Rothschild & Co
Asset Management

# ESG policy

2024

# Sommaire

# Over 10 years of integrating sustainability issues

**2023**

- Signature of the FIR "Say on Climate" open letter
- AFG: participation in the "Diversity & gender" and "Transition plan" working groups
- Participation in 2 new working groups of the Institut de la Finance Durable (methodology of extra financial analysis & Fossil fuels trajectory)
- Member of the FAIR collective
- Member of the FIR (participation in the Social working group and in the Engagement Commission)

**2022**

- New biodiversity data provider (Carbon4 Finance & CDC)
- Involvement in the Finance for Tomorrow working group dedicated to biodiversity
- Participation in the 2DII and ADEME working group on financial product environmental communications
- Member of 1% for the planet

**2021**

- 96% of AuM in open-ended funds classified SFDR Articles 8 and 9 and 86% in AMF Categories 1 & 2
- New ESG data providers (Carbon4 Finance & EthiFinance)
- 10 labelled funds, including 2 funds of funds
- Member of Finance for Tomorrow, Investors for a Just Transition coalition, the Net Zero Asset Managers Initiative, and the fossil fuels working group of the French Asset Management Association (AFG)
- Partnerships with Polar Pod and Café Joyeux Signatory to the UN Global Compact, at Rothschild & Co Group level

**2020**

- Rothschild & Co's sustainable investment roadmap
- Rothschild & Co Group's thermal coal investment principles

**2019**

- 4Change SRI labelled product range
- Member of "Climate Action 100+"
- Rothschild & Co's Group Sustainable Investment Committee

**2018**

- Launch of R-co 4Change Green Bonds and R-co 4Change Moderate Allocation funds, both Towards Sustainability-certified

**2017**

- New ESG data provider (MSCI ESG Research)
- Signatory to the CDP (Carbon Disclosure Project), at Rothschild & Co Group level

**2015**

- Launch of the work on carbon and social issues

**2012**

- ESG rating tool for portfolios

**2011**

- Signatory to the UN PRIs
- ISS sustainable voting policy implementation

# 1. Our approach

## A sustainable approach to performance

Initiated more than a decade ago, our approach to sustainability is consistent with our investment management DNA: creating value for our clients by anticipating structural evolutions in the market. As conviction-based fund managers, we are guided in our investment decisions by 3 key principles:

1

### Integrating sustainability issues into financial analysis

Sustainability criteria are not only extra-financial but must be integrated into the overall assessment of an asset. That's why we decided to combine both financial and ESG analysis. Having convictions means going beyond a regulatory vision or an "extra-financial process" to establish a more comprehensive evaluation of the robustness and relevance of a business model, the credibility of a strategy, and the ability to contribute to the transformation towards a more sustainable world.

2

### Supporting all economic players through a transition approach

We believe that the transition towards a more sustainable world requires integrating all sectors, including the least virtuous. Even so, embracing a transition goal requires rigorous analysis combined with a long-term vision. We are convinced that by supporting companies from all industries we will achieve a more significant progress that may come along a reappraisal of the stock market value.

3

### Participating in the development of a more inclusive economy Une transitio

A long-lasting transition can only be achieved through a socially acceptable process. Our approach intends to articulate the environmental and social dimensions consistently. We believe that a sustainable economic model promotes more inclusive economy.

We want to encourage companies in our portfolios to adapt their practices and steer their financial flows towards actors that integrate these challenges into their strategies and offer concrete solutions.

At a time when investors are being encouraged to invest massively in sustainable themes, we have chosen to develop a transition approach that allows us to invest in all sectors and to combine our support to companies' sustainable transformations of companies with our financial returns objectives.

These three principles are applied to all our investment expertise according to investment strategies' levels of sustainability integration.

Source : Rothschild & Co Asset Management, 31/06/2022.

# A common sustainable approach to all our products and all our asset classes

### A common exclusion framework

- International sanctions and non-cooperative countries for tax purposes
- Controversial weapons
- United Nations Global Compact (UNGC)
- Thermal coal
- Tobacco

### Integrating material ESG criteria into financial analysis

- Use of four ESG data providers: MSCI ESG Research (best-in-class approach), EthiFinance (optimization of ESG coverage), Carbon4 Finance and CDC Biodiversité (carbon and biodiversity data), Morningstar Direct (fund data)
- Use of public company data, broker studies, academic and scientific research, NGO reports and open-access databases (SBTi, TPI or CDP)
- These elements can be combined with the investment cases produced by our analysts. The integration of ESG criteria adapts to the research process of each investment expertise and can apply either at the sector level, the issuer level, the management company level and/or the fund level

### Compliance with sustainable requirements at portfolio level

- Minimum ESG rating of BBB
- Minimum ESG rating coverage
- ESG rating higher than that of the investment universe – for the majority of our directly managed open-ended products
- Minimum of sustainable investments – for SFDR Article 8 & 9 products

### Active engagement

- A dialogue targeted on our priority themes (climate transition, data transparency and other material themes by sector, etc.) and controversies
- A responsible voting policy on 100% of the equity perimeter
- Active participation in several local working groups (Institut de la Finance Durable, AFG, FIR, UNPRI, Climate Action 100+, etc.) on key sustainable issues (climate transition plan , biodiversity, fossil fuels, just transition, regulation etc.)

