



Responsible Value management policy

METROPOLE Gestion

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Contents

1. Principles and approach	3
2. Our ESG analysis model.....	6
2.1 Base methodology	6
2.2 Data measurement and aggregation	7
3. Climate change principles and criteria.....	8
4. Management process.....	9
4.1 Portfolios constructed with due consideration given to the results of ESG research.....	10
4.2 A comprehensive and integrated management process: the Responsible Value investment process	11
5. Human resources: a team of ESG portfolio managers/analysts embedded with the fund management	12
6. Reporting and transparency	14

1. Principles and approach

Socially responsible investment (hereafter SRI) has been constantly evolving over the last 20 years.

Since its creation in Boston in 1997, the GRI (Global Reporting Initiative) has helped and encouraged companies to adopt common reporting standards for sustainable development. Today, approximately 93% of the world's 250 largest companies publish a sustainable development report. While this practice initially helped to identify and manage the risks related to sustainable development, it also helped bringing to light new opportunities available to companies for sustainable growth.

The regulations imposed in recent years have also accelerated the implementation by companies of more appropriate sustainable development practices as well as their reporting within financial reports as supported by the IIRC (International Integrated Reporting Council).

Since the law of 15 May 2001 on new economic regulations (NRE), the French regulatory framework has also included reporting requirements for all listed and unlisted companies with more than 500 employees and a turnover above 100 million euros. In their management reports, these companies must include quantitative and qualitative information on the social, societal and environmental consequences of their activity. The decree of 24 April 2012 on corporate transparency obligations in social and environmental matters requires portfolio management companies to describe, as of 1 July 2012, the consideration of environmental, social and governance criteria within their investment process. The required information relates both to the management company and to the undertakings for collective investment in transferable securities that it manages. In 2015, France decided to introduce an innovative extra-financial reporting system. Article 173-VI of the law of 17 August 2015 on Energy Transition for Green Growth includes greater transparency obligations for investors regarding the consideration of criteria relating to compliance with environmental, social and governance quality (ESG) objectives in their investment strategies, that specifically include taking climate risks into account within these obligations and the means implemented to contribute to the Energy and Ecological Transition. Institutional investors are also targeted by this law. Taking effect on 30 December 2015, the decree issued pursuant to article L.533-22-1 of the Monetary and Financial Code, resulting from article 173-VI of the Law on Energy Transition for Green Growth, specifies metrics that must be disclosed with regard to these criteria and pinpoints the information that may be given on climate aspects. France was the first country in the world to make it mandatory for investors to disclose information about their contribution to climate objectives and the financial risks associated with the Energy and Environmental Transition.

In addition to regulations, voluntary initiatives have been developed through three types of schemes in order to raise awareness about socially responsible investment amongst savers:

- the Transparency Code for socially responsible open-ended funds:
the Transparency Code of the AFG and the Responsible Investment Forum is the French version of the European Transparency Code for socially responsible open-ended funds that was initially developed by Eurosif in 2005 and revised in 2013;
- responsible Finance Week:
sponsored by the French Ministry of Ecological and Solidarity-Based Transition since its first edition, it brings together actors from the world of alternative finance and provides a venue for exchanges and reflection;
- the French SRI label which was created in 2016.

METROPOLE Gestion's responsible investor approach is in line with its founding values: to evaluate a company, you must consider the bigger picture.

Whereas financial analysis has traditionally been the only lens through which the risks and opportunities of individual companies are viewed, faced with the rising social, environmental and climate risks it is inconceivable in the current age not to integrate these factors alongside purely financial risks.

Moreover, such risks can give rise to considerable financial risks for companies. In addition to analysing and incorporating ESG risks, we are also convinced that it is our responsibility as investor on behalf of our clients to encourage companies to implement a responsible approach in order to ensure that their growth objectives are sustainable in social, environmental and climate terms, thereby opening up new development and growth opportunities.

In 2008, METROPOLE Gestion therefore implemented a 360° approach to company analysis taking into account three aspects: non-financial analysis, financial analysis and balance sheet analysis.

This approach enables us to assess the ESG risks inherent to each individual company and also to measure the opportunities available to them as they convert to sustainable growth.

In this context, METROPOLE Gestion seeks to encourage all economic operators to embark on a transition process towards sustainable growth.

