controversial element is confirmed, causes the emergence of direct or indirect financial costs.

Controversy can also be seen as a leading indicator of a company's ESG assessment.

Crédit Mutuel AM defines 3 colour codes to specify the level of controversy of the companies it invests in:

- Green: No controversy
- Orange: Presence of at least one of the following controversies
  - Public and fragmented information
  - Proven failure to comply with an Established Standard with corrective measures in progress
  - Alleged failure to Comply with an Established Standard
  - Imminent Failure to Comply with an Established Standard

- Red: at least one controversy characterised by a proven failure to Comply with an Established Standard without any corrective action being taken

➤ Source:

Crédit Mutuel AM uses ISS's 'Norm-Based Research' service to supply data to its ESG Controversy Database.

### 3) Operation

➤ General principle

Crédit Mutuel AM has set up its mission to manage its clients' funds in compliance with environmental, social and governance rules and standards linked to Responsible Finance.

The general rule is therefore the exclusion of companies classified as Red in terms of controversies, as those with the Orange classification are not excluded but only subject to monitoring.

- New Red controversy

Each time a controversy occurs that is classified as Red, ISS ESG provides an analysis describing the factual elements that led to this ranking. The Responsible and Durable Finance department (Finance Responsable et Durable, FReD) examines the Red controversy in question in order to confirm it.

The general principle is confirmation of the controversy as it stands. FReD then communicates this information to all the departments concerned (Management, Risk, etc.).

It may happen that a controversy classified as Red is not confirmed by FReD. A specific analysis is then produced to be decided then by the Ad Hoc Committee.

- Exclusion Committee

This committee meets at the request of the FReD department. It is composed of representatives of Senior Management, the Management Department (with the presence of the Responsible Finance Department), and the Risk Department. It rules on the validation of the Red controversy, based on the analysis produced by FReD.

Once the decision has been approved, it will be communicated to the same parties as in the previous point. Any decision against the validation of the Red controversy is justified and formalised as part of the overall sustainability risk management policy.

- Actions within portfolios

The general rule is that companies classified as Red are not in portfolios.

- Occurrence of the Red controversy before purchase:

Managers need to ensure that there is no Red controversy in the ESG Database.

- Occurrence of the Red controversy after purchase:

For the issuer that is newly-classified as Red, the delay to exit the portfolios is one month under normal market conditions.



## 4) Controls

In order to ensure compliance with the prohibitions defined by the Exclusions Committee, CM AM has put in place post-trade control on the ratio monitoring tool. The aim of the system is to set up automated rules for reporting and alerting management of prohibited securities held in funds within the scope concerned by the management of controversies.

In the same way as prohibited securities in sector policies, any anomalies detected are subject to the alert process relating to anomalies in regulatory or statutory ratios (see page 10).

## D) 4<sup>th</sup> pillar: Climate risk

### 1°) Governance and Climate Strategy

#### Climate-related collaborative implications

As already mentioned in its commitments (Part II), Crédit Mutuel Asset Management is committed to climate initiatives by being a signatory to several international charters.

Likewise, CM AM participates in thematic working groups on 'climate' topics with organizations such as the AFG (Association française de la gestion financière) or academic research (FIR).

Initiatives	Governance	Environment	Social	Societal	Commitment to the social responsibility approach	Date of signature / joining
Forum de l'Investissement Responsable (Responsible investment forum) FIR / Eurosif Support for academic research / FIR-PRI 2020 Prize	X	X	X	X	X	Since 2004 2020
PRI (Principles for Responsible Investment)	X	X	X	X	X	Since 2012
CDP (Carbon Disclosure Project) Water, CO2, Forests SBTi campaign 2020-2021 with issuers to align with Net 0 emissions by 2050		X			X	Since 2010 2020
Paris Agreement		X	X	X	X	2015
Global Investor Statement to Governments on Climate Change		X				2018
Green Bond Principles		X				2015
Moving towards a more widespread use of non-financial ratings	X					2017
Access to Medicine				X	X	2017
Finance for Tomorrow		X	X	X	X	2019
30% Club France Investor Group	X		X		X	2020

#### Climate change goals and climate challenges

As its asset management subsidiary, Crédit Mutuel Asset Management is fully in line with Crédit Mutuel Alliance Fédérale's ambition to reduce the carbon footprint of the financing carried out in its corporate, asset management and insurance customer portfolios by 15% by 2023.