### Production of a detailed ESG reporting(1)

- ESG profile: ESG rating, rating trends and breakdown by sector
- Carbon intensity: difference vs. the indices, sector contribution and identification of main contributors
- Transition profile: green share, SBTi reduction targets,exposure to “stranded assets”
- Governance: representation of women on the board of directors
- Sustainable Development Goals (SDGs): percentage aligned with SDGs

(1) Except for category 3 products in accordance with AMF doctrine DOC-2020-03 and Article 6 under SFDR regulation.

# A range of products with varying degrees of ESG integration

> “We seek to set up a pragmatic approach that suits all our investment strategies. Three levels of intensity have been structured to best address the specific features of each investment expertise and to offer our clients a diverse range of investment solutions integrating sustainability challenges.”

### ESG integration: 100% of Rothschild & Co Asset Management products

Rothschild & Co Asset Management products are managed in line with exclusions, portfolios ESG objectives (i.e., an ESG score greater than, or equal to, BBB) and come with a detailed ESG report(1). In order to appreciate risk exposure and practices that are in place within the industry, our research process is based on external ESG assessments (MSCI ESG Research, EthiFinance) and more in-depth analysis on the sector and/or issuer by internal teams. Controversies are also integrated and constitute a key element of the engagement process, on top of the responsible exercise of our voting rights. This common framework contributed to better protect our portfolios from sustainability risks and to disseminate good practices in terms ESG integration.

### SRI strategies: our 4Change funds

Since 2019, as part of our 4Change range of open-ended funds, we have managed labelled socially responsible investment strategies. These are based on enhanced sustainable selection criteria, additional exclusions, specific engagement programs and can be dedicated to environmental thematics (Net Zero, Green Bonds) or social thematics (Inclusion). The 4Change fund range is aligned with the most demanding European standards(2), it includes SRI, “Towards Sustainability” and/or Finansol labelled funds and covers all asset classes and geographical areas. It demonstrates our know-how and our commitment in favour of specific sustainability challenges.

### Tailor-made ESG solutions

As part of our offering of dedicated solutions, Rothschild & Co Asset Management assists its clients in strengthening their investment processes through the integration of customized factors: normative and sector exclusion criteria, ESG objectives and/or a thematic approach, in accordance with our clients’ commitments and values.

(1) Except for category 3 products according to AMF doctrine DOC-2020-03 and Article 6 under SFDR regulation.

(2) a) Labelled funds have AFG-Eurosif transparency codes. b) Investments in sustainable bonds (green bonds, social bonds and sustainability bonds) comply with all the principles set out in the AFG-Eurodif transparency code. (b) Investments in sustainable bonds (green bonds, social bonds and sustainability bonds) all comply with the principles laid down by the International Capital Market Association (ICMA), namely the Green Bond Principles “GBP”, the Social Bond Principles “SBP” and the Sustainability Bond Guidelines “SBG”. Sustainability Bond Guidelines “SBG”.

# 2. Ressources

> “In addition to our Sustainable investment team, all our teams are involved in implementing our sustainable strategy.”

### Sustainable investment team

Rothschild & Co Asset Management has a cross-disciplinary Sustainable investment team of five persons headed by Ludivine de Quincerot:

- 2 ESG specialists, who contribute to research and thinking on ESG methodologies and strategies, and in business development. They ensure regulatory and competitive watch.
- An ESG analyst and engagement responsible who takes part in coordinating our engagement actions and research on specific sectors.
- A financial engineer and ESG data scientist who helps develop quantitative tools, ensures service providers watch and monitoring, and coordinates our voting policy.

The  Sustainable investment team contributes actively to steering and harmonising ESG processes within investment expertise, to coordinating research, and to engaging with the investment teams and external service providers.

In addition, the team takes part in discussions on the product offering development, the establishment of investment strategies with the managers and sales teams, as well as complying with regulations and market labels alongside the operational teams. The team is also involved in business development of the SRI funds offering.

### The investment teams

In tight collaboration with the Sustainable investment team, the ESG and financial research, along with the engagement with issuers are conducted by analysts in each investment expertise team:

- 4 international equity analysts
- 5 fixed-income analysts including 1 ESG analyst
- 5 multi-management analysts

Stock selection for our portfolios is based on a financial analysis process that integrates ESG criteria. Analysts are also involved in the analysis of controversies and engagement procedures related to their sectors, both in terms of dialogue and voting.

The fund managers are responsible for properly integrating the asset manager’s sustainable investment principles for their funds. Working alongside the analysts, they are mobilized both on the sustainable approach, common to all generalist investment vehicles, and on the labelled strategies with dedicated sustainable thematic and enhanced selection criteria. The SRI labelled solutions are based on the same investment universes and contributes to spread bests practices across all expertise.

## The operating teams

The **Risk and Compliance** teams are involved in establishing solutions to control and monitor our commitments. The Risk Management team is responsible for integrating ESG data into operational systems.

The **Legal** team is involved in the drafting and production of various contractual documents incorporating sustainability commitments.

The **Business Development** teams actively contribute to the development of marketing materials, monitoring tools, commercial strategies and promotion of ESG criteria.

The **Product Management** team is involved in managing the existing range and in creating new products. The team also updates the products database and supports the creation of new sustainable investment-related projects.

