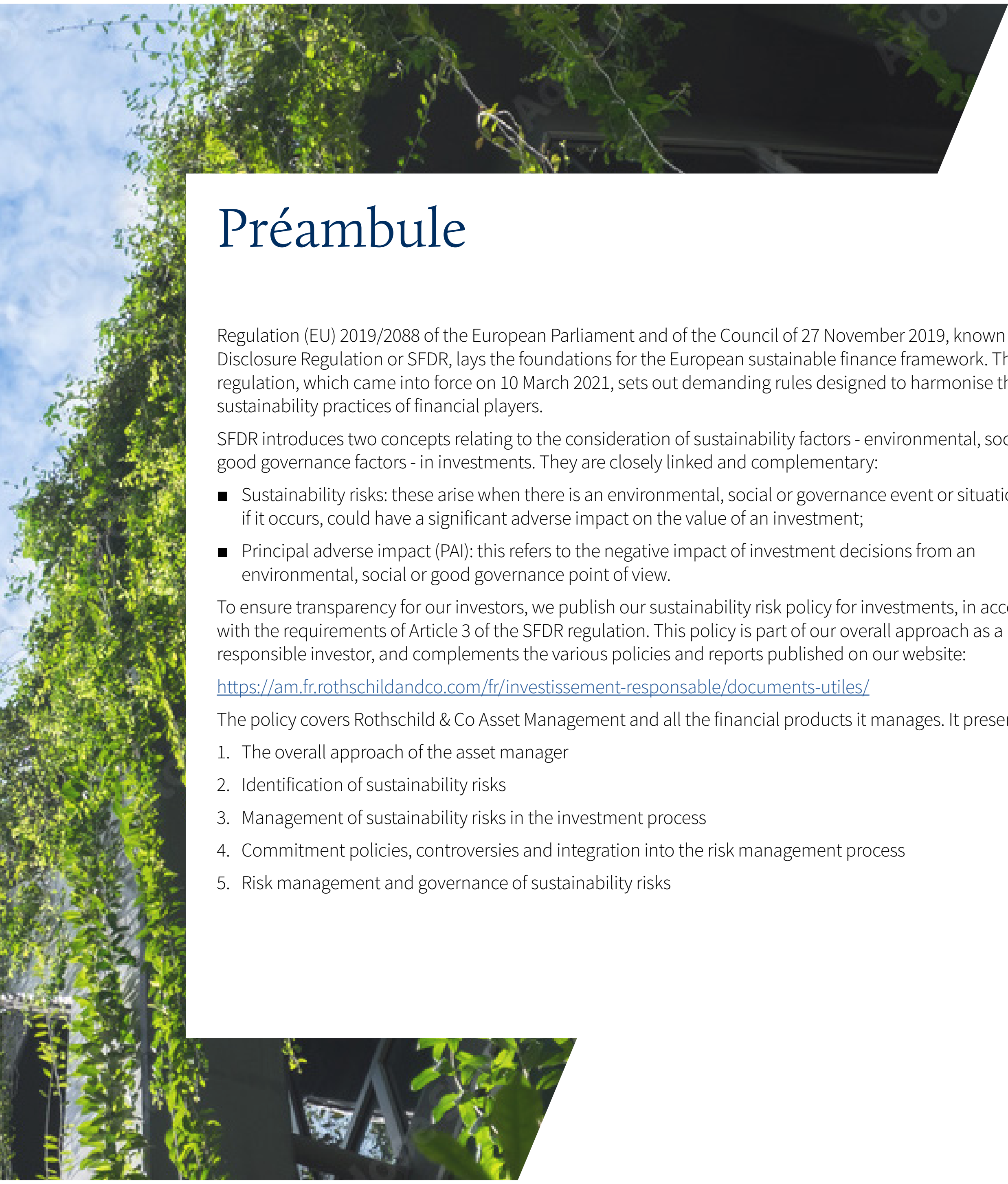
Rothschild & Co
Asset Management

Sustainability risk policy for investments

Article 3 SFDR

2023



Préambule

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019, known as the Disclosure Regulation or SFDR, lays the foundations for the European sustainable finance framework. This regulation, which came into force on 10 March 2021, sets out demanding rules designed to harmonise the sustainability practices of financial players.

