



SUS TAIN ABLE

2019

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SUSTAINABLE
INVESTMENT AND
CLIMATE REPORT

 LA FRANÇAISE

PATRICK RIVIÈRE
CEO of La Française

Our Group has been driven for many years by the ambition to be a responsible investor, to offer our clients profitable solutions that are tailored to their needs and to act in the interest of living well together.

From its inception in 2008, La Française Group recognised the link between the economic, political, social and environmental worlds; it realised that the winners of tomorrow would be those who are able to anticipate and innovate and that the integration of ESG criteria into investment decisions would be a source of long-term value.

From the start we built up internal resources, a research centre and experts to deal with an holistic analysis to appreciate the impact that ESG factors have on economic performance. This influence continues to grow stronger and we firmly believe it is more essential than ever to integrate these factors into our decision-making processes.

The climate crisis is a reality - we have already consumed a significant portion of our natural resources. On top of this, the COVID 19 pandemic has further strengthened our awareness of social and health issues. These issues represent significant changes that offer opportunities to re-imagine the future and to turn the act of saving into a means of action.

In this report you will discover how, in a very concrete way, that we are committed to innovation and sustainability ; they drive our investment solutions and allow each one of us to act individually and collectively and to engage.

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T A B L E O F C O N T E N T S

2019

SUSTAINABLE INVESTMENT STRATEGY
REPORT

IN RESPONSE TO ARTICLE 173 OF THE ENERGY TRANSITION LAW

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LA FRANÇAISE

INVESTING TOGETHER

ADJUSTING THE PERSPECTIVE TO EFFECT CHANGE

The world is changing.
We must act now; it's time to take a stand.
As a responsible and engaged investor, we believe that these major changes offer opportunities to re-imagine the future and to use the act of saving as a means to benefit everyone.

Invest in your future.

www.la-francaise.com

The fourth "Sustainable Investment Strategy Report" of La Française Group underlines our intent to carry out our asset management role in a different way, based on our conviction that only a sustainable investment can be a long-term profitable investment. Therefore, our purpose can be summarised as follow:

PURPOSE

Vision: the world is going through a period of uncertainty marked by ecological, social and, more recently, health crises. This uncertainty renders the drivers of past performance partially obsolete.

Mission: to help establish the foundations for new benchmarks and generate new performance drivers that must have a positive impact on both profitability and their social and environmental effects.

Commitment: to implement our ability to innovate in order to create value and make savings a genuine act of commitment both individually, through the profitability of the investment, and collectively, through its social and environmental impact.

Message: to change the way we look at the world, altering our viewpoint to effect change.

INTRO

CLIMATE CHANGE IMPLICATIONS

La Française group analyses major trends that shape capital markets in the long term:

Economy: the evolution of globalisation and the acceleration of technological progress

Financial markets: the continuation of low interest rates

Demographics: The future development of large-scale urban areas

Climate change will influence economic, financial and demographic trends. There are several types of environmental issues. They impact the economy in a variety of ways and should therefore be taken into account and analysed separately. For example, the 'time constant' for climate change linked to greenhouse gas emissions (meaning the time it takes for associated damage to fully materialise) is around 80 years. We therefore need to update the discount rate to determine the current state of the damage. In terms of changes to biodiversity and ecosystems linked to the increasingly strong influence of human activity on the natural world - considered to be the probable root of the Covid-19 pandemic and most diseases that pass from animals to humans - the time constant is

very short (about one month) but it is happening again and again, and could occur more frequently (H1N1, SARS, etc).

La Française group is fully aware of the effects of climate change on the financial markets. Our role as investment manager covers a wide range of asset classes and provides the group with a special perspective over the development of climate finance. Some of the assets managed by the group are exposed to relatively illiquid markets, with physical and transition risks that are important to manage because they are part of our long-term holdings. Hence, La Française group has invested heavily in working groups, publications and discussions with its clients. This heightened climate awareness comes through in-depth research on the subject and the development of dedicated investment strategies.