**As each team is involved in and responsible for its contribution to our sustainable approach, sustainability related topics and their integration are not a matter of an independent expertise but rather of all internal skills and employees.**

## A committed governance

At the firm level, the governing bodies of Rothschild & Co Asset Management, i.e., the Executive Committee, the Management Committee and the Supervisory Board, monitor the ESG strategy deployed. The integration of sustainability challenges represents a strategic focus. In addition, several committees have been set up to decide and implement our responsible investment decisions:

- An "ESG Taskforce" organised regularly by the Sustainable investment team and with the Managing Partners , the heads of operating departments and the business development,
- A bimonthly "Operational and Regulatory Sustainability" committee, coordinated by the Sustainable investment team, involving the Managing Partner of investment, the head of Compliance, Risk management, Legal and Product Management.

**Sustainability issues and our developments in this area are also discussed with our governance bodies within the structure:**

- At Rothschild & Co Asset Management's Management committee, through the presence of Ludivine de Quincerot, head of Sustainable investment
- In the Executive committee of Rothschild & Co Asset Management, by the presence of Ludivine de Quincerot, head of Sustainable investment
- In the Wealth and Asset Management ("WAM") committee, through regular updates and decision-making on Responsible Investment issues across the WAM division, by the presence of Pierre Baudard, Managing Partner
- In the Responsible Investment committee of Rothschild & Co Group, headed by François Pérol (Co-President of the Group Executive Committee) with the participation of Pierre Baudard and Ludivine de Quincerot

A Responsible Investment coordination team at both WAM and Group levels is in charge of managing cross-functional projects related to responsible investment. The team supports Group's entities in their integration of the Group's sustainability ambitions and their development on responsible investment issues.

Sustainability matters are addressed at all levels of decision-making to coherently implement the Rothschild & Co Group's sustainability ambitions with the business and customers specificities of each entity.

Most members of these governance bodies have attended internal workshops and training sessions, notably on ESG. In addition, some have chosen to obtain a recognized certification, such as the AMF's certification in sustainable finance.

## Our ESG data providers

**Combining our research capabilities with recognized external data providers: MSCI ESG Research, EthiFinance and Carbon4 Finance**

We rely on research and ESG ratings established by MSCI ESG Research, which rates companies on a CCC to AAA scale (with AAA being the best rating). MSCI ESG Research's rating philosophy is based on financial materiality of ESG issues. Ratings are assigned on a sector-by-sector basis via a "best-in-class" approach which favors the highest ESG rated companies within their sector of activity, without privileging or excluding any sector.

MSCI rating correspondence table:

| Rating letters | Final industry score / 10 |
|---|---|
| AAA | 8.6 – 10.0 |
| AA | 7.1 – 8.6 |
| A | 5.7 – 7.1 |
| BBB | 4.3 – 5.7 |
| BB | 2.9 – 4.3 |
| B | 1.4 – 2.9 |
| CCC | 0.0 – 1.4 |

MSCI ESG Research uses public data provided by governments, NGOs, academic institutions or directly from company disclosures. To summarize, for each key ESG challenge identified per sector (between 3 and 8, depending on the industry):

- MSCI ESG Research assesses a company exposure to potential risk (based on its business model, its presence in certain countries, etc.) and the policies and actions implemented to oversee it;
- Similarly, if MSCI ESG Research considers it as a sector opportunity, it evaluates the company exposure to the opportunity and the initiatives that have been taken to address it.

In their rating process, MSCI ESG Research analysts integrate any controversies to which issuers are exposed. The ESG ratings are reviewed at least annually and may be revised on an ad hoc basis to integrate a new controversy. The MSCI ESG Research ratings allow us to sort and steer our investment universe transparently.

In case of major corporate events, likely to materially alter the issuer's ESG rating and the delay the MSCI ESG Research updates, a provisional in-house rating may be assigned during the adjustment period.

We have upgraded our ESG data architecture with two additional data providers:

- EthiFinance, providing ESG ratings on request and helping optimise ESG coverage of portfolios;
- Carbon4 Finance, which offers a set of carbon data, in-depth temperature profiles, as well as biodiversity footprint data according to CDC Biodiversité's methodology.

In addition to the quantitative information of our data providers, we also use external research:

- Brokers studies (JPMorgan, Exane, Goldman Sachs, Barclays, Morgan Stanley, Oddo, etc.);
- Academic, scientific or supranational institution research, NGO reports and free-access databases (SBTi, TPI or CDP).

We have set up a "Provider committee", coordinated by both Sustainable investment and Risk Management teams, with the participation of the Compliance team. The committee meets twice a year and aims to:

- Monitor partnerships with various data providers, in particular data quality and integration into our internal tools;
- Maintain the mapping of ESG data flows;
- Ensure competitive watch and align prospecting for potential service providers with idea generation and new needs, based on predefined selection criteria.

# 3. ESG integration

> "We are convinced that integrating sustainability challenges requires adjusting business models."

**We want to be part of this transformation by incentivizing companies of our investments universe to adapt their practices and provide concrete solutions.**

## Our exclusion framework

We have set up an exclusion framework that is common to all our actively managed and open architecture investment vehicles.

As a transition manager, we believe that through targeted exclusion mechanisms and structured engagement, we can raise companies' awareness on the negative externalities stemming from their production model, and thus encourage them to adopt investment plans that will accelerate and give credibility to their sustainable positioning.