SFDR introduces two concepts relating to the consideration of sustainability factors - environmental, social and good governance factors - in investments. They are closely linked and complementary:

- Sustainability risks: these arise when there is an environmental, social or governance event or situation which, if it occurs, could have a significant adverse impact on the value of an investment;
- Principal adverse impact (PAI): this refers to the negative impact of investment decisions from an environmental, social or good governance point of view.

To ensure transparency for our investors, we publish our sustainability risk policy for investments, in accordance with the requirements of Article 3 of the SFDR regulation. This policy is part of our overall approach as a responsible investor, and complements the various policies and reports published on our website:

https://am.fr.rothschildandco.com/fr/investissement-responsable/documents-utiles/

The policy covers Rothschild & Co Asset Management and all the financial products it manages. It presents:

1. The overall approach of the asset manager
2. Identification of sustainability risks
3. Management of sustainability risks in the investment process
4. Commitment policies, controversies and integration into the risk management process
5. Risk management and governance of sustainability risks

1. Overall approach

Initiated more than a decade ago, our approach to sustainability is consistent with our management DNA, i.e., creating value for our clients by anticipating structural shifts in the market. As conviction-based fund managers, we are guided in our investment decisions by three key principles:

1. Integrating sustainability issues into financial analysis
2. Supporting all economic players as part of a dynamic climate transition
3. Participating in the development of a more inclusive economy

Taking account of sustainability risks in investment has always been part of our shared approach to sustainability:

Compliance with our common exclusion framework

- Regulatory exclusions: controversial weapons (cluster bombs, anti-personnel mines, biological and chemical weapons) and international sanctions
- Discretionary exclusions: United Nations Global Compact (UNGC) and thermal coal

Integration of material ESG criteria in financial analysis process

- Use of 3 ESG data providers: MSCI ESG Research, EthiFinance and Carbon4 Finance
- An assessment combining financial and ESG criteria. The integration of ESG criteria is adapted to the analysis process of each management expert and can be applied at sector level as well as at issuer level, at management company level and/or at UCI level, depending on the asset class.

Compliance with sustainable portfolio requirements

- Objective of a minimum ESG rating of BBB
- Minimum ESG rating coverage and an ESG rating higher than that of the investment universe - for the majority of our directly managed open-ended products
- Minimum sustainable and taxonomic investments - for products Articles 8 and 9 of the SFDR regulation

Active engagement

- Targeted dialogue, particularly on our priority themes (climate transition, inclusion and just transition, etc.) and controversies
- Responsible voting policy covering 100% of the equity scope
- Active participation in several industry working groups (Institut de la Finance Durable, AFG, FIR, FAIR, Climate Action 100+, etc.) on the strategies implemented in portfolios (impact, biodiversity, fossil fuels, just transition, etc.)

Detailed ESG reporting(1)

- ESG profile (ESG rating, rating trends and breakdown by sector);
- Carbon intensity (deviation from indices, sectoral contribution and identification of main contributors);
- Transition profile (exposure to stranded assets, reduction targets, green share, etc.)
- Governance: representation of women on the Board of Directors
- Sustainable Development Goals (SDGs): percentage in line with the SDGs

Regulatory developments in the area of sustainability, both at European level with the SFDR regulation and at French level with the Energy and Climate Law, have led us to formalise:

- In 2021 our first sustainability risk policy,
- In 2022, we will publish our first Article 29 Energy and Climate Law report, for the 2021 financial year, including an assessment of climate and biodiversity risks at two levels: on Rothschild & Co Asset Management as a management company and a business, and on our activity and the assets we manage.

As a transition manager, we are continually working to deepen our approach, but also to integrate sustainability aspects into risk management. This work is carried out at several levels:

- Identification of the main families of sustainability risks and associated risk indicators
- Mapping of data and of sustainability risks
- Risk assessment: materiality and integration into control procedures
- Quality of data and methodologies
- Integration into our tools: monitoring and steering
- Action and improvement plan

(1) Except for category 3 products in accordance with AMF doctrine DOC-2020-03

2. Identification of sustainability risks

Definition of sustainability risk

Sustainability risk is defined as an environmental, social or governance event or situation that, if it occurs, could have a material adverse impact on the value of an investment.

Sustainability risks form an integral part of the financial and non-financial risk maps drawn up by Risk Management and Compliance, and of the associated controls that these two departments carry out.

Risk Identification

The three families of sustainability risks - environmental, social and governance - cover a wide range of hazards and associated indicators. We believed it was important to identify a short but sufficiently exhaustive list of indicators to cover the major sustainability risks to which our financial products are exposed.