SUSTAINABLE INVESTMENT STRATEGY

In general, La Française group targets Environmental, Societal and Governance (ESG) factors that significantly affect the financial performance of investments, both in terms of profitability and risk. The group's philosophy is to support the transition of our investments towards improving their respective sustainability profiles. The choice is made based on our conviction in their capacity to adapt and innovate and supported by specific engagement action. We are aware of the environmental and social impact of our investments by monitoring the respective investment outcomes.

As a long-term oriented asset manager, La Française group pays particular attention to the consequences of its investments on society, which is part of our contribution for a sustainable future. Its ambition is to make these savings bear fruit, but also to support creating the conditions for a sustainable future.

This report outlines the initiatives undertaken by La Française group in terms of sustainable investment. It complies with the information requirements of Article 173 of the Energy Transition Law. It has been structured in accordance with the recommendations made by the TCFD (Taskforce on Climate-Related Financial Disclosures) into four main chapters: Governance, Strategy, Risk Management and Indicators and Objectives.

It contains our philosophy related to sustainable investment, the way it is integrated into our investment processes and the objectives and indicators relating to this strategy.

All disclosures including, transparency codes, voting and engagement policies, the sustainable investment charter, methodological reports and indicators of La Française Group are published [here](#).

CONVERGING VIEWS

Pascale Auclair
Laurent Jacquier Laforge



Financial crises tend to serve as a reminder of the importance of clear governance. The Covid-19 pandemic has once again brought governance issues into focus, in particular the importance of corporate social responsibility (CSR). Pascale, as General Secretary of the Group, a member of the Executive Board and head of sustainability strategy, how do you think about governance in terms of CSR in the world of asset management? And how does it apply to La Française?

LJL

Good governance is an essential component in the success of any company. It ensures the alignment of interests, allows for an objective understanding of risks, establishes an appropriate balance of powers and promotes transparency, which makes it possible to avoid conflicts of interest. At La Française, we have adopted a group-wide approach to CSR, across all our businesses and departments. Both our sustainable investing strategy and our CSR activities are managed through a dedicated division which reports directly to a member of the Executive Board. Simply put, we believe this to be a question of consistency: we apply the same high standards of governance to ourselves that we ask of the companies in which we invest.

PA

What beneficial role can governance play in creating long-term value?

Strong governance structures which take CSR matters into account can be vector for business sustainability, long-term profitability and help to strike a balance between the priorities of different stakeholders. More and more, we are seeing cases emerging in the press which serve as a reminder of just how important this is – most recently there have been some striking examples in the industrials and financials sectors. Our governance structure provides the framework for our development strategy and actions to be deployed in a sustainable way.

LJL

PA

G OV ER NANCE



GOVERNANCE OF THE SUSTAINABLE INVESTMENT STRATEGY

A multi-layer governance structure is in place to ensure robust oversight of our sustainable investment strategy:

Laurent Jacquier Laforge, the Head of Sustainable Investment and a member of the Group Executive Committee, is responsible for the implementation and integration of responsible investment practices across all asset management teams.

◆ He chairs our dedicated Sustainable Investment COMEX, an executive-level committee which meets once a month and includes members of the Group's Executive Board. The committee is responsible for developing the group's responsible investment strategy, disseminating it across the business and sharing updates from different teams including research, investment, risk, reporting, communication. This COMEX enables and ensures direct involvement of the Executive Board.

◆ Additionally, Laurent leads a secondary Sustainable Investment Committee which meets every two months with the aim of sharing information and best practices, and discussing issues affecting different business lines. The committee has representation from support functions, such as compliance, human resources, marketing, communication, legal, etc. as well as partners and affiliates, and has helped to integrate sustainability into our everyday business and raise awareness across the group of the challenges this entails.

The group has adopted a Responsible Investment Charter which provides a framework for how the group approaches the integration of environmental, social and governance (ESG) factors into our third-party asset management activity on behalf of third-party asset management activities. It is available [here](#).