**Our products have adopted a common exclusion framework:**

- International sanctions and non-cooperative countries for tax purposes (UN, EU, OFAC, GAFI, PTNC, France, etc).
- Conventions relating to banned controversial weapons: cluster bombs, landmines, biological and chemical weapons. We use MSCI ESG Research as a source.
- Controversial weapons as a whole, for direct management: depleted uranium, blinding laser weapons, incendiary weapons (white phosphorus) and non-detectable fragment weapons. We use MSCI ESG Research as a source. This exclusion will be extended to multi-management products by the end of 2024.
- The fundamentals principles of the United Nations Global Compact (UNGC). We use MSCI ESG Research as a source.
- Our investment principles related to thermal coal sector, based on Urgewald's Global Coal Exit List.
    - We no longer invest in companies developing new thermal coalmines, coal-fired power plants, coal transport or other coal-related infrastructure ;
    - We no longer invest in, or provide any new financing to, companies of which:
        - More than 20% of revenues come from activities directly involving thermal coal;
        - More than 20% of the energy mix (per megawatt generated) is coal-based;

  From June 2024, the above two thresholds will be lowered to 10%, in line with the Urgewald's recommendations.
    - We no longer invest in, or provide any new financing to, companies of which:
        - Annual production of thermal coal exceeds 10 megatons (MT) per year;
        - Installed coal-fired capacities amount to more than 5 gigawatts (GW);
    - No more investments are made and no new financing is granted to companies with:
        - More than 50% of revenues come from service or infrastructure activities related to thermal coal.
- The tobacco sector, except for retail and distribution activities, with a threshold of 5% of sales. We use MSCI ESG Research as a source.

## Integrating ESG criteria into direct investment management

**We use quantitative data from external providers, especially MSCI ESG Research, which assigns ratings based on a best-in-class approach and a materiality analysis.**

In line with our transition approach, MSCI ESG Research's best-in-class philosophy allows us to select issuers in all sectors. In 2021, we have upgraded our ESG data architecture with two new data providers:

- EthiFinance, which provides us with ESG ratings on request and helps optimise ESG coverage of portfolios.
- Carbon4 Finance, which provides us a set of carbon data and in-depth temperature profiles. In 2022, we extended this partnership to include CDC Biodiversity's biodiversity footprint data.

We also use broker studies (JPMorgan, Exane, Goldman Sachs, Barclays, Morgan Stanley, Oddo, etc.), as well as academic, scientific and supranational research, NGO reports, and open-access databases (SBTi, TPI or CDP). Bloomberg is also a complementary analysis tool.

These elements may be combined with investment cases realized by our internal analyst teams on issuers and/ or sectors represented in portfolios, when presented to the investment managers. The analysts also use companies' publicly available data and integrate elements from discussions with company representatives.

We seek to identify relevant "out of scopes" information in our ex-ante ESG profiles analysis and in the ex-post trajectory assessment of the issuer and/or industry. They are based on key impacts and dependencies, such as: controversies (type, severity and recurrence), externalities (carbon/toxic emissions, water consumption, destruction of biodiversity, accidents, layoffs, temporary contracts, fraud, etc.), and contributions (taxonomic alignment, participation in the United Nations Sustainable Development Goals "SDGs", temperature in accordance with the Paris Agreement, etc.).

More specifically as part of our **direct equity management** and on a limited perimeter of funds[1], we have an internal rating system assigning a composite rating to each issuer in the perimeter. This is made of:

- Of their best-in-class ESG rate established by MSCI ESG Research, using a financial materiality approach,
- Of a series of impact indicators related to the Sustainable Development Goals, provided by non-financial rating agencies (such as MSCI ESG Research on the net contribution of issuers to the 17 Sustainable Development Goals, or Carbon4Finance on carbon impact and biodiversity footprint), that we convert into a rating according to an internal methodology, and
- A rating to assess the credibility and robustness of their transition plan. This rating, established by our analysts, is based on a proprietary analysis grid integrating the dimensions of financial materiality and impact materiality. The predefined criteria are divided into six pillars: governance's analysis of climate issues and just transition, transparency of GHG emissions reporting, public commitments to the climate, robustness of environmental objectives, measures and investments, and finally the results observed in terms of transition.

It should be noted that sustainable issues are studied according to their relevance to the sector and/ or the issuer and with the ambition to integrate the dual materiality, i.e. financial and impact. However, given our approach as a transition manager, environmental bias may exist.

(1) The scope is available on request.

The ESG analysis process for our **direct fixed income management** of bond instruments is based on the double materiality prism at three distinct levels:

- Level 1 – at the time of primary: Quantitative filter dedicated to identifying risk areas, opportunities, and topics for dialogue, as well as on issuers' eligibility for internal policies. This level of analysis integrates criteria such as ESG performance, compliance with exclusion policies, sustainability risks, principal adverse impacts ("PAIs"), and controversies. In the case of issuers with a good MSCI ESG Research rating (A and better) and no major controversies, only the eligibility and the rating at the date of issuance are carried out as an estimate of the associated ESG risk.
- Level 2 – issuer in portfolio presenting a risk or requiring monitoring: qualitative analysis that combines external data with an internal assessment of strengths, weaknesses, threats and opportunities according to a matrix of risk, impact, and materiality. In addition to the notion of materiality, the criteria considered to initiate the analysis include a low ESG rating (between B and CCC) or its downgrading from Average (between A and BB) to Laggard (between B and CCC). Depending on investment needs and issuer news flow, companies that do not meet these criteria may be analysed from this angle in order to refine our understanding of the risk associated with them.
- Level 3 – monitoring of controversies and major changes watch for all bond positions rated by MSCI ESG Research. The criteria considered include major new controversies identified by MSCI ESG Research with regard to non-compliance with the UNGC principles, as well as those identified via the press, and which may constitute a material risk for the issuer, or whose exposure to the issuer is in itself material. As soon as an identified subject becomes material, a dialogue is initiated with the issuer concerned.