We have chosen to pay particular attention to:

- Climate risks, particularly those of transition. The risks associated with biodiversity are also significant in terms of the potential for adverse impacts.
- Social issues, particularly those relating to working conditions and the quality, diversity and development of human capital
- Governance issues relating to fraud and corruption, diversity and checks and balances within governing bodies, and making representatives accountable for the company's sustainable strategy

More specifically:

In terms of Environmental issues

Physical risk: risk associated with physical impacts, consequences of climate change

- Acute: extreme events such as floods, hurricanes or avalanches
- Chronic: gradual changes such as rising sea levels and oceans, water stress or rising temperatures

Transition risk: risk associated with new economic, political, technological or market conditions

- Political and legal: increasing the price of carbon emissions or tightening regulations
- Technological: lack of investment in innovations leading to technological breakthroughs (currently being implemented)
- Market: changes in supply and demand, changes in raw material prices
- Reputation: changing consumer preferences

Biodiversity: risk associated with the diversity of living species and the ecosystems in which they live

- Loss of biodiversity: destruction of natural habitats
- Scarcity of resources: reduced genetic biodiversity

In terms of Social issues

Diversity and Inclusion: risk associated with the lack of equal rights and opportunities in terms of access to employment, training, qualifications, mobility, promotion, work-life balance and pay

- Remuneration: pay gap between employees
- Diversity: lack of diversity and discrimination

Labour and human capital management: risk of misuse of employees' knowledge and skills, as well as the risk of human rights violations

- Working conditions: low levels of employee satisfaction, difficulties in recruiting talent
- Regulations: regulatory non-compliance

Health and safety at work: risk of workers not being protected against accidents at work and illnesses

- Infrastructure: poorer quality infrastructure leading to injuries
- Hygiene: non-compliance with hygiene measures leading to illnesses

(1) Excepté pour les produits catégorie 3 selon la doctrine de l'AMF DOC-2020-03.

In terms of Governance issues

Board of Directors: risk associated with the management body that defines a company's strategy

- Non-independence of the Board of Directors: low level of independence
- Gender inequality: low gender diversity
- Protection of minority interests: inadequate protection of minority shareholders/bondholders from majority interests
- Remuneration policy: risk associated with the remuneration committee

Business ethics: risk associated with the behaviour of a person accepting benefits of any kind in order to perform an act within the scope of his or her duties, as well as with litigation

- Unethical behaviour: cases of corruption and controversy

Transparency of external controls and documents: risk associated with regular controls of companies and financial/extra-financial documents reflecting their true status

- Regulations: non-compliance with financial and tax accounting requirements

Our main source for these indicators is MSCI ESG Research.

For each sustainability risk identified, and in order to meet the requirements of Article 29 of the Energy and Climate Law, an analysis of the likely impacts is carried out. This assessment combines two characteristics: the probability of occurrence and the potential impact on the value of an investment. The results are based on a number of different attributes, including geographical location, business sector and company commitments.

With a view to granularity, a distinction is made between short-term characteristics (less than 5 years) and medium-term characteristics (more than 5 years). The data in this table can be consulted in our Article 29 report and is reviewed annually to take into account the rotation of the assets we hold in our portfolios and changes in the way companies deal with these risks.

3. Managing sustainability risks in the investment process

Rothschild & Co Asset Management approach to sustainability risk is fully integrated with its approach to financial risk. In fact, we apply the same level of rigour and robustness to the monitoring of sustainability issues as we do to the financial aspects.

Sustainability risks are managed by Risk Management.

Control framework

The choice of sustainability indicators was initiated by Risk Management in collaboration with the ESG and Financial Analysis, Product Management and Compliance teams and validated with the Fund Management teams.

These indicators are reviewed annually.

These indicators are monitored by risk management on a granular basis. The control framework varies according
to the indicators. This may involve monitoring changes in the indicator over time, a maximum threshold not to be reached for the financial product, a warning threshold for the issuer or a formal prohibition on investing.

Warning thresholds have been determined within a preventive framework in order to target the limits of non-alignment of companies with the strategy and responsible commitment of Rothschild & Co Asset Management investments.

The control framework is common to all financial products, regardless of the level of ESG integration in their strategy. Sustainability risks can affect all financial products, regardless of their SFDR classification. It is vital to know and manage portfolio exposure to sustainability risks.

This approach is also part of an effort to raise awareness among all our managers.

