4 questions for Kristell Agaësse and Sonia Berrejeb for insight into the ESG approach of the R-co 4Change Convertibles Europe fund

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In way does responsible investment play a key role on the European convertible bond market? Kristell Agaësse and Sonia Berrejeb help us understand the ESG approach taken by the R-co 4Change Convertibles Europe fund.

Why did you choose the "*ISR*"(1) (SRI) label for this fund in the 4Change line?

S.B.: In addition to our approach to ESG(2) integration within our portfolios, initiated in 2011 with the signing of the UN PRI(3), the ISR label lends greater credibility to this approach and to our investment process through a framework that our investors are familiar with and have no problem understanding. The ISR label is essential in a landscape containing more and more sustainable products that are often hard to compare with one another. We want the ISR label to play an active part in the sustainable transition, while locking in our approach over time. Offering a fund that is classified, all at once, ISR, Article 8 SFDR(4) and AMF Category 1(5) boosts our credibility and showcases our expertise.

What can you tell us about the ESG approach of R-co 4Change Convertibles Europe?

K.A.: Qualitatively, we are backed by our ESG team and our analysts, who incorporate various sustainable criteria into their investment recommendations. Quantitatively, we make use of external tools such as MSCI's. We benchmark ourselves to a 100% European convertibles universe, while applying the strict exclusions of Rothschild & Co Group (covering controversial weapons, international sanctions, fundamental principles, and thermal coal) and, lastly, we pledge to significantly beat this universe's rating without the 20% lowest-rated CBs.

(1) The "ISR" (SRI) label was established in 2016 by the French Finance Ministry in order to provide better visibility on investment funds governed by French law that comply with strict socially responsible investment criteria.

(2) ESG: This stands for Environmental, Social and Governance criteria, which are used in analysing and assessing to what degree sustainable development and long-term challenges are incorporated into companies' strategies.

(3) UN PRI: An initiative launched by investors in partnership with the United Nations Environmental Programme Finance Initiative and the UN Global Compact. PRI works with an international network of signatories for the purpose of applying the six principles of responsible investment.

(4) SFDR: the Sustainable Finance Disclosure Regulation (SFDR) aims to provide greater transparency in sustainability disclosures in financial services.

(5) AMF category: The AMF has established an ESG classification for funds distributed in France. Each category lays out precise criteria in covering the investment universe through an extra-financial approach, along with exclusion rules and disclosure requirements (including regulatory or marketing documentation).

In addition, we have introduced four measurable impact indicators, called "KPIs[6]": (i) an Environmental pillar, including carbon intensity; (ii) a Social pillar, including security of personal data; (iii) a Governance pillar, including the percentage of women directors; and (iv) a Human Rights pillar. For two of these KPIs, we pledge to outperform our universe: the Governance pillar, in order to promote greater diversity, and the Human Rights pillar. Finally, we conduct a dialogue on a regular basis with companies to enrich our analysis and monitor the sustainable trajectory of companies in our portfolio. By measuring these qualitative and quantitative criteria, we provide evidence that our investments are indeed sustainable.

What role does the convertible bond market and your portfolio play in the ESG environment?

S.B.: Keep in mind, first of all, that the European convertible bonds market is rather mature, with the first green issue appearing in 2020, and now amounts to 3.2 billion euros in total issuance[7]. Looking at our ESG universe as such, which consists 100% of European convertible bonds, we see that it is very highly rated[8], with a coverage rate of significant issuers that pushes us to even greater excellence. Another essential item in our investment strategy, along with financial criteria, is the dialogue that we conduct regularly with issuers to monitor not just their current rating, but how much progress they are making.

We are not crusaders. We want to be invested not just in ESG "champions" but also in transition players that are having to undertake structural changes in their business models. So ESG does indeed a role to play in our investment capabilities, just like fundamental analysis.

What are the main features of your engagement process? And what are your expectations for this fund?

K.A.: R-co 4Change Convertibles Europe is a stakeholder in the sustainable transition. We engage with companies through initiatives such as Climate 100+[9] and Finance For Tomorrow[10], as well as through targeted discussions with portfolio companies. These discussions are conducted proactively, for example, when a controversy arises, when there is a capital transaction or from a company belonging to a sensitive sector Our build-up in ESG capabilities is an integral part of our investment process, and the ISR label has allowed us to measure our commitment to more responsible investment and to inform our clients accordingly. Part of this approach is seen in the high standards of transparency in disclosures that we hold ourselves to in our ESG and financial reporting. ESG investing is necessarily a long-term strategy and gives us even more motivation in enhancing our performances and our risk management. After all, taking on the best practices and contributing to a sustainable economy is a win-win strategy. ■

(6) KPI: Key Performance Indicators

(7) Source: Bloomberg, as of 30 September 2021

(8) MSCI ESG Research rating: AA, or 7.6 as of 30 September 2021

(9) Climate Actions 100+ is an investor-driven initiative launched in 2017 to guarantee that the world's largest greenhouse gas emitters take the measures necessary for combating climate chang.

(10) Finance for Tomorrow is an association of all private- and public-sector and institutional actors present in Paris wishing to adhere to a financial system that is committed to a sustainable future and that combines long-term investment with the incorporation of environmental and social challenges.

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R-co 4Change Convertibles Europe

Recommended investment horizon: 3 years

This fund's level of risk is 4 (with volatility between 5% and 10%) and mainly reflects how it is positioned on the European convertible bonds markets. It is possible that historical data used in calculating this synthetic risk indicator may not constitute a reliable indication of the fund's future risk profile. The fund's risk category is not guaranteed and is subject to change over time, both upward and downward. The lowest risk category is not without risk. No guarantee of invested principle is offered. Other material risk factors, which are not adequately reflected in the indicator, include the impact of techniques such as derivatives. The use of derivatives may amplify the impact on the portfolio of market fluctuations. The occurrence of any of these risks could cause a decline in the fund's net asset value. For more information on the risk profile and its main components, please refer to the prospectus.

Prior to any investment, investors are strongly urged to read the fund KIID and prospectus carefully, particularly the section in it pertaining to risks and fees. The KIID and prospectus are available on the Rothschild & Co Asset Management Europe website: am.eu.rothschildandco.com

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