Implementing a Value management style means investing in companies that have been discounted vis-à-vis their industrial value and therefore tend to be neglected by the financial markets. It necessarily calls for particular vigilance regarding the risks inherent to such companies – not only the financial risks but also governance, social and environmental risks. In 2008, therefore, METROPOLE Gestion launched a Value and SRI style Eurozone equities fund and subsequently established a partnership with the Clermont Auvergne University in order to apply academic rigour to the analysis of the ESG risks inherent to the companies, at a time when company reports on such matters were in their infancy and the associated responsibilities were poorly defined. In collaboration with the Clermont Auvergne University, METROPOLE Gestion therefore established a quantitative company rating methodology exploiting ESG criteria, covering some 150 fundamental indicators broken down into 4 analytical themes, namely Environment, Social, Governance and Stakeholders.

In addition to the risks companies face in these areas, we believed it was essential to encourage them to improve by adopting a responsible and sustainable approach to growth. We therefore apply a Best-in-class / Best effort methodology, engage with the companies from the very outset, integrate these criteria in the exercise of our voting rights and maintain direct dialogue with them.

In order to extend our approach and encourage academic research into such issues, since 2012 METROPOLE Gestion has funded a research chair at the Clermont Auvergne University Foundation to enable young researchers to work on ESG issues.

Research Chair: <https://chaire-valeur-et-rse.fr/>



The METROPOLE Gestion approach is detailed in its CSR policy published on the company's website.

CSR Policy: http://doc.metropolegestion.fr/pdf/MG_CSR_Policy_en.pdf

Since its founding, METROPOLE Gestion has always believed that exercising voting rights on behalf of our clients forms an integral part of establishing a dialogue with the companies, encouraging them to develop their ESG practices. Over the years we have also observed companies increasing propensity to give full consideration to shareholders' votes and to establish dialogue with their investors.

The analysis of resolutions and the implementation of votes are monitored by the METROPOLE Gestion fund management team with the support of the analytics firm ISS.

Voting Policy: http://doc.metropolegestion.fr/pdf/Voting_Policy.pdf

In addition to exercising voting rights, the fund management team of METROPOLE Gestion has always maintained dialogue with the companies in which it invests on behalf of its clients, by meeting not only the companies' CSR managers but also their CEOs and CFOs in order to assess their commitment to the sustainable development of their company. Over and above the process of direct dialogue with the companies, more recently METROPOLE Gestion commenced an annual process of thematic dialogue covering specific topics that are addressed by each company that is met. Lastly, through the auspices of the CDP (Carbon Disclosure Project), METROPOLE Gestion engages with companies within the framework of collective engagement designed to exert greater influence over their activities, notably in terms of their climate action.

2. Our ESG analysis model

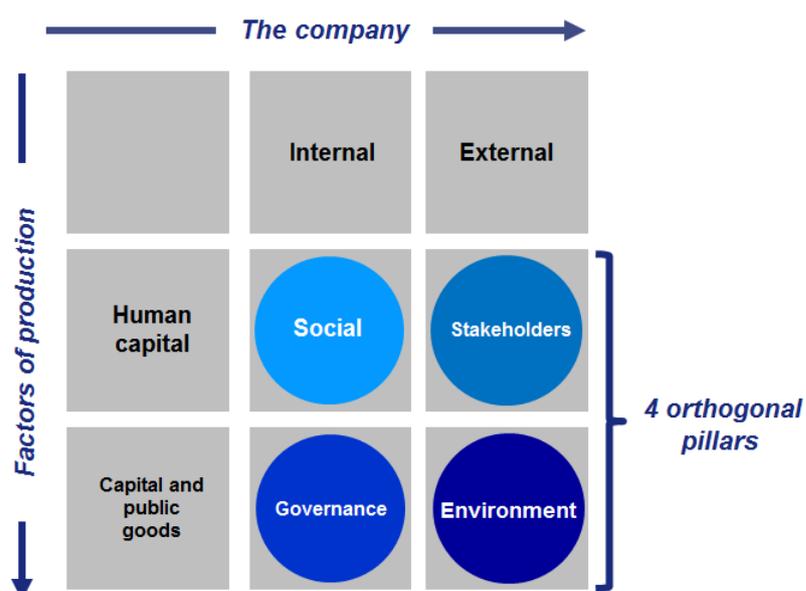
2.1 Base methodology

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 reference framework provides the architecture for the rating system. It is structured around 4 orthogonal pillars:

The matrix consists of two axes producing the 4 pillars: Internal – External / 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.

Our methodology is designed to select the best European companies in their sector in terms of ESG criteria (Best-in-class approach), or which are striving to improve in these areas (Best effort approach).

