Rothschild & Co Asset Management Europe

Summary of our Sustainability Risk Policy for Investments

Rothschild & Co
Asset Management

1. Scope of this document

This document covers Rothschild & Co Asset Management Europe (hereinafter “R&Co AM EU”).

2. Purpose of this document

The purpose of this document is to present how R&Co AM EU’s policies integrate sustainability risks into its investment decision-making process.

3. Definition of sustainability risk and importance of having policies covering this risk

Sustainability risk includes any environmental, social or governance event or condition that, if it occurs, could have a significant negative impact, actual or potential, on the value of the investment.

As a responsible and committed investor, R&Co AM EU wishes to participate in the orientation of financial flows towards actors implementing responsible and sustainable practices through its investment choices and an active engagement approach.

Anticipating and managing the transition to more sustainable business models are important elements considered in our analyses, due to the risks and opportunities they may present in the short, medium and long terms. Indeed, sustainability issues can materialize in particular through:

- A deceleration or a rapid decline in historical activities in consideration of new consumer trends and environmental challenges;
- Additional investment needs following regulatory changes
- Impairments of assets.

Consequently, R&Co AM EU seeks to identify the impact of sustainability risks on the intrinsic elements of each investment (financing needs, competitive positioning, default risk, etc.) over the long term.

The integration of ESG criteria through fundamental analysis and the assessment of sustainability issues in investment policies focus particularly on achieving the following objectives:

- Benefiting from a better general understanding of risks so as to better protect our portfolios;
- Improving valuation processes in order to seize new opportunities;
- Achieving in the end a better appreciation the convexity of target investments.

4. Process of integration of sustainability risks into investment decisions

4.1 Governance and Sustainability Risk Integration Process

4.1.1 Governance and integration of responsible investment issues at R&Co AM EU

Governance and the integration of issues related to responsible investments are based on:

- A specific R&Co AM EU organisation:
  - An «ESG and financial analysis» team;
  - «Responsible Investment» referents in each area of expertise;
  - An ESG committee responsible for monitoring and prioritising all ESG projects, involving senior management and the heads of each business unit concerned (Asset Management, Risk Management, Compliance, Legal, Reporting, Business Development, etc.).
- Group Committees and Teams:
  - A Responsible Investment Committee, composed by senior representatives from each business line reporting to the Group Executive Committee;
  - It is supported by a Group Responsible Investment Team, in charge of harmonizing ESG processes and assisting entities on their strategic ESG developments.

4.1.2 Integration of sustainability issues when analysing and selecting securities and funds

The selection of securities in the portfolio is centred on compliance with internal procedures and a combination of financial and ESG performance analysis:

1. Implementation of exclusion policies for both managed funds and funds of funds, including:
   - Exclusion of companies subject to international sanctions (UN, OFAC, EU, France, ...) ;
   - Exclusion of companies involved in the production of controversial weapons (Oslo Treaty of 2008 and Ottawa Convention of 1997);
   - Exclusion of companies that do not respect fundamental principles, that cause serious misconducts such as human rights violations, significant environmental damage or severe cases of corruption;
   - Exclusion of companies involved in new development projects and/or not having a defined exit strategy from the thermal coal sector (production, exploration, extraction, transformation, production of electricity from thermal coal).

Elements on Rothschild & Co's Coal Policy

In line with the criteria defined in the Group's ESG integration process, we have set common guidelines regarding investments in the thermal coal sector. These are in line with the international coal phase-out schedule, for which clear deadlines have been set: 2030 for Europe and the OECD and 2040 for the rest of the world.

The investment principles relative to the thermal coal sector apply to our various discretionary asset management investment activities.

These principles are an integral part of the sustainable investment framework that covers our asset management activities, if they respect the following characteristics:

1. They are in line with our approach to integrate ESG criteria into our investment strategies;
2. They contribute to a response to the risks induced by climate change to better protect our investors;
3. They are representative of our desire to contribute to the transition towards a more sustainable economy.

2. The objective of complying with a minimum ESG rating for our managed funds. For them, we commit to respecting an overall average portfolio rating of at least BBB.
3. Integration of sustainability issues in the investment grid of each of the financial assets in which we invest.
4. The selection of funds by the multi-management teams also considers ESG issues through the implementation of due diligence questionnaires prior to any investment decision (review of exclusion policies in place, ESG process, adherence to international codes and standards, SFDR product classification, etc.).

4.2 Summary of R&Co AM EU's engagement policy

R&Co AM EU's engagement policy is structured on three main pillars:

- Communication with companies and asset managers through our 1-to-1 meetings and collaborative engagement initiatives;
- Voting policy respecting the principles of responsible investment. For our multi-management activity, questions on the voting policy are included in the due diligence process.
- Adherence to responsible investment promotion initiatives such as:
  - UNPRI, Climate 100+, etc...
  - Participation to the AFG's Responsible Investment Committee

4.3 Integration of ESG research and description of the tools used (R&Co AM EU)

4.3.1 Integration of ESG research

Main data sources employed:

- Access to MSCI ESG Research, to specialized ESG research via our brokers, and to open source databases;
- The ESG ratings used rely on the MSCI ESG Research rating methodology, which is based on a Best in Class approach;
- Exchanges with firms and asset managers of our investment portfolio.