This includes:

- Crédit Mutuel Alliance Fédérale has set itself concrete commitments to join the trajectory of the Paris Climate Agreement aimed at limiting the temperature increase to between 1.5°C to 2°C by 2100.
- To achieve this objective, Crédit Mutuel Alliance Fédérale will calculate the carbon footprint of the financing issued, both on its financing portfolio to large corporations and on its financial investments as part of its activities as an insurer and asset manager.

- As a reminder, Crédit Mutuel Alliance Fédérale strengthened its climate strategy and approved a plan to exit coal activities by 2030.
- Its 2019-2023 strategic plan also provides for a 30% reduction in its CO<sub>2</sub> emissions (as an institution) and a 30% increase in funding for projects with high impact on the climate, also by 2023.

### Climate strategy and focus

CM AM's climate strategy is based on two study foci:

- The mitigation or the set of measures implemented with the objective of reducing the negative impact on the environment
- Adaptation or initiatives to reduce vulnerability to climate change

The development of this strategy is based on a dual analysis of climate-related risks and opportunities, through metrics upstream and downstream of investments:

- Pre-project analysis:
  - Application of the ESG filter upstream of the investment, including for the 'Environment' portion (E) analysis of 1- the environmental approach, 2- carbon policy, 3- water, waste and biodiversity management, 4- the design and life cycle of products and services
  - Prioritisation of issuers within their sector of activity based on the Carbon Intensity criterion. Carbon Intensity is characterised by the ratio of GHG emissions divided by revenue (Electricity production for Energy companies, GDP for Sovereign entities). A score of 1 to 5 is then assigned to each issuer depending on the positioning of this ratio within its sector of membership.

- Post-project analysis or the use of climate analysis tools downstream of the investment for Portfolio Valuation:

These tools present carbon impact measures, developed with the data of our Trucost provider, and include the following:

- GHG emissions
- Average Carbon Intensity
- Carbon Efficiency

### Description of Climate Policy

- Guidelines: the consequences of climate change are probably one of the risk factors most likely to have a long-term impact on the valuation of CM AM's assets. This is why, when implementing CM AM's ESG policy, Climate policy is taken into account independently of the ESG approach in order to have more accurate metrics for assessing issuers and better understand their exposure to the different dimensions of climate risk over time and trajectory.
  - Scope of the Carbon study: As data availability is not yet complete, the use of a partial 'Direct + First-Tier Indirect' calculation is implemented. This measure covers Scope 1, Scope 2 and all emissions from 1st-level suppliers.

The use of the global scope 1 + 2 + 3 calculation will be phased in to meet the regulatory requirements (SFDR) for full application as of 01/01/2023.

*Scope definition: The Greenhouse Gas Protocol scopes provide 3 measures for greenhouse gas emissions. These levels correspond to GHG emissions at various stages of the Company's business.*

- *Scope 1 or direct emissions corresponds to emissions resulting from the combustion of fossil fuels (gas, oil, coal, etc.),*
- *Scope 2 or indirect emissions is related to energy consumption related to indirect emissions related to the consumption of electricity, heat or steam needed to manufacture a product.*
- *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 linked to other stages of the life cycle than its manufacture alone. For many industries, this is the largest share of a company's emissions.*

- Hedge rate  
Any Carbon reporting includes data on at least 90% of a fund's investments

- Follow-up process: the application of the climate strategy is monitored via a proprietary tool upstream of investments (quantitative and qualitative ESG database on nearly 5,000 issuers updated on a monthly basis) which is based on a set of ESG indicators specific to the various asset classes (equities, corporates and sovereigns) whose climate policy (see pre-project analysis) and via the use of a specific Climate tool with our Trucost provider downstream of investments (see post-project analysis and climate policy). This tool is also available to all managers working upstream on the Climate theme in their portfolios.

## **2°) Impact on investments and portfolios**

The Climate policy of Crédit Mutuel AM's portfolios is part of the ambitious trajectory of the Paris Agreement: limiting global warming to between 1.5°C to 2°C by 2100. Crédit Mutuel AM is therefore paying particular attention to the climate impact of all investments made in its funds.

This strategy is rolled out as follows:

- Choice of sectors and issuers: Our objective is to identify the sustainable risks and opportunities within the sectors and to select the companies contributing to the climate transition, distinguishing between the factors already taken into account by the company and those whose occurrence could have an impact on the financial indicators (innovation and solutions implemented).