2.2 Data measurement and aggregation

- We use the Eikon database from Refinitiv, one of the largest non-financial databases (5,000 companies worldwide) which maintains stable data over time and combines official data from the companies (annual reports and sustainable development reports) with data on controversies emanating from press agencies.
- Based on this data, 150 indicators have been constructed measuring each element of the system, emphasising results versus the resources employed (weighting 75% to 25%).

Our method for analysing ESG criteria aims at selecting European companies that are above the average for companies in their sector ("Best-in-class" approach) or that have a high expectations of developing on these issues ("Best effort" approach).

- Best-in-class rating

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 the 4 pillars of environment, labour relations, governance and stakeholders, which are equally weighted. The results obtained for each pillar are aggregated once again and standardised to obtain a global ratings between 0% and 100%.

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

- Best effort rating

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).

- Annual rating review.

Our research process has been designed to be stable over time. The ratings are reviewed once each year when the companies' annual reports and sustainable development reports are published.

Quantitative ratings verified and supplemented by:

- Due consideration given to ongoing controversies:
 - All controversies relating to the securities held in the portfolio are collated and monitored on a weekly basis.
 - In addition to the quantitative rating, controversies of new companies being reviewed are analysed for the past 3 years.
 - In order to assess the significance of the controversy, a procedure has been implemented incorporating a specific analytical matrix.
 - 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.

This approach is detailed in our Policy of controversies prevention and verification: http://doc.metropolegestion.fr/pdf/Policy_of_controversies_prevention_and_verification.pdf

- Analysis of specific sectoral risks.
- Dialogue with companies during the meetings held with the companies' CSR officers and senior management, at least once a year for portfolio companies, designed to conduct in-depth investigations into identified risks, to detect risks not identified during the rating process and to encourage the company to adapt its strategy.

The methodology is applied in the same manner regardless of the business sector, country or region. As the selected approach is a Best-in-class approach, the companies are compared with each other within a given sector and the pertinence or otherwise of an indicator applies to the entire sector.

3. Climate change principles and criteria

Our climate risk assessment is based on a quantitative and qualitative approach.

A set of climate change indicators is integrated within our in-house model, the principles of which are set in the preceding section.

35 indicators out of 150, i.e. over 20% of the indicators we monitor are climate change criteria and are distributed among the 4 analytical pillars. These criteria form an integral part of the quantitative rating of each company and are subjected to ESG analysis as described above.

We have also established a specific performance rating related to climate risk management, allowing companies to be ranked accordingly. We thus calculate a “climate risk score” for each company that takes into account physical risks and transition risks faced by companies as well as their alignment with the 2°C pledge of the Paris Climate Agreement. This score has 22 sub-indicators classified into percentiles, which are then equally weighted.

These criteria form an integral part of the quantitative rating of each company and are subjected to qualitative analysis during the meetings held with the companies.

They are broken down into the following themes:

- physical risks induced by climate change,
- risks induced by transition to a low-carbon economy,
- benefits of favouring a low-carbon economy,
- compatibility with the 2°C pledge,
- consequences of climate change and of extreme weather events,
- changing availability of resources “climatically” compatible with the objectives,
- consistency of investment expenditure with the low-carbon strategy,
- measurement of greenhouse gas emissions.

In addition to incorporating criteria within the ESG ratings, METROPOLE Gestion has adopted a policy of themed engagement covering climate change. During dialogue with issuers, we question all companies held in the portfolio about their CO₂ strategy and assess the extent to which they comply with the 2°C pledge established during the Paris Climate Agreement. The results of this engagement are detailed in our Engagement Report.

In addition, as a signatory of the Carbon Disclosure Project, METROPOLE Gestion has adopted the Non-Disclosure Campaign⁽¹⁾, a collective engagement campaign targeting companies not responding to information requests from the CDP. This engagement is designed to improve the transparency of climate change information communicated by companies. Furthermore, in 2020 METROPOLE joined the CDP SBT Campaign, an initiative requesting companies to adopt CO₂ emission reduction targets validated by the Science Based Targets initiative’s (SBTi).

Finally, we monitor each company’s and each portfolio’s carbon footprint, in particular by the carbon intensity (tons of CO₂ equivalent per year and per million of turnover) measured by the CO₂ emissions for 1 million euros of turnover generated by owned companies. The measurements come from data published by the companies or include measurements collected by the CDP; they include scope 1 and 2 emissions.