La Française group participates in a number of leading international organisations and initiatives in the field of responsible investment, including the Principles for Responsible Investments (PRI), the United Nations Environmental Programme Finance Initiative (UNEP FI) Investment Committee, CDP (formerly the Carbon Disclosure Project), the Workforce Disclosure Initiative and Climate Action 100+. In France, the group is also represented in the Responsible Investment Forum (FIR), the Responsible Investment Committee of the French Association of Asset Management (AFG), the Sustainable Real Estate Observatory (OID) and the ASPIM ISR Commission.

Finally, the group has invested in the development of an internal ESG and climate risk research group based in London since 2014, which provides expertise and proprietary models across all asset management activities. Specialists from this integrated research centre represent the group in a number of industry organisations and initiatives committed to responsible investment, particularly at international level.

La Française group is a subsidiary of Crédit Mutuel Nord Europe (CMNE).

CONVERGING VIEWS

Philippe Lecomte
Laurent Jacquier Laforge



In terms of responsible funds, it is notable - and gratifying - that growth is now clearly a result of demand from our clients. These clients, institutional and private alike, have expressed their interest in this responsible approach. Philippe, as Director of Development and member of the Executive Board, can you explain to us the strategy adopted by La Française to support this new area of interest among clients?

LJL

Developing sustainable investment capacity is not just about creating product ranges that respond to the challenges our clients face, such as climate change, urbanisation, an aging population, etc. It is also about embedding the philosophy throughout the organisation to shape both how we act and how we talk about sustainable investing, ensuring that the function is backed up by an effective marketing strategy.

PhL

What can we say about the initiatives undertaken at La Française?

Just as our sales staff are experts in the financial specificities of our products, we believe they also need to broaden their expertise to get to grips with the fundamentals of our ESG approach as well as to broaden their understanding of key topics such as the transition to a low-carbon economy. With this in mind, we intend to launch internal training modules on such topics to leverage skills and know-how that we have acquired over the past five years. This advancement is vital and will enable our sales staff to provide the best possible support to our clients. Creating innovative investment solutions to identify new performance levers requires having both feet firmly on the ground in terms of knowledge and management methods, so they can be shared with our clients!

LJL

PhL

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SUSTAINABLE DEVELOPMENT GOALS

The 17 Sustainable Development Goals (SDGs¹) compiled in the United Nations 2030 Agenda represent the globally agreed sustainability framework. They offer strategic direction for a responsible business and help to ensure that it contributes to the implementation of a sustainable, low-carbon and more inclusive society.

In its strategy, La Française group has embraced two SDGs to structure its own direct operations and its various activities: financial assets and real estate assets.

SDGS	STRATEGY	DEVELOPMENT IN 2019
	Innovation is part of the group's DNA. It is driven by the Innovation Platform. Technology is at the heart of these developments.	Innovation Platform
	Climate change is at the root of the group's philosophy as well as its product and innovation strategy.	Introduced "Climate by design" philosophy

The group addresses the following SDGs:

SDGS	STRATEGY	DEVELOPMENT IN 2019
	Work-study and training policy for employees	"BlueBuds à La Française" community, which brings together interns and work-study students
	Workplace equality and diversity policy Gender equality agreements	85 points out of 100 for the year 2019 on the gender equality index.
	Profit-sharing and incentive agreements Remote working agreements	2019 extension of agreements on remote working and equipment for all employees so that they are able to work from home from the end of 2019
	Disability awareness policy Disability policy	
	Waste management Printing policy Purchasing policy	Nearly 400 reams of recycled A4 paper over 6 months Reduction in the number of printers available
	Carbon offset	Carbon offset proposal via our Moniwan website

The SDGs relating directly to each of our businesses are set out in the indicators and objectives sections.

La Française group applies the same ESG and climate standards that it implements in its asset management activity to its human resources management and its own operations. Thus, it creates the conditions for a socially and environmentally committed and respectful company. As a follow-up to the carbon assessment carried out in 2018, an action plan has been introduced to lower the carbon footprint of the group's activities, especially in relation to business travel and the purchase of services. A fresh carbon assessment will be carried out in 2020.