Key ESG issues by sector for 2021:

Sectors	Governance	Social	Environment	Societal	Commitment to the socially responsible approach
FOOD		Jobs created in organic food	Intensive use of palm oil and cattle breeding Water stress threats	Frequent health scandals	Shift of demand to healthier, less meat-based products
AUTO / TRANSPORTATION	Move to favouring green R & D	Adaptation to new technologies	Hydrogen propulsion	Cost of adaptation to new technologies	Development of mobility services, the autonomous vehicle and the hydrogen market Use of rare-earth elements
BANKS	Acceleration of reporting to management bodies and boards, including supervisory bodies	Health crisis: Significant changes in working methods, hence restructuring and psychosocial risks	Priority on cost-cutting and climate risks with development of sector policies (coal, mining, energy)		Financing climate transition through green financing in particular Computer and cyber-crime risks (personal data), industry disruption risk and climate stress test
CONSUMPTION			Development of organic and recycled products	Development of increasingly complex products, perhaps too complex for the average consumer and that present a greater risk of litigation	Development of the circular economy and the sharing economy
CONSTRUCTION	Strengthening decarbonation targets (cement, road construction, positive-energy buildings)	Occupational diseases and accident rates	Energy efficiency (insulating and renovating)	Illegally overexploited labour in selected regions	Road infrastructure for autonomous vehicles
DISTRIBUTION	Movements within shareholder bodies and remuneration policy	Significant changes in the business model, hence restructuring and execution risks	Local/Territory and value-chain initiatives (packaging and transport)	Support for the development of 'new' producers	Change in consumer habits Duty to pay attention to biodiversity
ENERGY	No commitment to an absolute reduction of CO2 emissions	Increase in investments excluding hydrocarbons	Carbon footprint. Impact of upstream activities on biodiversity	Thanks to renewable energy, increased energy independence	Acceleration of asset impairment (reserves)
INDUSTRIALS			Strong transparency on scope 3 (90% of total emissions)		Artificial intelligence and environmental disclosures
MEDIA	Concentration of powers	New distribution channels	Scope 3 emissions growing	Monitoring of information	
HEALTH / PHARMACY	Business ethics		Major GHG emitter	E-health Protection of personal and biological data Resistance to antibiotics Access to medicine	Innovation Product safety and quality Sale of counterfeits online
UTILITIES	Continuation of the coal sector	Job creation (renewables, hydrogen)	Green deal in Europe, Joe Biden's Renewables Plan in the US	Control of the supply chain (solar panels, batteries)	Accelerating investment in energy transition Population displacement (dams, solar-wind farms)
FINANCIAL SERVICES AND INSURANCE	Conflict of interest in the boards of directors		Risk of impairment on heavily damaged assets	Micro-insurance and support for temporary crisis-related measures	Cybersecurity Climate change and impacts, climate stress tests
TECHNOLOGY	Concentrated powers	Digital divide	Scope 3 emissions growing	Protection of personal data	Opportunities linked to artificial intelligence and the demand for electric vehicles Data ownership
TELECOMS	Concentrations of powers		Energy consumption	Protection of personal data Drivers of population and societal growth Coverage of the territory	Artificial intelligence / Digitalisation Technical malfunction Cybersecurity

In **green** the opportunities

In **blue** the risks

Source: FReD

- Reduction to high-carbon assets:
  - The sector policy aims to exclude emitters from the mining and power generation sectors from thermal coal (see above)
  - The principal metric used is the measure of the temperature of the funds' portfolios expressed in the degree or breakdown of investment by range of degrees Celsius (see below)
  - The metrics inherent to water, waste and biodiversity (Disclosure and Principal Adverse Environmental Impact are mandatory) will be progressively integrated according to CM AM's roadmap

List of indicators used for the main metric

CM AM's Climate strategy is based on a view of progress (trajectory) and on seeking the degree of exposure of the portfolios to the risks of climate transition by improving the analysis of available indicators:

