

# Policy of controversies prevention and verification

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METROPOLE Gestion

2020

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## 1- Definition and approach

We can include under the term "controversy" all allegations or disputes that affect companies, all types of events that impact their reputation or legal security and events generated within the company or affecting stakeholders or the environment.

As investors are bombarded with a permanent flow of information, and in order not to succumb to unproven claims, for many years now our approach has consisted of scrupulously analysing every controversy and producing a detailed assessment.

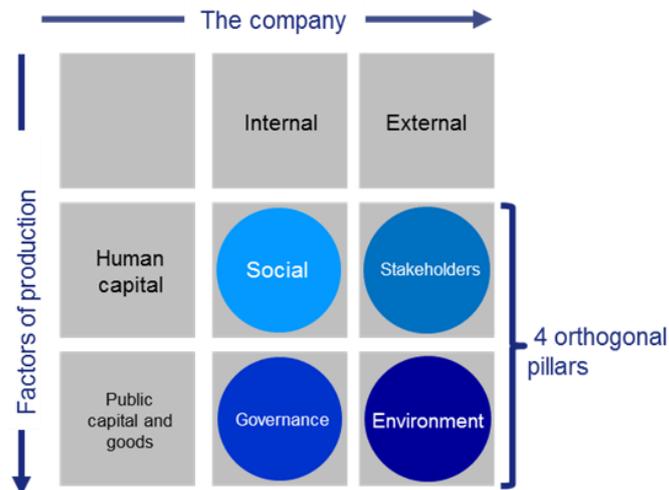
## 2- Controversy and ESG rating

In 2009, METROPOLE Gestion decided to establish a base methodology independently of the main ESG rating agencies by entering into an academic collaboration with the Clermont Auvergne University in order to create a company rating system specific to METROPOLE Gestion.

The fundamental architecture of the rating system is structured around 4 orthogonal pillars.

The matrix consists of two axes producing the 4 pillars: External/Internal and Human Capital/Capital and public goods.

The 4 pillars are equally weighted. They are then broken down into sub-pillars analysed in extensive detail:



### **Environment: measurement of the company's impact on the ecosystem.**

- Impact of the production process on emissions
- Impact of the production process on resource consumption
- Impact of the products

**Social: measurement of the company's impact on its human resources.**

- Fundamental rights
- Quality of working conditions (arduousness, health & safety in the workplace, etc.)
- Employee development and job security (compensation, training, promotion, etc.)

**Governance: measurement of the quality of relations between senior management, shareholders and the board of directors.**

- Shareholder protection, CSR approach
- Effectiveness of the board of directors
- Effectiveness of executive officers

**Stakeholders: measurement of the quality of relations with contractual and external stakeholders.**

- Customers
- Suppliers
- Government and public authorities
- Civil society

A total of 150 indicators are taken into consideration and allocated to the 4 analytical pillars.

The results obtained for each indicator lead to the company being classified within its sector followed by a standardisation process producing a score between 0% and 100%. The scores are then aggregated to produce a score for each of the 4 pillars of environment, social, governance and stakeholders, which are equally weighted. The results obtained for each pillar are aggregated once again and standardised to obtain global ratings between 0% and 100%.

The global ratings are distributed among multiple groups rated from AAA+ to CCC-.

The issuer's global rating is supplemented by a best effort rating. This is calculated using the variation of the global rating over the past 3 years with incremental coefficients (the latest year has a coefficient of 3). The companies are classified and broken down into 5 groups ranging from 1 to 5 stars (5 stars being the highest best effort rating).

The ratings are reviewed once each year when the companies' annual reports and sustainable development reports are published.

Any emergence of a controversy has therefore no impact on the company's Best-in-class / Best effort rating during the year.

The emergence of a controversy does not change the company's quantitative rating during the year in question. Depending on the significance of the controversy the weighting within the portfolio will be modified, potentially leading to exit.

### **3- Controversy monitoring and assessment**

Every week, all controversies affecting companies in the portfolio are extracted from the Eikon ESG database and their pertinence is analysed by the management team (at Fund Management Committee), which decides if any further action is required.

The following are types of controversy considered to be major (non-exhaustive list):

- collusion,
- health or environmental scandal,
- violation of human rights,
- corruption.

Controversies considered to be major will trigger an assessment, conducted using the following analytical matrix:

	Theme	Rating	Comments
<b>Scale of the controversy</b>	CEO or CFO implicated	/10	
	Affects the core business	/10	
	Image sustainably damaged	/10	
	Repeated occurrence	/10	
	<b>Sub-total</b>	<b>/40</b>	
<b>Benchmarking</b>	Exposure to a high-risk country	/10	
	Number of controversies during the past 3 years	/10	
	Organisation	/10	
	<b>Sub-total</b>	<b>/30</b>	
<b>Action taken by the company</b>	Transparency	/10	
	Internal sanctions	/10	
	Responsiveness to the controversy	/10	
	<b>Sub-total</b>	<b>/30</b>	
<b>Quantification</b>	Potential fine	/10	
	Loss of market share	/10	
	Investment required	/10	
	Incident with unquantifiable repercussions	/10	
	<b>Sub-total</b>	<b>/40</b>	
	<b>Overall rating</b>	<b>/140 (%)</b>	

Each item of the controversy is assigned a rating of between 1 and 10, where 1 represents the highest level of risk and 10 the lowest. The overall rating obtained (out of 140) is converted into a percentage to provide the final rating.

Controversies with a high or very high risk systematically lead to discussions being held with the company. Controversies are reviewed during subsequent meetings covering ESG issues.

**4- Inclusion of controversies into the management process**

The percentage rating obtained for a controversy involving a portfolio company leads to a management decision, in line with the following assessment criteria:

Evaluation of the controversy	Associated risk level	Management decision
1-25%	Very high	Close out the position within 30 days of the evaluation
26-50%	High	Dialogue within 90 days of the evaluation
51-75%	Medium	Monitor
76-100%	Low	No action required

For companies about to be added to the portfolio, all controversies during the previous 3 years are examined by the management team.

Should any controversy be deemed to be major in line with the analytical matrix described above, it will be analysed in light of its impact on the management of the portfolio and the measures subsequently adopted by the company to mitigate its effects. The decision to invest is dependent on the analysis. If it is inconclusive, the company may be excluded from the investment universe of the portfolio or its weighting will be adjusted in line with the analysis of the controversies.

**5- Documentation and audit trail**

During analysis, and in order to be able to document and support the decisions taken in relation to controversies, all the major controversies selected and their related analysis are retained for audit purposes. The decision resulting from the analysis must notably be documented sequentially:

1. database with the list of all controversies published in the Eikon system,
2. selection of major controversies (with evidenced criteria supporting the criticality),
3. analysis of major controversies (documented using the matrix mentioned above),
4. management decision and report, as applicable,
5. covered in the engagement and/or voting report.