# ESG Policy
# (Environment, Social and Governance)

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Covéa Finance has jointly decided with its shareholder, Covéa, to comply with Article 173-VI of the French law on energy transition for green technology (LTECV) and its implementing decree. The law requires eligible entities to report on the extent to which environmental, social and governance (ESG) criteria are taken into account in their investment decisions.
The law is an extension of the so-called "Grenelle II", which requires asset management companies (AMCs) to publish ESG information by exercising their voting rights.

The ESG policy of Covéa Finance is principally based on the equilibrium of the three pillars of Environment, Social and Governance. It meets the demands of the Covéa group to take ESG criteria into account during the management of its mandates, in compliance with its Investment Policy.

ESG is fully integrated within the value chain and investment decision-making process of Covéa Finance.

## Description of the ESG policy

The policy is based on:

- Analysis and integration of private and sovereign issuers' non-financial criteria in investment decisions, in accordance with a progressive deployment process over a multi-annual time frame;

- Shareholder dialogue as a means of influencing and structuring companies' policies;

- Shareholder engagement policy (including rules on the exercise of voting rights) published for the first time on 30 June 2020 in accordance with the Shareholder Rights Directive[1];

- An exclusion policy.

The objective is to:

- Obtain a better understanding of the inherent risks within the portfolios, but also investment opportunities, via a non-financial approach supplementing financial and stock market methodologies;

- Classify and rank companies against ESG criteria and shareholder dialogue, in addition to assessing governance through the

[1] Directive 2007-36 as amended by Directive 2017-828, implemented via Decree 2019-1235 published in November 2019, and transposed into French law under Article L533-22 of the Monetary and Financial Code

resolutions put before general meeting (shareholder engagement policy);

- Act as a filter and prevent non-financial risks through the implementation of criteria and thresholds that may be proscriptive.

The process is reviewed annually.

**The structural ESG principles at Covéa Finance:**

The concept of **progressive ESG integration:**

- A project implemented over time in the context of multi-annual corporate objectives incorporating ESG criteria;

- Progressive deployment by sector and for each component (E, S and G), as the development status, availability, quality and reliability of data vary by country, in the same manner as for industry practices and codes of governance;

- Progressive ESG analytical process:
    - A limited number of criteria at the outset (apart from those relating to governance, due to the general meeting voting rights component of the shareholder engagement policy) which will expand over time, in line with internal expertise and the maturity of the issue within the companies;

        *Examples of criteria: GHG emissions, board independence, separation of powers, occupational health & safety, supply chain management, compliance with competition law, etc.*
    - Identification of the non-financial risks within the portfolios as a first step followed by assessment, measurement and ranking of risks and criteria;
    - Identification of investment opportunities followed by evaluation in light of non-financial criteria.

- Progressive process of shareholder dialogue:
    - In line with the internal classification of the securities held in the portfolios as the involvement in corporate matters varies in line with the investment strategy (medium term, long term or tactical);
    - Depending on the understanding of the company and its issues, notably via shareholder dialogue mechanisms (questionnaires, meetings, telephone conferencing, etc.).

The search for **alignment of stakeholder interests**:

- **The ESG assessment of a company** (risks, business model) is complementary to the fundamental, stock market and financial assessment.
- **In the event of divergent assessments**, it is the fundamental, stock market and financial assessment that carries most weight in the management decision. However, the ESG team may enter into dialogue with the company in collaboration with asset managers in order to tackle ESG issues.
- It should be noted that the **ESG filter may be proscriptive in certain circumstances**:
    - By application of the exclusion policy;
    - By application of certain regulatory requirements[2];
    - By application of requirements related to labels (SRI);
    - During the management of themed funds in the environmental range.

## ESG communications:

Covéa Finance publishes an annual report on the integration of ESG criteria within its investments.

The ESG report and related polices are available at www.covea-finance.fr

Furthermore, with Covéa having become a signatory of the PRI (Principles for Responsible Investment) in 2020, Covéa Finance will be publishing a transparency report from 2022 covering implementation of the 6 responsible investment principles.

## The principles governing relations between Covéa and Covéa Finance:

Action taken in line with **the main characteristic of Covéa Finance as a subsidiary of the Covéa insurance group**, namely incorporation of fundamental insurance principles within financial management:

- The requirement for recurrent revenue;
- The need to diversify investments;
- The requirement for absolute return in the context of disciplined financial management in order, at all times, to be able to honour the insurer's future commitments;

[2] Position-Recommendation AMF-2020-03 on the information to be provided by collective investment schemes incorporating non-financial approaches

- Optimisation of the risk/return ratio.

Action driven by the **financial strategy of Covéa** based on:

- A long-term investment approach;

- Significant ability to adapt asset allocation in response to market conditions, in order to protect the interests of members and clients;

- The objective of favouring two main factors during investment: liquidity and transparency (simple and understandable products).

The **management model of Covéa Finance** is based on:

- Collective management decisions;

- Maximisation of added value generated internally by:
  - Pooling resources, notably research, to serve the entire management process;
  - Independent thinking vs market trends and turbulence;
  - Effective management of inherent portfolio risks.

- The use of internal tools and methods that have proven their worth over the long term, based on the concept of intervention triggers with the creation of shock absorbers by classifying portfolio securities in line with their long-term or tactical dimension;

- Responsiveness and agility in the management process.