We have published our strategy in our "Strategy and Sustainability" quarterly publication (FR) in order to explain and share our thoughts on sustainable investment and to raise awareness of our policies and to disseminate these issues among the public at large. This communication will continue in 2020.

The Group's Corporate Social Responsibility Report is included in the annual report of our shareholder, Crédit Mutuel Nord Europe and can be viewed [here](#).

1. SDGs: <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>



INTEGRATION OF ESG AND CLIMATE CRITERIA IN OUR INVESTMENT BUSINESS

Our London-based sustainable investment research team is the hub of this integration process. Over the years, we have established a proprietary methodology for quantifying ESG assessments of companies and developed the capacity to measure carbon emissions. This approach is complemented by a strategic analysis focusing on the adaptability of companies and their innovation capacity. As a result we are able to assess the trajectory of a company's transition towards a low-carbon economy, a crucial feature of our approach.

The ESG scores and carbon data are integrated into the investment process as systematically and rigorously as traditional financial factors. The sustainable investment research is also published alongside the financial analysis on a shared platform (for more details on our methods, please check the transparency codes of our equity and bond funds [here](#)). Sector-based screening avoids exposure to companies involved with controversial weapons.

Initially introduced in the field of investment in listed equities, responsible investment has been incorporated into other asset classes managed by La Française group, tailored specifically to each asset class, in particular corporate bonds, sovereign credit and real estate.

La Française group's real estate management business has adapted the existing methodology to meet its own specific needs. A number of environmental factors hold particular significance in this area: the physical risks linked to climate events such as rising water levels or changes in biodiversity linked to land use. Societal aspects are also important, given that real estate shapes and textures urban life.

The methodological glossary in the Appendix gives an overview of the ESG and climate scoring methods used by La Française group in the area of listed securities and direct real estate.

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DEVELOPMENT OF AN ALIGNMENT METHODOLOGY ON CLIMATE CHANGE SCENARIOS

In 2019, and as an additional step to its Carbon Impact analysis set up in 2015 (more information [here](#)), La Française has developed a methodology that makes it possible to project company emissions in sectors with the highest impact up to 2030. The "Low Carbon Trajectory" (LCT) approach (more information [here](#)) is one of the key elements of our climate-related analysis.

The LCT methodology makes it possible to model company emissions over time and to determine whether companies in sectors with high greenhouse gas emissions remain in line with globally agreed climate change goals. This makes it necessary to identify a number of climate scenarios. The group uses data from the International Energy Agency (IEA), which provides projections of activities and greenhouse gas emissions by sector and region over the period 2014-2060 for three reference scenarios (2°, above 2° and below 2°). This dynamic process makes it possible to take into account actions and trends across multiple time horizons.

Constructing our own methodology gives us control the modelling parameters. This is essential because the results of the LCT methodology have a direct impact on the investment process. Our analysts study specific sector trajectories for each of the scenarios to 2030. They then model the trajectories of

companies on the basis of current emissions, past performance and stated objectives and determine a confidence interval that takes into account different possible outcomes. This confidence interval is compared with the pathways for the given sector and indicates which scenario the company's trajectory is aligned with.

By making it possible to project the future outcome of current decisions and commitments, this approach is a major improvement of our capability as an asset manager to assess climate change-related risks and opportunities in portfolio companies.

An example of the application of the LCT methodology to a company in the energy sector is available in the section: "Indicators and objectives".

STRATEGY



DEVELOPMENT OF A RANGE OF CLIMATE CHANGE-BASED FUNDS

The first climate change-based equity fund for La Française group was launched in June 2015 ahead of the COP 21. Named La Française Lux Inflection Point Carbon Impact Global², this fund aims to balance between (i) the reduction of carbon emissions by investing in emitting companies in rapid transition and companies enabling solutions (in particular technological solutions) and (ii) the emissions avoided through investments in the renewable energies sector. A similar equity fund focused on the Eurozone was launched in 2018: La Française Lux Inflection Point Carbon Impact Euro.

