EDMOND DE ROTHSCHILD

Edmond de Rothschild Asset Management (France) "Sustainable Investment" definition and methodology

I. REGULATORY CONTEXT

The Sustainable Finance Disclosure Regulation (SFDR), which came into force on 10 March 2021, sets out sustainability-related transparency requirements for financial market participants. Its objective is to improve the sustainability information and comparability of financial products. Level II of the SFDR (effective 1er January 2023) requires management companies to report on the sustainability characteristics of their products.

In this context, Edmond de Rothschild Asset Management (France) has developed a definition and methodology of "sustainable investment" in accordance with Article 2(17) of the SFDR Regulation.

<u>Summary of the required characteristics of a sustainable investment according to Article 2(17) of the SFDR Regulation :</u>

- Investment in an activity that contributes to an environmental or social objective (positive contribution).
- Investment that does not cause significant harm to any of its objectives (Do No Significant Harm (DNSH)).
- Investing in companies with good governance practices.

⇨ **A sustainable investment is one that meets the requirements of positive contribution, DNSH and good governance.**

II. SCOPE OF APPLICATION

Open-ended funds, dedicated funds and management mandates classified under Article 8 and Article 9 of the SFDR Regulation.

III. DEFINITION OF A SUSTAINABLE INVESTMENT

A. Criteria and minimum thresholds set

I. Investment in corporate securities

<u>Positive contribution</u>

The following are considered to contribute positively to an environmental objective

- Companies that positively activate at least one of the following UN Sustainable Development Goals (SDGs)[1] : SDGs 6 "clean water and sanitation", 7 "affordable and clean energy", 9 "industry, innovation and infrastructure", 11 "sustainable cities and communities" , 13 "climate action", 14 "life below water" and 15 "life on land", with a minimum activation threshold of ⩾ 2.5/10 , source MSCI.

or

- Companies with a climate target validated by the Science Based Target Initiative (SBTI)[2]

or

- Companies reporting:
  - a percentage of sales generated by activities aligned with the European Green Taxonomy in excess of 10%.

  or

  - a percentage of their capital expenditure (CapEx) linked to their aligned activities in excess of 20%.

or

- labelled corporate bonds, including green, sustainable and sustainability-linked bonds, after analysis by the Responsible Investment team.

The following are considered to contribute positively to a social objective

- Companies that positively activate at least one of the following UN Sustainable Development Goals (SDGs)[3] : SDGs 1 "no poverty", 2 "zero hunger", 3 "good health and well-being", 4 "quality education" , 5 "gender equality", 8 "decent work and

[1] The Sustainable Development Goals (SDGs) are a set of targets that countries around the world have set as part of a development agenda. There are a total of 17 global goals that countries have committed to achieving by 2030. The Sustainable Development Goals cover a variety of areas, such as the environment (protecting the planet), world peace (building a more peaceful world), poverty reduction, security, human dignity, protection of the most vulnerable, etc.

2 SBTi is a partnership between CDP, the UN Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). SBTi aims to encourage ambitious climate action in the private sector by enabling organizations to set science-based emission reduction targets.

[3] The Sustainable Development Goals (SDGs) are a set of targets that countries around the world have set as part of a development agenda. There are a total of 17 global goals that countries have committed to achieving by 2030. The Sustainable Development Goals cover a variety of areas, such as the environment (protecting the planet), world peace (building a more peaceful world), poverty reduction, security, human dignity, protection of the most vulnerable, etc.

economic growth" , 10 (reduced inequalities) and 12 "responsible consumption and production", with a minimum activation threshold of ≥ 2.5/10 , source MSCI.

or

- labelled corporate bonds, including social, sustainable and sustainability-linked bonds, after analysis by the Responsible Investment team.

