SFDR Sustainable Investments LBPAM-TFSA Methodology

DISCLAIMER

The methodology described in this document reflects the approach applied by La Banque Postale Asset Management (LBP AM) and Tocqueville Finance (TFSA) based on the data available to them and their understanding of the current regulatory context.

This methodology could evolve, in particular to take into account regulatory clarifications that could be made by the European Commission or European and national regulators, to integrate new data deemed more relevant or to apply methodological refinements considered necessary.

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1.1 Contribution to an environmental or social sustainability goal

1.1.1 General Description

LBPAM applies a general non-financial approach to the implementation of environmentally and socially sustainable investments.

In the Environment category, the six objectives of the EU Taxonomy are taken into account, namely:
1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control;
6. Protection and restoration of biodiversity and ecosystems.

The sustainability of investments is not assessed by taking into account their alignment with the EU Taxonomy, but instead using a method developed by LBP AM and explained below.

In the **Social category**, the following objectives are addressed:
1. Respect for and promotion of human rights;
2. Local development through relations with stakeholders outside the company (communities, customers, suppliers, etc.) and efforts to address the stakes and challenges of relocations, combat local divides and support local players;

This general strategy does not mean that each sustainable investment has to meet all the aforementioned environmental and social objectives, but does call for sustainable investments to meet at least one EU Taxonomy objective, while doing no significant harm to the other objectives.

The contribution made to one of the aforementioned environmental and social objectives is assessed on the basis of multiple sources, including in particular:
- The Asset Manager's proprietary non-financial analysis methodology, "GREaT", which covers all environmental and social themes;
- The issuer's commitment to aligning its activities with a trajectory that is compatible with the goals of the Paris Agreement;
- The issuer's exposure to environmentally friendly activities, as defined by the French government's Greenfin certification focused on financing the energy and ecological transition[1].

1.1.2 Applied thresholds

An investment is deemed to contribute to one of the aforementioned objectives when it meets one of the following conditions:

- The issuer has obtained a score of less than 3/10[2] on one of the criteria of the GREaT ESG analysis methodology used to classify a contribution to an environmental or social sustainability objective. The following criteria are examined:

[1] The list of environmentally friendly activities is available on the Greenfin website: Greenfin certification | Ministry for the Ecological Transition and Social Cohesion and Ministry for the Energy Transition (ecologie.gouv.fr)

[2] 1 is the best score and 10 is the worst.

- Biodiversity and Water
- Pollution and Waste
- Energy Transition Solutions
- Human Rights
- Local Development

- The issuer generates at least 20% of its revenue or EBITDA from environmentally friendly activities, as defined by the Greenfin certification aimed at financing the energy and ecological transition;
- The issuer has undertaken to align its activities with a trajectory that is compatible with the goals of the Paris Agreement. To ensure that this commitment leads to concrete initiatives, the Asset Manager requires the issuer to define short-term GHG emissions reduction targets.

1.2 DNSH controls

1.2.1 General Description

To ensure that an investment contributing to a sustainability objective in accordance with the analysis method presented above does no significant harm to any other environmentally or socially sustainable investment, the Asset Manager systematically verifies:

- The issuer's practices in terms of human resources and environmental management. This point is examined using the Asset Manager's proprietary non-financial analysis methodology, "GREaT".
- The issuer's exposure to environmentally sensitive activities (deforestation, thermal coal, oil & gas), with the implementation of an exclusion policy;
- The issuer's exposure to a severe controversy in the environmental, social and good governance fields.

Furthermore, Commission Delegated Regulation (EU) 2022/1288 (hereafter the "SFDR Delegated Regulation") defines a list of indicators used to measure an issuer's adverse impacts on environmental and social sustainability factors (hereafter the "adverse impact indicators").

Adverse impact indicators are calculated for each issuer, when the necessary data are available, and incorporated in the non-financial analysis tool.
Some indicators have also been directly incorporated in the GREaT proprietary rating methodology used to identify sustainable investments, or for the application of exclusion policies. These indicators are:

- Level 1 and 2 GHG emissions;
- GHG intensity of companies benefiting from investments;
- Breach of UN Global Compact principles and OECD Guidelines for Multinational Enterprises;
- Diversity of governance bodies;
- Exposure to controversial weapons (anti-personnel mines, cluster bombs, chemical or biological weapons).

1.2.2 Applied thresholds

The following thresholds are applied to the aforementioned controls:

- The issuer's practices in terms of human resources and environmental management are analysed through the lens of the "Sustainable Resource Management" pillar of the Asset Manager's proprietary non-financial analysis methodology, "GREaT", covering respect for human rights and labour law, and protection of the environment and biodiversity. An issuer with a score of more than 8/10[3] on this pillar is deemed to do significant harm to sustainability objectives.
- Exposure to the coal sector:
    - Exclusion of issuers in the mining and electricity generation sectors that have not defined a coal exit strategy. In order to be deemed acceptable, a coal exit strategy must (i) aim to decommission or transform assets rather than sell them, (ii) take into account the geographic specifications highlighted in the work of the IPCC and be aligned with the timetable of the NGO Climate Analytics, and (iii) address the social and societal impacts of decommissioning. Development of a new coal-related project is systematically considered as non-compliant with the goal of an organised exit strategy;
    - Exclusion of service providers generating more than 20% of their revenue from thermal coal.
- Exposure to the deforestation sector: Exclusion of operating and/or trading firms directly involved in deforestation but with no solid risk prevention policy;
- Exposure to the oil & gas sector:
    - Exclusion of issuers involved in the exploration, production, storage and distribution of oil & gas and associated projects that are significantly exposed to unconventional energies. Assessment of exposure is based on the revenue exposure of companies in the unconventional energies sector. The triggering threshold is set at 20% exposure to one or more unconventional energies.
    - Exclusion of sector companies with no minimum strategic commitment to the energy transition. Companies demonstrating a lack of strategic commitment are those having failed to disclose either a comprehensive carbon neutrality target for Scope 1 and 2 GHG emissions or a Scope 3 emissions reduction target covering a significant scope of operations.
- The issuer's exposure to a severe controversy in the environmental, social and good governance fields is analysed by non-financial data provider ISS ESG. A controversy is deemed "severe" when given a score of 8/10[4]

No eligibility threshold is systematically applied to issuers for "adverse impact indicators", which are incorporated in the non-financial analysis tool.

1.3 Verification of compliance with the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights

1.3.1 General Description

Compliance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights is ensured by:

[3] 1 is the best score and 10 is the worst.

[4] A score of 10/10 designates the most severe controversy.

- Applying the Asset Manager's policy on international treaties, combined with an ad hoc controversy control;
- Disqualifying issuers identified as employing poor practices in the "Sustainable Resource Management" pillar of the GREaT analysis methodology, which includes criteria for respect of human rights and labour law.

1.3.2 Applied thresholds

The following thresholds are applied to the aforementioned controls:

- The Asset Manager bases its decision on whether or not to exclude an issuer on a qualitative analysis aimed at excluding issuers suspected of committing major and/or repeated breaches of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.
- The ad hoc controversy control is based on the controversy score defined by non-financial data provider ISS ESG. A controversy is deemed "severe" when given a score of 8/10[5];
- The issuer's practices in terms of human resources and environmental management are analysed through the lens of the "Sustainable Resource Management" pillar of the asset manager's proprietary non-financial analysis methodology, "GREaT", covering respect for human rights and labour law. An issuer with a score of more than 8/10[6] on this pillar is deemed to not apply the aforementioned international treaties.

[5] A score of 10/10 designates the most severe controversy.

[6] 1 is the best score and 10 is the worst.

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