¹Further information on the Non-Disclosure Campaign is available on request

4. Management process

4.1 Portfolios constructed with due consideration given to the results of ESG research

METROPOLE Gestion has adopted a single global and integrated process: Responsible Value. As such, the same management process is applied to the sub-funds, METROPOLE Sélection, METROPOLE Euro SRI and METROPOLE Avenir Europe of the SICAV, and to some dedicated funds to institutional investors (certain AIF/FIVG, Sub-delegation or mandates).

Our objective is to encourage and prompt the companies in which we invest on behalf of our clients to implement sustainable development over the long term, regardless of their business sector.

Our initial investment universe is composed of European companies with over 100 million euros of market capitalisation, with the exception of those subject to the exclusions specified in our policy available on our website. Our eligible universe therefore constitutes the starting point for portfolio construction.

The universe is then reduced a second time based on our Best-in-Class and Best Effort ESG rating system by favouring companies with the highest ratings in their sector, or companies making the most significant efforts to adopt the best ESG practices while eliminating the companies with the lowest ratings, in addition to due consideration being given to past or current controversies which are assessed under a dedicated Prevention and Verification Policy. This approach limits potential ESG risks and also encourages the companies to implement accelerated transformation towards sustainable growth and to seize the opportunities presented during the transformation process. The selection constraints applied to the ESG rating system are as follows:

- companies rated above or equal to BBB- (Investment grade) may be selected with no Best effort condition;
- companies rated below or equal to BB+ may be selected subject to a minimum +++ Best effort rating;
- companies rated in the CCC bucket are ruled out.

We obtain a reduced investment universe using ESG rating criteria.

Furthermore, a set of climate change indicators is taken into consideration by our proprietary ratings model. More than 20% of the indicators we monitor are related to climate change and are broken down into the 4 analytical pillars. They form an integral part of our ESG rating system.

Financial analysis and the selection of discounted securities vis-à-vis their industrial value constitutes the third filter that once again narrows the universe.

Lastly, the catalysts likely to reduce the valuation discount and ESG controversies represent the final filter applied to the selection of securities that may constitute the portfolio.

The investment universe established accordingly may evolve as time progresses in line with valuation movements in the markets and ESG transformation at company level. The fund management team adjusts the investment universe on a regular basis.

The portfolio is constructed via a collaborative decision-making process by the entire fund management team, weighting each security in accordance with its discount, the quality of the company's balance sheet and its ESG qualities. Lastly, the fund management team applies a

strict disposal policy if the valuation objectives are reached, if the quality of the company deteriorates in terms of ESG or in the event of a major controversy.

4.2 A comprehensive and integrated management process: the Responsible Value investment process

The management process can be portrayed as follows:

Pre-selection

Reduction of the investment universe in line with 3 successive criteria:

- elimination of companies falling within the scope of our exclusion policy;
- elimination of companies with the lowest ratings under the Best-in-Class/Best Effort ESG rating produced using our proprietary methodology or which have been the subject of a major controversy;
- selection of securities that are discounted vis-à-vis their industrial value by using for each business type the same valuation metrics as corporations do in their relevant sector as recorded in our proprietary database of past transactions.

Valuation

Calculation of industrial value, analysis of the balance sheet strength followed by meeting with management.

- A 360° analysis of the company taking into account three aspects: extra-financial analysis, financial analysis, balance sheet analysis.
- Meeting with management regarding these 3 aspects.
- Choosing an appropriate valuation ratio for each type of business.
- Evaluation of ESG risks and opportunities.



Identification of catalysts

Anticipation of changes in market status for the security selected, likely to reduce any undervaluation relative to their industrial value.

- Identifying financial or extra-financial catalysts, new controversies or changes in extra-financial ratings.



Entry

Entry based on a collegial decision and weighting of each security according to its discount and catalysts.

- Portfolio with stocks discounted against their industrial value, with strong balance sheet and ESG qualities;
- concentrated portfolios with 30 to 40 stocks.



Exit

Strict sell discipline:

- when the valuation target is reached;
- when identified catalysts do not materialise;
- in the event of a sharp downgrade in extra-financial ratings;
- in the event of significant controversy.

For METROPOLE Sélection, METROPOLE Euro SRI and METROPOLE Avenir Europe sub-funds, the following additional selectivity constraints are in place with regard to ESG:

- Companies rated above or equal to BBB- (Investment grade) may be selected with no Best effort condition
- Companies rated below or equal to BB+ may be selected subject to a minimum +++ Best effort rating
- Companies rated in the CCC bucket are ruled out
- The portfolio's overall ESG rating must be higher than the reference universe's overall ESG rating, minus 20% of the lowest rated securities.

