



Responsible Value management policy

METROPOLE Gestion

2019

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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 does not seek to favour theme funds but, on the contrary, and via its investments on behalf of its clients, 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 and 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.

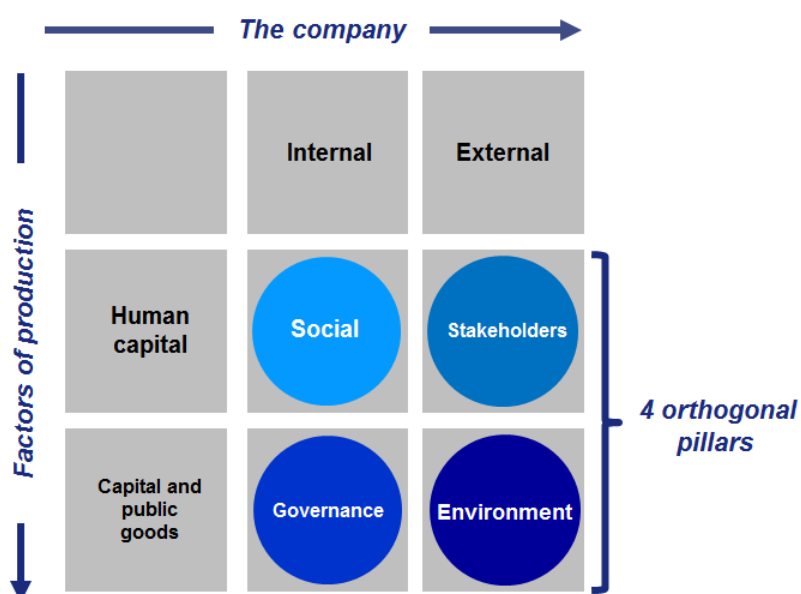
2. Our ESG analysis model

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 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:



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

Labour relations: 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%).
- 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.

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.
- 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.

In addition, we have a rating dedicated to climate risk management that enables us to rank companies on their performances accordingly. As such, we calculate a "climate risk score" for each company, that takes into account the physical and transition risks faced by the companies as well as their compliance with the 2°C pledge established during the Paris Climate Agreement. This score has 22 sub-indicators grouped into percentiles that are then equally weighted.

This quantitative approach is completed by a qualitative approach for each company during interviews conducted directly with them.

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.

Furthermore, 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.

Finally, we compute the carbon footprint of each company and each portfolio, notably in terms of the carbon intensity (tonnes of CO2 equivalent per annum per million of turnover) as measured by the CO2 emissions per 1 million euros of turnover generated by the companies held. The provided measurements are based on data published by the companies, or otherwise rely on those collected by the CDP; they include scope 1 and scope 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

Within the context of its fund management activities, 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 METROPOLE Funds, 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.

At the very heart of our rating system for our investment universe, a set of indicators related to climate change is taken into account in our proprietary model, the principles of which have been described previously.

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.

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
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The consideration given to these issues is therefore an integral part of the company rating process and, therefore, of the selection process and the very construction of the portfolios.

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 (controversial weapons, coal production or consumption, tobacco and pornography).

As such, the systematic exclusion of mining companies that generate more than 30% of their revenue through coal production and energy-producing companies with more than 30% of its production coming from coal is a strong incentive for European companies to embark on the path of the Energy and Ecological Transition. Our eligible universe therefore constitutes the starting point for portfolio construction.

Exclusion Policy: http://doc.metropolegestion.fr/pdf/Sector_exclusion_policy.pdf

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

Exploiting non-financial analysis, the third filter consists of supplementing the financial analysis by favouring the discounted companies with the best ratings in their business sector and discounted companies making the best efforts in terms of transition to better ESG practices. This approach not only limits potential risk, whether financial or, more specifically, relating to ESG, but also encourages the companies to accelerate their transformation toward sustainable growth and seize the opportunities created by such transformation.

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 daily 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 global and integrated management process: The Responsible Value investing process

The management process can be portrayed as follows:

Pre-selection

Selection of undervalued stocks compared to their industrial value within a stock picking framework

- Filter of the European universe using for each business type the same valuation metrics as corporations do in their relevant sector. These metrics are referenced in our proprietary database of past mergers and acquisitions transactions.
- Filter of the resulting universe according to our proprietary Best-in-class / Best effort ESG rating taking into account our exclusion policy.

Valuation

Calculation of industrial value, analysis of the balance sheet strength, consideration of extra-financial controversies 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.



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 the METROPOLE Euro SRI sub-fund, 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.

- [Voting policy](#) and [Annual report on the exercise of voting rights](#)
- [Exclusion policy](#)
- [Engagement policy](#) and [Annual engagement report](#)
- Annual impact report
- Reporting Article 173-VI of [METROPOLE Gestion](#), [METROPOLE Sélection](#) and [METROPOLE Euro SRI](#)
- Monthly reports
- Responsible Value management policy
- [Transparency code AFG-FIR Eurosif](#)
- [CSR Policy](#)
- Our global initiatives: UNPRI, Montral Pledge, CDP, TCFD
- [UNPRI transparency report](#)
- Our SRI Letters
- The research chair "[Value and Corporate Social Responsibility](#)" partnership with University of Clermont Auvergne