CM AM Name	Scope	Explanation	Formula
Funded Issues (Private Sector)	Investments in private issuers	Absolute carbon footprint of the Private Issuers portfolio	$\sum_i^n \frac{\text{€ Investment } i}{\text{€ Company Value } i} \times \text{Emissions } i$
Issues Funded for 1 euro (Private Sector)	Investments in private issuers	Carbon footprint for one euro invested in the Private Issuers portfolio	$\frac{\sum_i^n (\text{Emissions } i * \text{€ Investment } i) / (\text{€ Company Value } i)}{\text{€ } \sum_i^n \text{Investments}}$
Weighted Carbon Intensity (Private Sector)	Investments in private issuers	Weighted average of the carbon intensities of Private Issuers	$\sum_i^n \frac{\text{Emissions } i}{\text{€ Turnover } i} \times \frac{\text{€ Investment } i}{\text{€ } \sum_i^n \text{Investments}}$
Carbon Efficiency (Private Sector)	Investments in private issuers	Measuring the operational efficiency of Private Issuers in terms of carbon emissions	$\frac{\sum_i^n \frac{\text{€ Investment } i}{\text{€ Company Value } i} \times \text{Emissions}}{\sum_i^n \frac{\text{€ Investment } i}{\text{€ Company Value } i} \times \text{€ Turnover } i}$
Funded Issues (Public Sector)	Investments in public issuers (sovereigns)		$\sum_i^n \frac{\text{€ Investment } i}{\text{€ Gross Debt } i} \times \text{Emissions } i$
Issues Funded for 1 euro (Public Sector)	Investments in public issuers (sovereigns)		$\frac{\sum_i^n (\text{Emissions } i * \text{€ Investment } i) / (\text{€ Gross Debt } i)}{\text{€ } \sum_i^n \text{Investments}}$
Weighted Carbon Intensity (Public Sector)	Investments in public issuers (sovereigns)	Weighted average of the carbon intensities of Public Issuers	$\sum_i^n \frac{\text{Emissions } i}{\text{€ GDP } i} \times \frac{\text{€ Investment } i}{\text{€ } \sum_i^n \text{Investments}}$
Carbon Efficiency (Public Sector)	Investments in public issuers (sovereigns)	Measuring the operational efficiency of Public Issuers in terms of carbon emissions	$\frac{\sum_i^n \frac{\text{€ Investment } i}{\text{€ Gross Debt } i} \times \text{Emissions } i}{\sum_i^n \frac{\text{€ Investment } i}{\text{€ Gross Debt } i} \times \text{€ GDP } i}$

List of target indicators

Additional indicators are identified to better reflect the environmental impact of investments. These indicators concern Electricity producer emitters, which have the most significant climate impact:

- Energy mix: distribution of production by type of fuel
- Brown share / Green share: Evaluation of the share of production based on fossil fuels emitting GHGs

## Addressing the impact of climate change on investment

- CM AM ensures that companies that create new coal production capacity are excluded (Urgewald GCEL list) as well as companies where:
  - Annual coal production is strictly above 10 million tonnes
  - Installed capacity for coal-based power generation exceeds 5 gigawatts
  - The share of coal in sales is strictly greater than 20%
  - The share of coal in the energy production mix is strictly greater than 20%
- CM AM is engaged in dialogue with the emitters that are most negatively involved on climate risk. In 2020, CM AM tabled a resolution on the climate issue in particular asking a major player in the hydrocarbons sector to specify its objectives and agenda enabling it to respond to the Paris Agreement.

### **3°) Impact of investments**

Investments may adversely affect climate change. 'Do No Harm' for CM AM is based on needing to identify and reduce the potential adverse effects of investments made in its portfolios. Consideration is being given to how to integrate this concept into its ethical framework, management policies and tools.

This will enable it to assess the financial costs resulting from:

- Physical risks (weather or periodic events)
- Carbon risk
- Risk of stranded assets (hydrocarbons, coal)

### **4°) Transparency and communication**

In the interest of transparency, Crédit Mutuel AM publishes all of its global transition and commitment approach on its website. In its role as responsible investor, it participates in educating its customers and members by leading public events, disseminating bimonthly articles and letters on ESG and climate transition themes, which are themselves available on its website and the LinkedIn link.

## **E) 5<sup>th</sup> pillar: Voting and dialogue with issuers**

### **1) Principles**

The voting policy is an extension of the investment policy, the objective of which is to seek regular long-term performance in line with the funds' management guidelines. Crédit Mutuel Asset Management defines its voting principles for an application to all companies for which it exercises its voting rights. Nevertheless Crédit Mutuel Asset Management may take into account the characteristics of each of the companies before exercising its voting rights in particular on smaller companies. It also takes into account the particularities of each country in terms of company law and corporate governance.