Taking sustainability factors into account is an ongoing process. Internal assessments are updated on an ad hoc basis, in case of event having major implications on material characteristics of the investment case.

Through our internal process and MSCI ESG Research ratings, we already consider a broad spectrum of ESG criteria as part of our generalist approach.

## We are committed to the Net Zero Asset Managers initiative for all our open-ended direct investment funds.

As such, we are committed to supporting (i) the Net Zero objective of limiting global warming to 1.5°C by 2050, and (ii) investments aligned with the Net Zero objective.

To achieve this, we have chosen one of the methodologies of the Science Based Target (SBTi) initiative: Portfolio coverage, i.e. a percentage of companies with reduction targets based on climate science and aligned with a 1.5°C temperature rise scenario. We have defined an intermediate target for 2030, and aim to hold 75% of companies with targets aligned with a 1.5°C scenario, within the basket of assets held through our open-ended direct management funds.

The Science Based Target initiative establishes greenhouse gas emission reduction frameworks in line with a 1.5°C scenario for each sector. Targets are considered "science-based" if they are in line with most recent climate science, and if they meet reduction levels needed to reach the Paris Agreement's objective of limiting global warming to 1.5°C above pre-industrial levels. All emission scopes are considered. Targets must cover scopes 1 and 2. For companies whose scope 3 emissions account for more than 40% of total emissions, targets must cover all scopes.

# Integrating ESG criteria into funds of funds

**Within our open-architecture activity (funds of funds), we have also defined an approach that integrates ESG criteria into our selection process for long-only funds and alternative UCITS investment funds.**

We have set a unique due diligence questionnaire that integrates ESG criteria allowing us to benefit from a 360-degree analysis encompassing 3 axes of assessment, i.e., the ESG/SRI, investment and operational dimensions. It is conducted at the level of the portfolio management company and of the fund. We assess the following elements in particular:

- The consideration of climate change risks and opportunities within the portfolio management company (existence of a CSR policy, systems for monitoring energy, water and paper consumption, commitments to reduce carbon emissions, etc.), in its investment processes and the company's ability to produce carbon data on its investments, for example.
- The management of human resources and the development of human capital: through our questionnaire and analysis, we seek to address specific criteria, such as the existence of formal employee satisfaction surveys, training structures (percentage of employees, hours of training per employee per year, etc.), as well as how challenges related to the presence of women in the company are considered and managed. We also verify the absence of social controversies and litigation between the company and its employees.
- The governance: we assess the quality and stability of decision-making bodies based on criteria, such as the degree of independence of the management committee, audit and control systems, compensation mechanisms (whether performance-based objectives exist and are related to the management of sustainable development challenges), the capital structure with regards of tax issues, the existence of regulatory litigation, etc.
- The engagement policies implemented by the portfolio management companies, particularly the voting and dialogue policy and their memberships in international initiatives aiming to promote good environmental practices, including the Carbon Disclosure Project (CDP), UNEP Finance Initiatives, Institutional Investors Group on Climate Change (IGCC), Montreal Carbon Pledge, etc.
- The fund's responsible investment process: the objective is to use qualitative analysis (1) to assess the adequacy between resources (human, IT and extra-financial databases) and the responsible investment process implemented within the fund; (2) to identify the relevance of process (filters, exclusions, ratings, etc.) compared to its philosophy and sustainable themes and its added-value compared to its peers. In addition, we consider the level of disclosure and transparency (including portfolio inventory and funds covered by MSCI ESG Research) and, the fund's ESG rating in absolute and relative terms compared to its peers and/or its benchmark.

Based on information compiled through our proprietary questionnaire, during our discussions with the asset management company and from MSCI ESG Research and Morningstar Direct, the analysts produce an ESG assessment of the asset management company and of the fund. As most of the information used is from the portfolio management company, we are able to conduct these reviews independently of MSCI ESG Research coverage. If the fund is not rated by MSCI ESG Research, we have developed an internal tool to assign an ESG rating to the fund, in accordance with their methodology.

To complement our internal analysis, we produce a scorecard, based on our proprietary methodology, and inspired by a risk/opportunity approach and the materiality challenges identified by MSCI

ESG Research for the financial sector. The scorecard's objective is to guide the analysts in their ESG assessment of the asset management company and of the fund. It provides homogenous research framework and a synthetic overview via the selection of key criteria. This synthesis is based on both tangible, systematic and objective criteria, and on factors that are more qualitative, including analysts' evaluation. This process results in a score ranging from 1 (the best score) to 4.

**The criteria for analysis are as follows:**

- At the portfolio management company level:
  - **Environmental pillar:** environmental policy at company level, exclusion policies regarding thermal coal, portfolios' carbon emissions, etc.
  - **Social pillar:** human resources management, signatory of UN PRI, exclusion policies related to controversial weapons and fundamental principles, etc.
  - **Governance pillar:** board independence, compensation policy, etc.
- At the fund level: ESG criteria integration into the investment process, ESG rating of the fund, carbon intensity, labels, etc.

# 4. Engagement

> "We believe that engagement can contribute to change by promoting the emergence, dissemination and adoption of best practices, but most of all, by supporting companies in transforming their business models."

