

Sustainability Risk and ESG Policy

(Environment, Social and Governance)

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Covéa Finance: 20 years of socially responsible investment:

Historically, 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 (AMF, AFG, FFA, etc.).

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 specifying 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 our Company’s Management Committee, is responsible for sharing its work with the managers and providing support for our range of funds:

- studies of private or public issuers
- monitoring of controversies, including compliance with the principles of the United Nations Global Compact
- shareholder dialogue and voting at General Meetings, reflected in our engagement policy
- monitoring of our exclusion list, as set out in our exclusion policy
- monitoring of our 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

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

An assessment 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-sector issuers

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.

Covéa Finance's ESG Policy is based, first and foremost, on the balance of the three pillars of Environment, Social and Governance.

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.

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 triggers an alert to management and may 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 consideration of the negative impacts

On the basis of the 32 indicators mentioned by the SFDR, Covéa Finance has carried out an exercise to identify the main negative impacts in terms of sustainability and the means it uses to monitor them.

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

With regard to fossil fuels, we are committed, through our exclusion policy, to excluding (among others) coal from our investments, both on a relative and absolute basis, based on a timetable for divestment. Last year, we conducted a shareholder engagement campaign for the companies concerned to raise their awareness of the consequences of their use of this fossil fuel and the quality of their communication on these subjects.

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 dialogues concerning not only Climate, but also Water and Deforestation. These discussions with companies also allow us to deepen our knowledge and monitoring of climate change and biodiversity risks, and enrich our work for fund managers.

Finally, the other indicators, whether environmental, social or societal, are comprehensively taken into account in our internal framework of items to be

systematically reviewed by our team of financial and non-financial analysts during the analysis of a company, which are transferred and discussed with the managers during management committees, and therefore taken into account in our investment process.

Lastly, with regard to aligning to the objectives of the Paris Agreement, the positioning of our overall 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 Scenario).

- The cardinal principles of ESG at Covéa Finance:

ESG is fully integrated into Covéa Finance's value chain and investment decision-making.

The notion of progressiveness in the integration of ESG is also key:

- project spread over time and included in multi-year corporate objectives for the consideration of ESG criteria;
- progressive deployment within the scope considered for each component (E, S and G) because the progress, availability, quality and reliability of the data vary from country to country as well as governance practices and codes;

Covéa Finance is committed to aligning interests between stakeholders:

- the ESG vision of a company (on the risk, the economic model) complements the fundamental, financial and stock-market vision.
- It should be noted that the ESG filter may prove critical in certain cases:
 - as part of the implementation of the exclusion policy,
 - in application of certain regulatory requirements¹,
 - in application of requirements related to our labels (SRI, Finansol, Relance, etc.),
 - in the management of thematic funds

Covéa Finance is also committed to a continuous improvement process, for example with the creation of an interactive tool to consult data, but also for communication and controls between asset managers, research, reporting, internal control, etc.

¹ AMF-2020-03 Position-Recommendation on disclosures by collective investment schemes integrating non-financial approaches

Other cardinal principle: taking into account the main characteristic of Covéa Finance as a subsidiary of the Covéa insurance group, namely the integration of basic insurance principles within financial management:

- the need for recurring revenues;
- the need to diversify investments;
- the requirement of absolute performance, within the context of a controlled financial management, to honour at all times the future commitments made by the insurer;
- the optimisation of the risk/return ratio;

As well as taking into account Covéa's financial strategy based on:

- a long-term investment vision;
- a strong capacity to adapt its asset allocation according to market circumstances, in order to protect the interests of its members and clients;
- a desire to focus on two main features in investments: liquidity and transparency (simple and readily understood products).

The Covéa Finance management model is based on:

- collaborative management decisions;
- maximising added value internally through:
 - pooling resources, particularly research, to assist the entire management effort,
 - independence of thought vis-à-vis market trends/swings,
 - controlling the risks embedded in the portfolios.
- using internal tools and methods that have proved their worth in the long term, based on the concept of intervention points with the creation of dampers through the categorisation of portfolio securities according to their long-term or tactical aspect;
- Responsiveness and agility in management.



- Joining charters & codes:

As the Covéa Group became a signatory of the PRI (Principles for Responsible Investment) in 2020, Covéa Finance will eventually draft a transparency report to report on the application of the 6 principles for responsible investment.

In addition, in mid-2021 Covéa Finance joined the Coalition for a Just Transition; the Just Transition Coalition is a collaborative platform launched by “Finance for Tomorrow” which brings together asset managers and holders from the French financial ecosystem. Its mission is to promote a socially acceptable transition to low-carbon economies among businesses.

- Communications:

Covéa Finance publishes an annual report on the consideration of ESG criteria and sustainability risk in its investments, and the proportion of assets concerned.

The ESG report and related policies and the list of financial products complying with SFDR Articles 8 and 9 are available online at www.covea-finance.fr.