

Sustainability risk management policy and principal adverse impacts (PAI) in the investment decision-making process

METROPOLE Gestion

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1- Regulatory context

In accordance with the European SFDR EU 2019/2008 regulation of November 27, 2019, METROPOLE Gestion publishes through this policy the system in place to ensure transparency towards investors about sustainability risks and its principal adverse impacts on investment processes.

By "sustainability risk", the SFDR regulation means "an event or situation in the environmental, social or governance framework which, if it occurs, could have a material adverse effect on the value of the investment".

2- Scope

This policy related to all sub-funds of the SICAV, according to the SFDR classification of each sub-fund:

The **METROPOLE Sélection**, **METROPOLE Euro SRI** and **METROPOLE Avenir Europe** sub-funds fall under the category of products promoting environmental and / or social characteristics in accordance with **Article 8** of SFDR regulation. The **METROPOLE Frontière Europe**, **METROPOLE Corporate Bonds** and **METROPOLE Convertibles** sub-funds fall under the category of products promoting environmental and / or social characteristics in accordance with **Article 6** of SFDR regulation.

3- Responsible investment

We are 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.

4- Our ESG analysis model

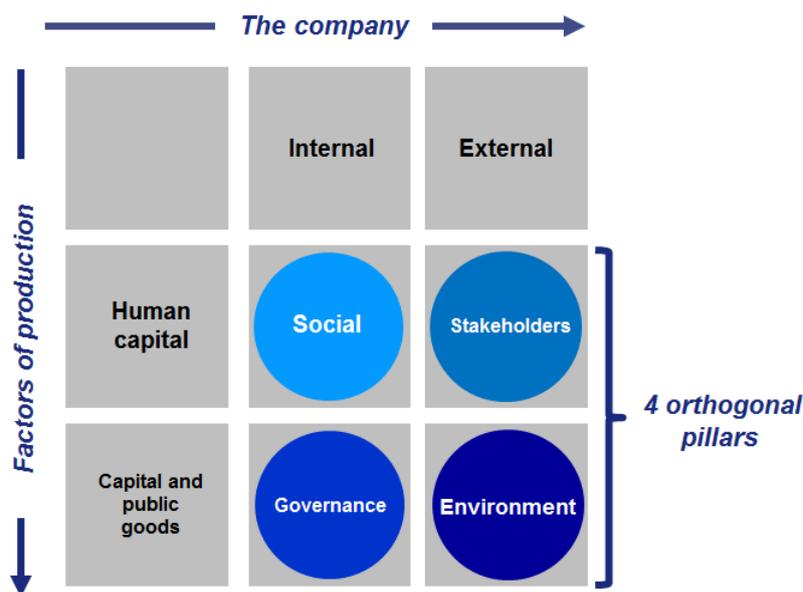
4.1. Base methodology

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.

These indicators cover the 14 mandatory indicators listed in the regulatory technical standards of article 6 of the SFDR regulation as well as at least one of the additional indicators required relating to climate objectives and other environmental themes and those of the social theme, employment, compliance, human rights, anti-corruption and anti-fraud in Tables 2 and 3 of these regulations.

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).

4.2. 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, the 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;
 - an 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.

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. They also cover at least one of the sustainability indicators listed in the regulatory technical standards of the SFDR regulations relating to climate and the environment.

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, 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.

5- Our management process

5.1. 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.

5.2. 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.

6- Sector exclusion policy

METROPOLE Gestion applies a policy of normative exclusion (exclusion of companies that do not comply with certain international standards (chemical weapons, anti-personnel mines, violation of the principles of the Global Compact...)) and sectorial (total or partial exclusion of sectors or activities based on ethical considerations (tobacco, gambling, armament, entertainment for adults / pornography, coal ...)).

The lists of companies concerned are defined by the Portfolio management team, and the Compliance and Permanent Control department ensures compliance with these exclusions. The exclusions are valid for all asset classes (equities, bonds and derivatives-related exposures).

Details of all exclusions can be found on our website:

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

7- Shareholder engagement policy

As a company committed to responsible value management and an ESG pioneer since 2008, METROPOLE Gestion attaches fundamental importance to issuers and companies' consideration of and compliance with ESG criteria. Beyond the risks that they incur in these areas, METROPOLE Gestion encourages companies to improve by adopting a responsible and sustainable approach to growth and prioritising a so-called best in class¹ or best effort² methodology, through a non-financial analysis built on four pillars: social, governance, environment and stakeholders. This approach enables METROPOLE Gestion to engage with companies from the outset, both by incorporating these criteria into its voting policy and through direct dialogue with them.

It carries out this engagement, as formally laid down in this policy:

- By exercising the voting rights attached to the securities held in its portfolio in accordance with a voting policy, published on its website:
http://doc.metropolegestion.fr/pdf/Voting_Policy.pdf
- Through a policy of active engagement with issuing companies via direct or thematic dialogue as a means of identifying ESG and climate change risks and changing the strategy of the companies it analyses, as well as through collective or collaborative engagement in cooperation with other shareholders:
http://doc.metropolegestion.fr/pdf/MG_Engagement_Policy.pdf

This approach is monitored through annual reports published on the company's website, which give account to long-term investors on the consistency of METROPOLE Gestion's engagement policy with their investment objectives and horizon:

http://doc.metropolegestion.fr/pdf/Report_on_exercising_voting_rights.pdf

http://doc.metropolegestion.fr/pdf/Engagement_report.pdf

¹ Best in class: each company is rated relative to its sector to obtain a best in class rating.

² Best effort: takes into account the non-financial rating trend over the last four years, with a preponderant weighting for the last year.

METROPOLE Gestion publishes the financial and non-financial performances of its UCITS portfolios in a monthly report and an annual impact report, also available on its website.

It provides the same information on its AIFs and management mandates, tailoring its frequency and format to the relevant investors' wishes..

Details of our shareholder engagement policy are published on our website:

http://doc.metropolegestion.fr/pdf/Shareholder_Engagement_Policy.pdf

8- Controversies

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

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.

8.1. 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.

For more details, our controversy prevention and verification policy can be viewed on our website:

http://doc.metropolegestion.fr/pdf/Policy_of_controversies_prevention_and_verification.pdf

9- Risk management in terms of sustainability and assessment of the principal adverse impacts

Policies and processes implemented by METROPOLE Gestion as described above aim at identifying ESG factors that may present opportunities but also identifying sustainability risks that could have adverse impacts on performance.

As part of the management process, the management team assesses the main adverse impacts on the sustainability of the companies in which it invests, in terms of company rating, portfolio construction, investment policy, exclusion, from the management of controversies that may appear as well as in direct, thematic and collective dialogue with companies.

This comprehensive approach makes it possible to mitigate or eliminate these principal adverse impacts in terms of sustainability and as part of its direct and collective dialogue with companies by encouraging them to reduce these impacts.

METROPOLE Gestion will thus publish each year in addition to the reports it already publishes, reports on the exercise of voting rights, commitment report, impact reports, art173 report, art 29LEC, annual evaluation of UNPRIs, all available on our website, assessment reports on principal adverse sustainability impacts that may affect fund performance.