Through our engagement initiatives, we have set 3 objectives:

1. Acting for the climate and preserve the planet
2. Contributing to a more inclusive economy
3. Facilitating the allocation of financial flows into sustainable investments

## Key principles of our engagement policy

**By implementing our engagement policy, we intend to act on all the links in our value chain:**

- Alongside issuers, as part of our direct management practices. Individual dialogue enables us to strengthen our analyses, to ascertain issuers' real willingness and ability to transform, and thus enlight our allocation decisions. With a view to supporting and monitoring "ESG trajectories", we interact regularly and constructively with issuers at different stages of the investment cycle in which we are invested. This involves a two-way dialogue that can take place:
    - In response to an event (controversy, resolution passed at a shareholders' meeting, downgrading of an ESG rating, etc.), insufficient sustainable performance or the publication of unambitious sustainable or climate transition objectives;
    - In line with the application of our regulatory, normative and sectoral exclusion policies;
    - In connection with the priority themes and/or sustainable strategies of our "4Change" products, to which additional requirements are associated (transition plans and Net Zero trajectories, taxonomic alignments, social inclusion, specific exclusions, sustainable performance indicators, principal adverse impacts, etc.);
    - Linked high impact climate sectors and their material challenges.

In practice, engagements are conducted by the analysts and/or managers of each of our areas of expertise, and through a variety of communication channels (electronic or e-mail forms, physical or remote meetings, questions asked at general meetings, or at events - dedicated to ESG issues or otherwise).

Individual dialogue is regular, constructive and monitored over time. The aim is to formulate areas for improvement for issuers.

- **Alongside portfolio management companies**. As part of our open-architecture business, and fund selection process, we have adopted an integrated approach to ESG criteria with a single due diligence questionnaire allowing:
  - A 360-degree analysis of funds and their asset managers;
  - Promote the adoption of sustainable investment best practices.

  The responses received allow a dialogue and give the opportunity to encourage asset managers to improve their practices, and in particular to:
  - Formalize their sustainable investment approach and demonstrate transparency: we encourage management companies to adopt policies (ESG, commitment, exclusions, etc.), and then to communicate on their sustainable investment approach (commitment and voting reports, participation in industry initiatives, etc.);
  - Obtain ESG ratings for their portfolios, which then enable analysts to complete their research;
  - Enhance the credibility to the funds' sustainable approaches by obtaining high-quality labels and complying with European and French regulatory frameworks.
- **Alongside the sustainable finance ecosystem** (clients, external data providers, professional associations, local initiatives, public authorities, NGOs and educational sector). We take active part in various initiatives by participating, among other things in public consultations, working groups, and panel discussions or by conducting communications campaigns meant for the general public.
- **Alongside our associative partners.** A part of our management fees, for specific SRI funds, is redistributed to our associative partners Polar POD and Café Joyeux.
- **Alongside our employees.** Training and awareness-raising of our employees on our sustainable investment themes are factors in the success of our business. We carry out actions in this respect and involve them in our initiatives.

More details on our engagement process and mechanisms are available in the dedicated reference document “Engagement and voting policy” published on our website.

## Voting policy

**Since 2011, Rothschild & Co Asset Management has implemented an active voting policy consistent with the principles of sustainable investment.**

For this purpose, we have entrusted research on resolutions to a specialised company, Institutional Shareholder Services (www.issgovernance.com) and have chosen to adopt a “socially responsible investment” voting policy, to allow us to assess companies on all ESG pillars.

It is available for free consultation and is regularly updated to reflect changing practices.

ISS submits voting recommendations that comply with sustainable investment principles and Rothschild & Co Asset Management remains the ultimate decision-maker on the exercise of voting rights. The qualitative analysis, on a case-by-case basis, of specific resolutions sometimes leads us to vote differently from the recommendations of our service provider ISS.

Our voting policy covers our entire equity investment perimeter, with no geographical or market-cap distinction. As a result, the scope of voting rights covers European and international equities held in our funds. We reserve the right to exercise, exceptionally, our voting rights in the context of general assembly on bonds and mutual funds.

More details on our engagement process and its scope are available in the “Engagement and voting policy” published on our website.

# 5. Monitoring & Controls

Several teams are in charge of controls at Rothschild & Co Asset Management. These departments are independent and are at the service of fund managers.

### Risk management

Rothschild & Co Asset Management has a permanent Risk Management function hierarchically and operationally independent of the operating units. It reports directly to the chief executive officer and is under the operating responsibility of the RMM group's chief risk manager. Risk Management has the human and technical means necessary to carry out its tasks properly. The company does not outsource this task.

Risk Management measures and monitors all risks arising from managing of portfolios. Within the framework of its purview, Risk Management draws up a map of financial and ESG risks that aims to identify and manage the risks that the portfolios are exposed to, including sustainability risks.

Risk Management supervises limits on a daily basis, requirements and constraints specific to funds (AMF doctrine 2020-03, label certifications, SFDR). This mainly involves compliance with:

- Product-specific exclusions
- Weighted-average rating objectives, issuer minimum ratings
- Performance targets and/or coverage of sustainability indicators
- Taxonomic alignment and sustainable investments minimums
- Reinforcement/purchase bans in case of controversies
- Calculation of PAIs (principle adverse impacts)
- And the coherence of portfolios with their initial investment universe

In the event of breaches, risk management is in charge of disseminating the information within the organisation.

### Compliance

The mapping of non-compliance risks, operational risks and conflicts of interest take ESG risks into account. The compliance activity plan includes ESG actions and controls (in particular reviews of regulatory policies and reports, labels, etc.)

