

## **DECLARATION ON CONSIDERING THE SUSTAINABILITY RISK**

## **Covéa Finance: 20 years of socially responsible investment!**

Socially responsible investment and the study of E, S and G criteria are long-term commitments for Covéa Finance and date back to 2001 with the creation of the "Covéa Finance Flexible ISR" fund (at the time "Covéa Finance Horizon Durable"). For 20 years, our ambition has been embodied by integration: integration of ESG research into management, integration of non-financial analysis into financial analysis, integration of Covéa Finance into numerous market groups (AFG, FFA, etc.).

Today, in line with our commitment to transparency (since 2016 we have voluntarily published an ESG report in line with the French Energy Transition Act), we are taking a further step by sharing the way we meet the requirements of the SFDR (Sustainable Finance Disclosure Regulation) which came into force on 10 March 2021:

- **Our consideration of sustainability risks**

Our conviction is that incorporating ESG criteria complements and enriches the investment vision based on financial, accounting and stock market criteria. The concept of ESG provides real added value for portfolio management by limiting the sustainability risk. Covéa Finance also believes, however, that responsible management, taking into account ESG criteria, enables a more holistic assessment not only of the risks but also of sector opportunities specific to each issuer.

Our conviction is that ESG helps us best fulfil our investment mandate, which is always true to our credo, "Finance at the service of insurance", and always faithful to our desire not to favour one pillar over another, taking environmental, social and governance factors into account in a balanced way.

Our financial and non-financial analysis team, which reports directly to an executive committee member, is responsible for sharing its work with the managers and providing support for our range of funds:

- studies of private or public issuers (more than 600 studies and ratings carried out on private issuers since the creation of the team, which currently has 12 employees, followed by public issuers in our investment realm with the help of our economic team of 5 people)
- monitoring disputes with the help of a service provider, but with a criticality matrix specific to Covéa Finance, including compliance with the precepts of the United Nations Global Compact
- shareholder dialogue and voting at General Meetings, reflected in our engagement policy

- management of our exclusion list, covering tobacco, gambling and betting, controversial weapons and coal, this latter aspect being further reinforced in 2020 with the introduction of thresholds in absolute terms as well as an exit table until 2030 for OECD countries and 2040 for non-OECD countries
- monitoring various non-financial labels (SRI, Finansol, Relance etc.)

- **Our sustainability analysis principles**

Within the framework of our ESG approach, two internal methodologies for assessing issuers have been defined for sovereign issuers on the one hand, and private issuers on the other.

→ Scope of sovereign issuers (54% of total outstandings at 31/12/2020)

The assessments of ESG analysts are mainly based on public databases (World Bank data, United Nations, OECD, etc.).

An assessment (Satisfactory/Green, Medium/Orange, Insufficient/Red) is attributed by country for each E, S and G pillar:

- Environment, including climate risk, environmental governance, water resource management, air pollution, deforestation, waste recovery rates, etc.
- Social, including healthcare (health spending per capita, malnutrition, etc.), working conditions (modern slavery, unemployment rate, etc.), education (quantity and quality) and diversity and inequality of wealth, etc.
- Governance including human rights (democracy, freedom of the press, etc.), corruption, government efficiency and tax practices, etc.

→ Scope of private issuers (20.1% of total outstandings at 31/12/2020)

The analysis sheets produced by financial and non-financial analysts are primarily based on:

- the study of issuer documentation (annual and integrated reports, registration document, CSR report, climate report, website, etc.);
- climate and energy transition data provided by our provider, the London Stock Exchange Group;
- discussions with companies within the framework of shareholder dialogue;
- monitoring of non-financial issues in the media (e.g. disputes, trends, practices, etc.);
- all reports published by stakeholders (professional federations, consumer associations, trade unions, NGOs);
- data provided by a specialised external service provider concerning private issuer disputes and a materiality matrix carried out internally.

For each "Environment", "Social" and "Governance" pillar, Covéa Finance has determined criteria, themselves subdivided into indicators, which it considers to be common

fundamentals for all private issuers. For each of these indicators and criteria, an assessment is established:

- **positive:** goes beyond Covéa Finance's expectations;
- **neutral:** in line with Covéa Finance's expectations;
- **negative:** below Covéa Finance's expectations.

The consolidation of these assessments by indicators and then by criteria makes it possible to obtain a positive, neutral or negative assessment for each of the three E, S and G pillars. The sudden deterioration of an assessment may trigger the sending of an alert to management and may possibly be subject to further monitoring within the framework of shareholder dialogue.

In addition to the above-mentioned assessment, a dynamic is also defined. It may be positive or negative in light of changes in the issuer's practices from one year to the next, but also relative to its peers over the same period.

Example criteria:

- Environment: GHG emissions, waste production/treatment, biodiversity, etc.
- Social: gender parity, talent retention, ESG criteria in the supply chain, etc.
- Governance: transparency of remuneration policies and reports, separation of powers, independence of the board, term of office, etc.

- **Our handling of negative impacts**

On the basis of the 32 indicators mentioned by the SFDR, Covéa Finance has conducted an exercise to identify the main negative impacts in terms of sustainability and the resources that it is implementing to monitor them.

With regards more specifically to the environmental indicators such as greenhouse gas emissions, carbon footprint and carbon intensity, these elements are already being monitored qualitatively and quantitatively, with the help of a service provider, as well as being published in our various reporting materials, including our annual ESG report (III.1.f Our contribution to energy transition and the fight against global warming, and III.2.c Climate indicators and contribution to energy transition).

With regard to fossil fuels, we are committed, through our exclusion policy, to excluding (among other things) coal from our investments, both on relative and absolute thresholds, based on a timetable for divestment. Last year we also conducted a shareholder engagement campaign for the companies concerned, aimed at making them aware of the consequences of their use of this fossil fuel, and the quality of their communication on these elements.

Still on the subject of the Environment, Covéa Finance, a member of the CDP (Carbon Disclosure Project), will, like last year, be involved in shareholder dialogue concerning not only Climate, but also Water and Deforestation. These discussions with companies allow us to deepen our knowledge and monitoring of risks related to climate change and biodiversity, and feed into our work for managers.

Finally, the other indicators, whether environmental, social or societal, are exhaustively taken into account in our internal framework of elements to be systematically examined by our team of financial and non-financial analysts during a company analysis, which is transmitted and discussed with the managers in the

management committee, and therefore taken into account in our investment process. One last point concerning alignment with the objectives of the Paris Agreement: the positioning of our global portfolio in relation to the international objectives of limiting global warming is the subject of an annual study, the results of which are communicated in our ESG report. (III.2.b 2°C trajectory).

- **Classification of our funds:** [click here](#)
- **For further information:** <https://www.covea-finance.com/our-reports-and-politics>