Integration

Risk Management is responsible for integrating these indicators into the systems and calculating them at portfolio level. It is responsible for informing managers of any particular exposure to a hazard.

Focus on the E, S and G pillars

Let's take the example of the E, S and G pillar ratings. If an order is initiated for a company with a pillar rating below the threshold, the order placement system alerts the manager. In addition, on a quarterly basis, Risk Management produces a summary and informs the managers concerned by investments in this type of issuer. It also keeps the organisation and its managers informed through the Risk Committee.

Focus on physical climate risks

As a result of climate change, we are seeing an increase in the frequency, intensity and duration of climatic hazards. This has a direct impact on the economic and financial performance of companies.

Rothschild & Co Asset Management has therefore integrated the risks associated with climate change into its investment strategies and monitors their development.

For example, we carry out a detailed analysis of the indicator of potential loss of a company's market value under a given extreme climate scenario: the Climate Value at Risk (Average outcome)(2).The potential loss figures for a company are subject to an internal limit which serves as a warning reference. As with the ESG pillar rating methodology, when limits are exceeded, an information and awareness alert is sent to managers.

Risk Management will gradually strengthen its control framework by introducing stress tests to examine the financial impact of other sustainability risks.

(2) Climate Value at Risk (Average Outcome) is an indicator provided by MSCI ESG Research. Climate Value-at-Risk (Climate VaR) is designed to provide a forward-looking, performance-based assessment of the climate-related risks and opportunities in an investment portfolio. The fully quantitative model provides in-depth knowledge of how climate change could affect company valuations.

Principal adverse impacts (PAI)

The principal adverse impacts (PAI) defined by the SFDR regulation correspond to the adverse impact of an investment decision on a sustainability issue and constitute for us a complementary tool for monitoring our sustainable trajectories and our investment choices.

There is a link between PAIs and sustainability risks, creating a certain synergy underlined by the principle of double materiality.

We believe that the selection of indicators meeting these two criteria is more representative of the interdependence link.

4. Commitment policies, controversies and integration into the risk management process

At Rothschild & Co Asset Management, commitment is the cornerstone of our approach to sustainability. Regular, long-term and constructive dialogue with companies is part of our in-depth understanding of their business models and the strategies implemented by their management teams:

- refine our analyses,
- better assess the risks and opportunities associated with our investments, and
- inform our trade-offs and management decisions

We ensure that our portfolio managers have sufficient information to assess the potential ESG risk associated with an issuer and support players in all sectors in their transition and transformation, while managing risk-return for our client.

Key principles of our engagement policy

In implementing our engagement policy, our intention is to act on all of the links in our value chain:

- Alongside issuers, as part of our direct management practices. To support and monitor their "ESG trajectories," we interact regularly and constructively with the issuers in which we invest. We use our right of scrutiny whenever we deem it necessary to strengthen our analysis, assess their capacity to transform, mitigate the risk of controversy, or take concrete action in relation to our ESG investment themes (e.g. climate transition, disability).
- We ensure that areas of improvement are put in place and that they lead to tangible results. Unsuccessful or inconclusive interactions can have a direct impact on the management of our positions in the portfolios.
- With asset management firms. As part of our open-architecture management, we conduct in-depth ESG due diligence in order to enrich our buy list inform our fund selection.
- Within the sustainable finance ecosystem (clients, external data providers, professional bodies, market initiatives, public authorities, NGOs, etc.). We actively take part in marketplace discussions by participating in public consultations, working groups and round tables, and by leading communication campaigns aimed at the general public.
- Alongside our charitable partners. For some of our funds, a portion of the management fees associated to sharing units is donated to our charitable partners Polar Pod and Café Joyeux.
- With our employees. Training our employees and raising their awareness of our sustainable investment themes are success factors for our business. We carry out actions in this area and involve employees in our

More details on our engagement processes and mechanisms are available in the dedicated reference document «Engagement and Voting Policy».

Escalation process, divestment and controversy management

We believe that engagement cannot justify the status quo, whether in managing our investment portfolios or in changes that are desirable in the real economy and society.

That being said, we believe that an escalation procedure, and particularly sector disengagement, must be examined pragmatically and on a case-by-case basis, in order to support actors in all sectors in their transformation, while managing risk-reward on behalf of our clients.