On a daily basis, the department monitors compliance with the exclusions regarding:

- Controversial weapons
- International sanctions and non-cooperative countries for tax purposes
- United Nations Global Compact (UNGC)
- Investment principles for thermal coal and tobacco sector

The Compliance team is in charge of:

- Regulatory monitoring to ensure that any new regulation has been addressed by the company;
- Major controversies watch, identified by MSCI ESG Research for the positions held in our portfolios;
- Offering assistance and information to employees to ensure awareness regarding their professional obligations.

### Internal Controls

The internal control plan includes ESG & labels related verifications processes.

The second level of control, permanent and a posteriori of operations, is carried out by the Internal Control team. The main task of this team is to monitor compliance with procedures and the quality of the tools put in place and the presentation of ESG commitments in the funds' legal documentation. The controls assess the effectiveness of the first-level controls.

### Internal Auditing

Periodic control is carried out by the internal audit department as part of an audit plan defined by the Audit Committee at Group level. This plan includes ESG controls.

In particular, an internal audit dedicated to ESG took place in 2023.

### Portfolio management & ESG controls

As ESG data from external providers used for portfolio quantitative constraints are fully integrated in our operational systems, enabling continuous ESG monitoring. Our entire value chain (teams in charge of compliance, risk management, portfolio management and reporting) is covered by the same ESG data flow (updated quarterly), which allows us to monitor daily and in real time ESG constraints and requirements coded in trading systems by the Compliance team (with a common exclusion framework) and the Risk Management team (product-specific ESG requirements).

The investment management teams have access to ESG data and can follow their sustainability constraints daily via their Bloomberg portal. Allocations within portfolios and their impacts on sustainability requirements are thus monitored in real time by fund managers.

These mechanisms complement the investment committees and risk committees, which meet regularly to discuss in greater depth the ESG risks and challenges of a specific issuer and/or portfolio. To monitor changes in ESG ratings and controversies, we have set up automatic daily and weekly notifications from the MSCI ESG Research platform. The investment teams monitor news flow daily and disseminate relevant information every morning at the investment meeting . As regards to controversies management identified by Compliance or analysts, we have set up two controversy committees, the Qualification Committee and the Major Cases Committee, with the participation of the Risk Management, Compliance, Sustainable investment teams and the Managing Partners. The management teams that own the controversial issuer, as well as the analysts dedicated to the sector in question, participate on a case-by-case basis. The two committees distinguish themselves by qualifying each controversy according to its severity and materiality. They determine the appropriate escalation and monitor it. Our process for managing controversies is detailed in the engagement and principal adverse impact policies.

ESG reports are produced monthly with the same ESG data flow. They are reviewed and validated by the Investment teams.

# 6. ESG reporting

The ESG quality of our directly managed funds and funds of funds is reflected in ESG indicators. These indicators are published on a monthly[1] basis, alongside financial performance indicators.

### To highlight the ESG profile:

- The portfolio's ESG score
- Distribution of ESG ratings within the portfolio and by sector
- Review of the portfolio's ESG rating trajectory

### To highlight environmental performance:

- Environmental score
- Carbon intensity, calculated in tons of scopes 1 & 2 carbon emissions per million euros or dollars of revenues, review of deviations with indices, detailed contribution per sector and identification of the most contributing issuers or funds

**Scopes 1 and 2 are the most heavily documented**

| Scope 1 | Scope 2 | Scope 3 |
|---|---|---|
| Direct emissions<br><br>Emissions from fixed or mobile installations located within the organisational perimeter | Indirect emissions from energy use<br><br>Greenhouse gas emissions incurred by consumption of electricity, heat, steam or artificial cold | Indirect emissions incurred by other stages in a product's lifecycle<br><br>Apart from its production alone and which the company can influence but does not benefit from direct control (supply, transport, use, end-of-life, etc.) |

**Sources: Companies, MSCI ESG Research, Carbon Disclosure Project**

$$\frac{\text{Calculation of an issuer's carbon intensity tons of CO2 emission}}{\text{by Revenues (in million}}$$

Calculation of a portfolio's carbon intensity of n title:

$$\sum_{i=1}^{n} \text{weight of the title i x carbon intensity of the title i}$$

### To highlight social performance:

- Social score

### To highlight governance performance:

- Governance score
- Presence of women on the Board of Directors

### To highlight the trajectory and the consideration of transition challenges:

- Exposure to "stranded assets"
- SBTi "Target Set" and "Committed" reduction targets
- Green Share
- For funds of funds, a focus on energy transition, with an assessment of exposure to fossil fuel and coal reserves of underlying companies

### To highlight the participation of directly managed investments to the United Nations Sustainable Development Goals:

- The percentage of the portfolio aligned with each of the 17 SDGs

### For transparency of our products classified Article 8 and 9 according to SFDR, at annual frequency:

- Percentages of taxonomic alignment reported by companies
- Percentages of sustainable investments, as per our definition
- Principal adverse impacts of investments on sustainability factors

(1) Except for category 3 products in accordance with AMF doctrine DOC-2020-03, in which case they are available on request.

# 7. CSR initiatives

> “We are confident that addressing sustainability challenges is a structural and unmissable trend in our business.”

## Engaging collectively

We have chosen to join a limited number of initiatives that are directly referring to our investment themes, in order to be involved in developing and disseminating best practices. Our contributions to the initiatives presented below are detailed in our 2023 engagement report.

