

A large, ornate fountain with multiple tiers and statues, set against a blue sky with light clouds. The fountain is the central focus of the background image.

POLICY

ON SUSTAINABILITY RISKS AND ESG

Update: 01.23

Covéa Finance: 21 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 21 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 accordance with the French Energy Transition Act), we are taking a step further by sharing how we meet the requirements of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"), which came into force on 10 March 2021.

Our consideration of sustainability risks

Covéa Finance is convinced 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 notably by seeking to limit sustainability-related risk. This type of risk is defined by the SFDR as "an environmental, social or governance event or situation which, if it occurs, could have a significant negative impact, actual or potential, on the value of the investment". Covéa Finance believes that responsible management, taking into account ESG criteria, enables a more holistic assessment not only of the risks but also of the sector opportunities specific to each issuer.

Covéa Finance's internal rating methodology for private and sovereign issuers is based on the selection of specific indicators making it possible to (i) assess issuers in relation to the various E, S and G criteria and (ii) identify sustainability risks. In 2022, we launched an ambitious ESG programme aimed in particular at refining the identification and management of our sustainability risks.

In 2023, our work will focus on:

- defining sustainability risks,
- identifying indicators associated with these risks,
- calculating a risk score for each issuer.

Our principles of ESG analysis

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

Our internal ESG rating system, which consists of both quantitative and qualitative analysis, covers issuers from all geographies and all sectors. Covéa Finance's ESG Policy is based, first and foremost, on the balance of the three Environment, Social and Governance pillars. For each of these pillars, Covéa Finance has determined what it considers to be a set of core indicators for all private issuers.

The consolidation of these indicators makes it possible to obtain a positive, neutral or negative assessment for each of the three E, S and G pillars. A sudden deterioration in an assessment triggers an alert to management and can be subject to further monitoring as part of shareholder dialogue.

Examples of criteria:

- Environment: greenhouse gas emissions, volume of waste generated, management of water stress risk, biodiversity, etc.
- Social and societal: staff turnover rate, proportion of female managers, retention of talent, binding ESG clauses in the supply chain, etc.
- Governance: transparency of remuneration policies and reports, separation of powers, independence of the board, respect for the rights of minority shareholders, terms of office, etc.

The qualitative analysis is added to the quantitative criteria for additional clarification and to address material themes for the sector.

It should be noted that the ESG filter may prove critical in certain cases:

- As part of the application of the exclusion policy,
- In application of certain regulatory requirements¹;
- In accordance with requirements relating to our labels (SRI, Finansol, Relance, Greenfin);
- In the management of thematic funds

¹AMF Position-Recommendation-2020-03 on the information to be provided by collective investment schemes incorporating non-financial approaches

New data providers from 2023

Covéa Finance selected two new data providers at the end of 2022 in order to strengthen the quality and coverage rate of non-financial data. The rating system will evolve and data from several data providers will be incorporated.

Transparency on adverse impacts

Under Article 4 of the SFDR, financial players must specify whether they take into account the main negative impacts in their investment decisions.

Covéa Finance currently does not take into account the main negative impacts within the meaning of Article 4 of the SFDR for the following reasons:

The availability and quality of the data published by issuers do not yet allow the negative impacts to be taken into account with the level of granularity and rigour that we wish to apply in our ESG approach.

Our ESG rating approach already factors in issuers' negative externalities.

Covéa Finance will sign contracts with new data providers in 2023 in order to obtain precise data on a larger share of issuers. The consideration of the main impacts will be reassessed in light of this change and during the implementation of a new ESG internal rating model.

Covéa Finance's ESG analysis teams

ESG is fully integrated into the value and investment decision-making chain at Covéa Finance.

At the end of December 2022, the Analysis team, which consists of around fifteen financial and non-financial analysts, aims to share its work with the asset managers (studies, monitoring of controversies, shareholder dialogues, monitoring of the exclusion list, etc.) and also to provide support for certain ranges of funds (thematic analyses in relation to environmental funds, monitoring of the various non-financial labels, etc.). Analysts and managers work closely together and meet several times a month at meetings of various Committees that address the extra-financial component.

To a lesser extent, analysts are also required to work with the Macroeconomic Research team (on the ESG assessment model for Sovereigns, for example) and with the Compliance team, in particular to ensure the proper implementation of the various policies. In addition, regular conversations take place with the internal control and reporting teams.

Adherence to charters & codes

As the Covéa Group became a signatory of the PRI (Principles for Responsible Investment) in 2020, Covéa Finance participates in the drafting of a transparency report on the application of the six principles for responsible investment.

In addition, in mid-2021, Covéa Finance joined the Just Transition Coalition, a collaborative platform launched by "Finance for Tomorrow" that 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.

Through its membership of the CDP (Carbon Disclosure Project), Covéa Finance engages each year in shareholder dialogues that may address not only Climate issues, but also Water and Deforestation. These dialogues with companies also enable us to further our knowledge and our monitoring of risks related to climate change and biodiversity, as well as contributing to work for asset managers.

Communication

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

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