As a responsible investor, Crédit Mutuel Asset Management pays particular attention to the corporate governance structures and practices in which it invests on behalf of its customers and the funds it manages. Robust and transparent corporate governance practices generate long-term shareholder value and are elements of risk management. The team responsible for implementing the voting policy is regularly asked to question companies on the resolutions proposed at General Meetings and to inform them of the main elements of Crédit Mutuel Asset Management's voting policy.

**The principles of Crédit Mutuel AM's voting policy are as follows:**

- Compliance with minority shareholder rights and fairness between shareholders
- Transparency and quality of information provided to shareholders
- Clarity and balance of powers between management bodies
- Sustainability and integration of long-term corporate strategy
- Support of best practices in corporate governance

How these principles are implemented can be found on CM AM's website ([www.cmcic-am.fr/fr/particuliers/nos-expertises-et-services/finance-responsable/politique-de-vote.html](http://www.cmcic-am.fr/fr/particuliers/nos-expertises-et-services/finance-responsable/politique-de-vote.html))

## 2) Engagement policy

Best practices in terms of social, societal, human rights, the environment and corporate governance can only help to strengthen the relevance of the company's issues, its financial situation, its ability to create value over the long-term and its valuation.

As a result, Crédit Mutuel Asset Management has adopted a holistic approach covering all criteria concerning the quality of governance, social aspects, and environmental aspects, including climate. Since these criteria are interdependent, this choice allows us to take a global view of the challenges, risks and opportunities and to integrate them into a long-term strategy.

These criteria are specified in the Article 173 report of the Energy Transition for Green Growth Act and are based on texts that are universal in scope, such as:

- The United Nations Global Compact
- The Rio Declaration on the Environment and the Paris COP21 Agreement
- The OECD Guidelines on Corporate Governance.

Good governance is fundamental. It is the *sine qua non* for achieving and maintaining good results in other areas, including social, societal and environmental areas. In this way, the engagement policy is directly linked to the voting policy.

Engagement is one of the foundations of:

- the ESG integration policy: materiality-oriented approach upstream of responsibility
- Socially Responsible Investment: Accountability-oriented approach upstream of materiality.
- The process
  - Individual engagement

Crédit Mutuel AM conducts two types of dialogues:

- Ad hoc engagement, through direct dialogue and monitoring by the Responsible and Sustainable Finance (FRoD) team, mainly with large European companies
- Structured engagement based on a common questionnaire sent to European companies.

As an active investor, Crédit Mutuel AM aims to invite, through constructive questions, best practices in governance, social and environmental matters. This requires greater transparency, the provision of quality data and the integration of CSR into the long-term strategy of companies.

All sustainability risk themes (ESG, controversies, climate, sector policy) can be addressed. The resources allocated are proportional to the materiality of the stake for funds managed by Crédit Mutuel AM.

- Communication with relevant stakeholders

A summary is published in the Article 173 report, available on Crédit Mutuel Asset Management's website, [www.creditmutuel-am.eu](http://www.creditmutuel-am.eu).

## IV - Committees integrating sustainability risks

Crédit Mutuel Asset Management has adapted its organisation to progressively integrate sustainability risks into its risk management processes.

The composition, frequency and main responsibilities of the main committees incorporating sustainability risks are described below.

- **CSR Committee**

A quarterly CSR Committee comprising Senior Management, the Head of Management, the Head of Risk, the Responsible and Durable Finance (FRoD) department, the Social Responsibility and Mutualist division was set up to monitor the operational development of sector policies.

Its tasks:

- Deciding on the companies involved in the different sector policies
- Validate a company's exit plan from the investment universe and managed funds / mandates
- Disseminate a meeting report and a statement of decisions to Management and the Risk Department

- **Control and Compliance Committee**

The Control and Compliance Committee is the body responsible for producing the control work carried out. It is composed of the Senior Management, the Head of Risk, the Head of Compliance and Internal Control (RCCI) and the Head of Risk Control. It meets quarterly.

The RCCI informs the Committee of the efficiency rate of the monitoring of ratios including ESG constraints, the monitoring of controversial security ban lists and sector policies.



- *Risk Committee*

The Risk Committee is the body responsible for reviewing the management and monitoring of financial and operational risks. It is composed of Senior Management, the Head of Risk, the Head of Compliance and Internal Control (RCCI) and the Head of Risk Control.

Sustainability risk, an integral part of risk management, can be on the agenda of the Risk Committee.

The frequency of meetings shall be quarterly.