**We take part in working groups that include financial actors to promote credible and pragmatic sustainable finance that is applicable to all asset management companies**

**AFG**

- Member of the Responsible Investment Committee of the French Asset Management Association (AFG)
- Member of the working group on Diversity in asset management companies
- Participation in the Transition Plans, Just Transition and Biodiversity in investment working groups

**Institut de la Finance Durable**

- Member of the impact finance working group since 2021
- Member of the Extra-financial analysis methodologies and Fossil fuel trajectory working group
- Member of the Committee on Sustainable Regulations

**FIR – Forum pour l'Investissement Responsable**

- Member of the “Social Taxonomy” working group
- Member of the Disability and Finance working group

**PRI – Principles for Responsible Investment**

- Member of the French-speaking UNPRI reference group
- Member of the Sustainable Regulation Commission

**fair.**

- Member of FAIR, a collective committed to solidarity finance, and promoter of the Finansol label

**ADEME / 2° investing initiative**

- Member of the working group on optimizing the contribution of financial products to the objectives of the Paris Agreement

**EFRAG – European Financial Reporting Advisory Group**

- Member of the "Sector communities" working group as well as the advisory committee on the definition of ESRS standards for the capital markets sector

We are member of investor coalitions that engage with companies on climate & just transition challenges

**Climate Action 100+**

- Joining the initiative to enhance governance on climate change

**Investors for a Just Transition**

- Founding member of Investors for a Just Transition, the first global coalition on just transition
- Respectively responsible for and contributor to the "Food and Agriculture" and "Energy" working groups

**FIR – Forum pour l'Investissement Responsable**

- Member of the "Dialogue and Commitment" committee of the Responsible Investment Forum (FIR)
- Signatories of tribunes in favor of the generalization of a demanding "Say on Climate”
- Participation in the 5th campaign of written questions to CAC 40 companies

As a portfolio management company, we want to take active part in these climate and transition challenges, by inscribing our management activities into demanding and recognised frameworks:

**PRI – Principles for Responsible Investment**

- Signatory of the UNPRI since 2011

**urgewald**

- Use of the Global Coal Exit List and Gloal Oil and Gas Exit List of Urgewald, an NGO

**The Net Zero Asset Managers initiative**

- Joining the Net Zero Asset Managers initiative to act in favour of the climate and meet the Net Zero objective

Alongside the aforementioned initiatives and our sustainable investment ambitions, we are involved in sponsorship activities.

We are a sponsor of the Polar POD expedition aimed at studying and observing the Antarctic Ocean, the little-known ocean that encircles Antarctic, and of Café Joyeux, whose aim is to promote the reintegration of mentally or cognitively disabled people through work in an ordinary environment. These partnerships are mainly developed through "sharing funds". Since 2022, we have committed to donating at least 1% of the 4Change range revenues to associations approved by 1% for the Planet, a non-profit organization.

The CSR policy implemented by Rothschild & Co is available on the Group’s website.

# 8. Investor disclosures

We have formalised our responsible investor approach in the form of various documents, accessible on our website.

## Policies / General documentation

- This ESG policy
- Engagement and voting policy
- Exclusion policy relating to controversial weapons
- Exclusion policy relating to fundamental principles
- Investment principles for the thermal coal sector
- Exclusion policy relating to tobacco
- Exclusion ledger
- Principal Adverse Impacts policy
- Sustainability risk policy in investing
- Definition of sustainable investment
- Rothschild & Co's CSR policy
- Remuneration policy

## Specific documents

- AFG-FIR Transparency Code for "4Change" range
- List of open-ended funds and their SFDR category
- Prospectus, including SFDR pre-contractual disclosures related to funds classified as Article 8 and 9

## Reports

- Annual engagement report, including our voting rights report
- Article 29 reporting combined with TCFD Report
- The UN PRI transparency report, available on the PRI website
- Financial & ESG reporting of our open-ended funds
- Annual reports, including SFDR periodical disclosures related to funds classified as Article 8 and 9

# Glossary

**SFDR Regulation**

The European SFDR (Sustainable Finance Disclosure Regulation), came in force on March 10, 2021, aims to harmonize transparency obligations and the publication of sustainability information in the financial services sector. It defines 3 categories:

- Article 6: the product does not have a sustainability objective
- Article 8: the communication of a product integrates environmental and social characteristics, even if it is not its main focus, nor the main focus of the investment process.
- Article 9: the product has a sustainable investment objective.

**AMF Doctrine 2020-03**

Effective since March 2020, these principles aim to ensure proportionality between the effective consideration of extra-financial factors in investment and the space dedicated to them within communications to investors. There are 3 categories:

- The first category covers products with a significant investment commitment.
- The second category includes products that follow extra-financial criteria but have no significant investment commitment.
- The third category covers the rest of the products that do not meet central or reduced communication standards.




**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.**

# Contacts

## FRANCE

**Paris**

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

## SWITZERLAND

**Geneva**

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

## GERMANY – AUSTRIA

**Frankfurt**

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

## BELGIUM – NETHERLANDS – LUXEMBOURG

**Brussels**

Avenue Louise 166
1050 Bruxelles
+32 2 627 77 30

## ITALY

**Milan**

Via Santa Radegonda 8
Milano 20121
+39 02 7244 31

## SPAIN

**Madrid**

Paseo de la Castellana 40 bis
28046 Madrid
+34 910 537 043

Join us on **LinkedIn**

For further information
am.eu.rothschildandco.com

Rothschild & Co
Asset Management