DNSH

The following are considered to be non-compliant with the DNSH requirement:

- Companies that do not commit to integrating and promoting the principles of the UN Global Compact[4] : 'Fail' status, source MSCI (PAI[5] 10)
- Companies on Edmond de Rothschild Asset Management's (France) exclusion lists: controversial weapons (PAI 14), thermal coal, non-conventional fossil fuels (PAI 4) and tobacco

  https://www.edmond-de-rothschild.com/SiteCollectionDocuments/Responsible-investment/OUR%20ENGAGEMENT/EN/EDRAM-EN-Exclusion-Policy.pdf
- Securities of companies under international sanctions (UN, OFAC, EU, Switzerland, UK, Canada): Source Six-Telekurs List
- Securities issued by companies located in countries on Edmond de Rothschild Asset Management's (France) list of prohibited countries

Good governance

Companies are considered to be in compliance with good governance requirements if they achieve a minimum score of :

- 8/20, determined by Edmond de Rothschild Asset Management's (France) internal ESG analysis model
- or in the absence of internal analysis, 4/10, source MSCI

Special cases:

In the absence of MSCI coverage of an issuer, particularly in the case of an IPO, at the request of the portfolio managers at least 3 days before the IPO date, the Responsible Investment team can carry out an in-house analysis, to characterize the Sustainable Investment (YES/NO) of an issuer based on the same methodology developed in-house (EdR Build). This analysis is intended to be provisional. As soon as the issuer is covered by MSCI, the MSCI qualification will be used.

[4] A United Nations initiative launched in 2000 to encourage companies around the world to be socially responsible by committing to integrate and promote a number of principles relating to human rights, international labour standards, the environment and anti-corruption.

[5] PAIs (Principal Adverse Impacts) are a set of indicators detailed in the Technical Review Criteria report associated with the SFDR regulation, which allow for the assessment of adverse sustainability impacts.

ii. Investment in sovereign and supra-national securities

Positive contribution

The following are considered to contribute positively to an environmental objective

- State entities that obtain an average score of 58/100 on the following Sustainable Development Goals scores: SDGs 6, 7, 9, 11, 13, 14 and 15, as measured by the United Nations Sustainable Development Solutions Network (SDSN) initiative.

  or

- labelled sovereign bonds, including green, sustainable and sustainability-linked bonds, after analysis by the Responsible Investment team DNSH

The following are considered to contribute positively to a social objective

- State entities that obtain an average score of 61/100 on the following Sustainable Development Goals scores: SDGs 1, 2, 3, 4, 5, 8, 10 and 12, as measured by the United Nations Sustainable Development Solutions Network (SDSN) initiative.

  or

- labelled sovereign bonds, including social, sustainable and sustainability-linked bonds, after analysis by the Responsible Investment team

DNSH

Emissions from the following are considered to be non-compliant with the DNSH requirement:

- State entities subject to UN sanctions, source MSCI (PAI 16)
- State entities under international sanctions (UN, OFAC, EU, Switzerland, UK and Canada): Source Six-Telekurs List
- State entities on the Edmond de Rothschild Asset Management (France) list of prohibited countries

Good governance

State entities are considered to be in compliance with good governance requirements if they score at least 4/10, source MSCI.

iii. Investment in UCIs and investment funds managed by a company of the Edmond de Rothschild Group

UCIs and internal investment funds are decomposed. The methodology described above is applied to the assets held.

iv. Investment in external UCIs and investment funds :

The percentage of sustainable investment taken into account is the minimum sustainable investment rate communicated by the fund management company in the pre-contractual documents of the funds (source MFEX: data from EET files).

v. Derivatives

The following are considered to contribute positively to an environmental or social objective

- Single-name derivatives whose underlying asset meets the above criteria.

IV. METHODOLOGY FOR CALCULATING THE PERCENTAGE OF SUSTAINABLE INVESTMENT IN A FUND

- Numerator :

  All assets are subject to sustainability assessment according to the methodology described in this document, except for cash and non-single name derivatives. These assets are accounted for in market valuation except for single name derivatives which are accounted for in exposure.

  Among the derivatives, only single name derivatives with long exposure after taking into account the netting effects of short positions and underlying securities held in position are included in the numerator.

- Denominator: Total net assets (including hedging or liquidity assets)

Breakdown of the calculation :

$$C_{(t_0)} = \sum_{i=0}^{n} \left(\frac{V_{exp_i}^{t_0} \in S \cap N}{AUM\ du\ fonds} \right)$$

<u>With :</u>

$C_{(t_0)} =$ *Exposure rate to securities considered sustainable as of date* t_0

$V_{exp_i}^{t_0} \in S \cap N$ = *Value in exposure of security i belonging to the S and N perimeters on date* t_0

S = Scope of instruments eligible for calculation

N = 3 sustainability criteria checked

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