4.3.2 MSCI ESG Research Rating methodology

MSCI ESG Research's rating is based on the materiality of ESG factors; this is in line with our commitment to integrate ESG factors into our convexity analyses.

MSCI ESG Research uses published data, including:

- Macroeconomic and sectoral data published by governments, NGOs, and academic institutions;
- Data from the publications of the companies surveyed: annual reports, CSR reports, etc.

For each key ESG factors identified (between 3 and 8 depending on the industry) by sector:

- MSCI ESG Research assesses the risk exposure of the company under review and the policies and actions implemented to address it;
- Similarly, if it represents an opportunity within the sector, MSCI ESG Research looks at the company's exposure to the opportunity and the initiatives taken to address it.

Ratings are assigned on a sector-by-sector basis using a « Best-in-Class » approach, as defined below:

- The scores defined for each key issue are calculated and weighted according to their importance within the sector in question in order to obtain an absolute overall score (from 0 to 10).
- Successively MSCI ESG Research's analysts distribute the ratings within the sectors studied (from CCC to AAA). The ratings obtained are relative to each sector covered.

The Best-in-class rating methodology allows the identification of the best-rated companies from an ESG point of view within their sector of activity, without favouring or excluding any sector. In their rating process, the MSCI ESG Research's analysts take into account any controversies to which companies may be exposed. The ESG ratings, which are reviewed at least annually, may be reviewed on an ad hoc basis to incorporate any controversy.

4.4 Monitoring systems

4.4.1 ESG reporting

For all open funds, R&Co AM EU has set up reports presenting about twenty ESG indicators, and a monitoring of the ESG profile and carbon intensity of the portfolios.

4.4.2 Development of climate indicators and ESG reports

Specific climate indicators are calculated on managed funds and on our selection of long only external investment funds, in order to explore the related risks and opportunities. In particular, we focus on the carbon intensity of these funds and their transition profile.

4.4.3 Evaluation of the ESG trajectory

In our analysis of the environmental profile of the most carbon-intensive companies, we focus on evaluating the trajectory of ESG practices and the climate policies.

4.5 Control systems put in place

Sustainability risks are considered in a cross-divisional approach by all R&Co AM EU teams:

- Integration of sustainability risks in research work and exchanges with target investments and partner asset managers;
- Involvement of asset managers in the effective integration of ESG principles and the understanding of their impact on the convexity of portfolio assets;
- Implementation of efficient and reliable monitoring tools within the reporting department;
- Automation of ESG reporting and data integration;
- Elaboration of risk management solutions and auditing of ESG commitments.

R&Co AM EU's compliance and internal control framework integrates sustainability risks in a comprehensive way, in particular through:

- The implementation of risk management controls aimed at controlling ESG risks (compliance with specific ESG restrictions provided for in the regulatory documentation of the funds) and their integration within the Risk Committee;
- The integration of sustainability risks within the compliance/internal control framework (risk mapping, procedures and control plan). In this regard, specific controls are realised to ensure that investments comply with fund selection criteria. In addition, the implementation of automatic blocking controls, set-up directly in portfolio management and trading systems, prevents investment in securities on exclusion lists (compliance with regulatory exclusion lists, international sanctions or discretionary exclusions in connection with the coal policy);
- Conducting audits of funds by the internal audit department.

4.6 Inclusion of climate and biodiversity risks (French Energy & Climate Law)

R&Co AM EU takes into account the impact of its investments on climate change and biodiversity within its ESG evaluation methodology, in particular through:

- Compliance with exclusion policies concerning thermal coal and specific environmental issues (*via* the exclusion policy relative to the Fundamental Principles);
- The monitoring of the ESG rating of its portfolios and the monitoring of the environmental rating of the investments and targets analysed;
- Monitoring the carbon intensity of the investments;
- The implementation of an engagement policy with target investments so as to improve their on climate change and biodiversity (contact in the event of emerging controversies);
- The inclusion of indicators closely linked to climate and biodiversity risks.

Contacts

France - United Kingdom

Paris
29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Germany - Austria

Frankfurt
Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Switzerland

Geneva
Equitas SA
Rue de la Corraterie 6
1204 Geneva
+41 22 818 59 00

Belgium - Netherlands - Luxembourg

Brussels
Avenue Louise 166
1050 Bruxelles
+32 2 627 77 30

Italy - Spain

Milan
Via Santa Radegonda 8
Milano 20121
+39 02 7244 31