5. Human resources: a team of ESG portfolio managers/analysts embedded with the fund management

Driven by its convictions, METROPOLE Gestion decided to break down the traditional barriers within investment companies between fund management teams and financial analysts on the one side, and ESG on the other.

In a similar manner as adopted during meetings with the companies, we question management on CSR issues, and not only personnel devoted to such matters, our traditional fund management and financial analysis team also being responsible for ESG management and

analysis of the companies to ensure that the trajectory of results is always compatible with a sustainable development.

The multidisciplinary fund management team is therefore composed of 7 senior managers in equity analysis. The team works in collaborative mode and a fund management committee sits on a weekly basis in order to formalise the management decisions.

The fund management team



Isabel LEVY

Managing Director
 Chief Investment Officer
 Member of SFAF* (2001)
 Entered the industry in 1984
 Founder of METROPOLE Gestion



Ingrid TRAWINSKI

Managing Director
 Co-Chief Investment Officer, Partner
 Member of SFAF* (2000)
 Entered the industry in 1997
 Joined METROPOLE Gestion in 2007



Cédric HERENG

Deputy Managing Director
 Co-Director of Fund Management, Partner
 Member of SFAF* (2002)
 Entered the industry in 1999
 Joined METROPOLE Gestion in 2005



Fredrik BERENHOLT

Portfolio Manager, Partner
 CFA* (2003)
 Entered the industry in 1991
 Joined METROPOLE Gestion in 2006



Jérémy GAUDICHON

Portfolio Manager, Partner
 Member of SFAF* (2017)
 Entered the industry in :2001
 Joined METROPOLE Gestion in 2015



Markus MAUS

Portfolio Manager, Partner
 Member of DVFA* (2001)
 Entered the industry in 1999
 Joined METROPOLE Gestion in 2003



Thibault MOUREU

Portfolio Manager, Partner
 CFA* (2013)
 Entered the industry in 2006
 Joined METROPOLE Gestion in 2014

* SFAF: French Society of Financial Analysts

CFA: Chartered Financial Analyst

DVFA: Deutsche Vereinigung für Finanzanalyse und Asset Management, German Society of Financial Analysts

Appropriate tools implemented and used by all teams

- We use the Eikon database from Refinitiv, one of the largest non-financial databases (5,000 companies worldwide), which maintains stable data over time and combines official data from the companies (annual reports and sustainable development reports) with data on controversies emanating from press agencies.
- The data we collect is fed into our in-house ESG analytical model developed in collaboration with the Clermont Auvergne University, which enables us to quantitatively rate all of the companies based on a Best-in-class and Best effort approach. Similarly, any controversies are analysed on a weekly basis and major controversies are analysed quantitatively.
- All ratings are directly linked with our SimCorp Dimension portfolio management system (PMS) to ensure that fund managers are able to exploit all the information (ratings, pre-trade controls, global portfolio ratings, etc.).
- All of the data collected is exploited to complete preparatory information sheets supporting the qualitative work carried out prior to direct dialogue with the companies (approximately 500 meetings each year).

- All internal policies, legal reporting obligations, transparency undertakings and labelling requirements are regularly reviewed by the fund management team and permanent control team.

6. Reporting and transparency

In keeping with regulations, its commitment to openness and transparency and its will to promote and disseminate its responsible investment practices, METROPOLE Gestion publishes on its website, all required policies and reports as well as all information needed by investors.

All of this information can be viewed on our [website](#)

- Voting policy and Annual report on the exercise of voting rights
- Exclusion policy
- Engagement policy and Annual engagement report
- Shareholder engagement policy
- Annual impact reports of METROPOLE Sélection, METROPOLE Euro SRI and METROPOLE Avenir Europe
- Reporting Article 173-VI of METROPOLE Gestion, METROPOLE Sélection and METROPOLE Euro SRI, METROPOLE Avenir Europe
- Monthly reports
- Responsible Value management policy
- Policy of controversies prevention and verification
- Transparency code AFG-FIR Eurosif
- CSR Policy
- Our global initiatives: UNPRI, Montreal Pledge, CDP, TCFD
- UNPRI transparency report
- Our SRI Letters
- The research chair “Value and Corporate Social Responsibility“ partnership with University of Clermont Auvergne