We regard divestment as an option that must be "a last resort", for the following reasons: Effectively:

- Giving up our shareholder status means depriving ourselves of voting rights through which we can express our views and inform companies of channels for improvement.
- Giving up our shareholder or bondholder status generally means limiting our options for constructive dialogue with companies.
- Divesting our securities, which, moreover, are traded on secondary markets, limits our potential impact contribution to the real economy, or at least to be part of collective actions and to avail ourselves of a "mass effect" that can make a big difference.

Controversies are an integral part of our processes pertaining to sustainability risks, adverse impacts, and integrating sustainability challenges in our research and in managing portfolios.

- Indeed, our investment vehicles' ESG objectives are based on MSCI ESG Research's ESG ratings. These ratings are drawn up on the basis of a best-in-class approach and include controversies, and may therefore revised on an ad hoc basis to reflect any new factor regarding a new or existing controversy. The controversy may lead to a downgrade in the ESG rating, which can have an impact on the portfolio's ESG requirements when we update the investment universe.
  After this update, if the ESG rating revised in reaction to the controversy keeps us from complying with our ESG frameworks and constraints at the portfolio level, the issuer may be divested within one month.
- In order to monitor controversies, ESG scores by pillar below 2 out of 10 are tracked by the Risk Management department. The aim is to screen and examine portfolio exposures in order to identify any areas of risk and weak signals. We have also set up daily and weekly automatic notifications from the MSCI ESG Research platform.
- We also monitor news flow on a daily basis and disseminate relevant information each day at the portfolio managers' morning meeting.

The Managing Partners, the head of ESG and financial research, the chief risk manager, and the head of in-house controls and compliance are permanent members of the committee. The management teams who hold securities from the issuer that is subject to controversy and the analysts dedicated to that sector take part, depending on the case. Committee members work on a collegial basis and make the most suitable decision on a case-by-case basis – divest, authorise keeping the existing securities, prohibit any new investment, or place the security under surveillance.

In the second and third cases above, they may decide how much time to grant the issuer to reply in detail to the charges against it (generally three to six months), but also on the nature of corrective actions to implement by each issuer and the deadlines for doing so.

For a given controversy, committee members meet whenever new information is made public or at each deadline set in the engagement plan covering controversy committee meetings. Decisions taken at previous committee meetings can then be adjusted.

5. Risk management and governance of sustainability risks

The Risk Management team

Rothschild & Co Asset Management has a permanent Risk Management function that is hierarchically and functionally independent of the operating units. It reports directly to the Managing Director, and functionally to the RMM Group Risk Manager. The Risk Management function has the human and technical resources it needs to carry out its duties effectively. The company does not use a third party for this activity.

Risk Management is responsible for measuring and monitoring all the risks associated with portfolio management, including sustainability risks.

On a day-to-day basis, Risk Management monitors the limits imposed by more specific fund constraints (AMF doctrine, SRI or Towards Sustainability labels, SFDR regulations).

The main aim is to ensure compliance with:

- Product-specific exclusions,
- Targets for weighted average ratings, floor ratings for issuers,
- KPI targets,
- Minimum taxonomic alignment and sustainable investment,
- Reinforcement/purchase bans in the event of controversy,
- And the calculation of PAIs (principal adverse impacts)..

If these limits are exceeded, Risk Management is responsible for passing on the information within the organisation.

Sustainability risks are also monitored on a monthly basis by the Risk Committee. The purpose of the Risk Committee is to carry out a monthly review of risk monitoring of UCIs and mandates. At this committee meeting, the Risk Management function reports on the performance of its tasks.

It is made up of permanent members representing the entity's various management, consultative and decision-making bodies, including:

- Managing Partners,
- Head of Compliance and Internal Control,
- Chief Risk Officer,
- RMM Group Risk Manager
- Heads of Asset Management Divisions,
- Multimanagement Division Analysts Manager

This committee informs its members of the levels of risk incurred by the funds, raises managers' awareness and makes collective decisions. With regard to sustainability risks, Risk Management ensures:

- Compliance with the sustainability policy and the derogation agreement,
- Monitoring alerts on indicator limits and investment/adjustment decisions,
- Analyses and trends relating to these risks,
- Raising management teams' awareness of sustainability risk,
- Any other related subject.

Rothschild & Co Asset Management, a "société en commandite simple" [French limited partnership] with a share capital of EUR 1,818,181.89, registered with the Paris Trade and Companies Register under number B 824 540 173, having its registered office at 29, avenue de Messine in Paris, France (75008). Portfolio Management Company approved by the AMF, under number GP-17000014.

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