A corporate bond fund with the objective of a transition to a low-carbon economy was established in 2019. Because high CO₂-emitting sectors form a significant chunk of the bond market, the LCT methodology has been favoured over simple carbon footprint and intensity measurements.

The inclusion of Green Bonds is part of the portfolio managers' toolbox. Work is underway to adapt the methodology to other types of bond funds, in particular public issuers.



STRENGTHENING SOCIAL OBJECTIVES

Within the real estate business, the social dimension of responsible investment has been developed with the creation of Société Foncière et Immobilière Nord Europe, which aims to promote flexible ownership or life ownership for its investment in residential real estate. This system facilitates home ownership for households in difficult areas. It has also been developed for funds which seek to finance residences for senior citizens, care homes or high-occupancy buildings, in accordance with the "Grand Paris" project.

Bolstered by our belief in the importance of addressing social issues, we have started looking at the introduction of specific investment objectives linked to human capital within an equity fund.

2. Sub-fund of the "La Française LUX" UCITS, created on 15/06/2020, authorised in Luxembourg and regulated by the CSSF (Commission de Surveillance du Secteur Financier)



SRI LABELLING

Four securities funds with SRI labels³ based on public standards were marketed in 2019: La Française Inflection Point Actions Euro⁴, La Française Lux Inflection Point Carbon Impact Euro⁵, La Française Lux Inflection Point Carbon Impact Global and La Française Carbon Impact 2026⁶.

Two real estate funds were given Green Star classification according to the private Global Real Estate Sustainability Benchmark (GRESB⁷) in 2019: La Française Immo SR⁸ and La Française Immo SR2⁹. These are real estate funds reserved for a client-base made up of institutional investors. The group intends to obtain the public real estate SRI label for some of its funds as soon as it is announced.

**La Française group
has adopted
a voluntary
certification for
its sustainable
investment funds.**

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LEVERAGING ESG AND CLIMATE AMONG PARTNERS AND AFFILIATES

In line with its commitments as a responsible investor, **NewAlpha**¹⁰ strengthened its selection process for external funds in 2019 with the creation of a specific manager/fund double scoring methodology, aimed at assessing the ESG maturity of the management company, identifying any areas for improvement and supporting it over the medium term in its action plan through an annual assessment of objective indicators. This development supplements the extra-financial report of NewAlpha's funds of funds (ESG and Carbon data) and specific reports (climate) established with the support of La Française London-based research centre.

Acofi Gestion¹¹ is organising access for institutional investors to the direct financing of companies in the real economy. The focus on financing the real economy makes it possible to promote innovation, job creation and responsible practices. Acofi has thus defined its position as a responsible investor based on three main areas of impact: jobs, environment and social value. Acofi Gestion is committed to a sustainable development approach by integrating ESG criteria into its investment strategies and by creating regular dialogue with the funded counterparties, making them aware of ESG issues. In 2019, Acofi launched a new fund dedicated to financing energy transition companies that have been awarded the Greenfin label, as well as a fund dedicated to financing companies investing in research through the acquisition of their research tax credit (Crédit Impôt Recherche - CIR).

3. The SRI Label does not guarantee the financial performance of the fund - 4. "LA FRANCAISE" SICAV sub-fund created on 4 June 2003 and regulated by the Autorité des Marchés Financiers - 5. "La Française LUX" UCITS sub-fund launched on 1 October 2018 by amending La Française LUX - Inflection Point European Equity sub-fund established on 12 March 2009, authorised in Luxembourg and regulated by the CSSF (Financial Sector Supervisory Commission) - 6. "LA FRANCAISE" sub-fund created on 22 October 2019 and regulated by the Autorité des Marchés Financiers - 7. <https://gresb.com/> - 8. SPPICAV approved by the AMF on 9 January 2009 under number SPI20090002, created on 2 March 2009 (RCS registration) - 9. SPPICAV approved on 12 April 2013 by the AMF under number 20130006, created on 3 May 2013 (RCS registration) - 10. Management company approved by the AMF under number GP05000001 on 20 January 2005 - 11. <https://www.acofi.com/en/sri-esg>



CUSTOM VOTING AND ENGAGEMENT POLICIES IN LINE WITH THE BROAD IDEAS OF THE GROUP

The group has formalised a voting policy for general meetings and uses the electronic voting tool "Proxy Voting" from ISS (Institutional Shareholders Services). This tool ensures the execution of voting rights in all companies in the portfolio. The group adopted the ISS "Sustainability Policy" in 2014, concluding that it best corresponds to its approach, convictions and commitments as a signatory of the PRI. However, it has become essential to express our own demands on certain sensitive and potentially contentious subjects. The group has therefore set up alerts on predefined types of resolutions so that our research team can express its viewpoint and therefore potentially allow it to depart from ISS recommendations in its voting.

Finally, La Française group adopted a custom voting policy (Custom Policy) in 2017, with annual updates, in accordance with its commitments, particularly in relation to climate issues and which relates to:

1. Climate (Environment): opposition to the approval of company accounts is the company is not responding to the CDP¹² questionnaire.

2. Diversity (Social): vote against the election or re-election of male members of the Board of Directors if at the end of this vote the Board would comprise less than 25% of female members.

3. Compensation (Governance): vote against the remuneration report or the remuneration policy if there is no clear and transparent policy regarding management share ownership.

4. Director over-boarding (Governance): vote against the election or re-election of members of the Board of Directors if they hold more than four mandates.

The group publishes an engagement report each year which reviews the results of the engagement policy¹³.

It carries out engagement on an individual basis at companies regarding ESG issues. Sustainable Investment analysts and portfolio managers engage in a constructive dialogue with companies held in the portfolio. Moreover, they maintain an active dialogue, in particular concerning areas where information is incomplete and where this information is financially material.

In addition, La Française group participates in collaborative initiatives. It has engaged through the PRI Collaboration Platform on two essential themes: climate change (Climate Action 100+) and corporate social data (Workforce Disclosure Initiative).

12. For over ten years, the CDP has been asking the world's largest companies about their carbon emissions and carbon reduction strategies. <https://www.cdp.net/en> - 13. www.la-francaise.com/en/regulatory-information/

CONVERGING VIEWS

Maïté Couderc
Laurent Jacquier Laforge



Maïté, as Director of Financial Engineering, Risk Control and Reporting, can you describe how ESG risks and climate risk in particular have come to the fore in mainstream risk management?

LJL

We were already aware of this subject. Driven by French regulations and by the work of central banks and the European Commission, investors wanted to measure climate risks, in particular through a carbon footprint. Our clients now expect these indicators to be included in our risk management processes as well as a demonstration of their alpha generation.

MC

What do you think of current ESG and climate data?

LJL

Climate, social and governance data form part of the fundamentals of financial risk analysis, together with financial data. But as with financial accounting data in its day, it will take a while before climate and ESG data reaches the standards of quality and consistency necessary for a comprehensive analysis. Cooperation with our ESG and climate research team allows us to systematically develop this risk approach.

MC

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MANAGEMENT



IDENTIFICATION OF ESG AND CLIMATE RISKS

The health crisis we are experiencing in 2020 further strengthens the case for thoroughly assessing the impact of environmental and social risks on the economy.

We identify investment risks based on available information including the data provided by the companies in which we invest. Whether this is environmental, social or governance data, it forms part of our risk analysis just like financial data informs our financial risk analysis.

We encourage companies to improve their ESG disclosures. We are active in various collaborative engagement initiatives (see the engagement section above) and alongside other investors we try to influence companies to publish more and better information. For example, in relationship to climate change we support the TCFD recommendations¹⁴ as a basis for climate-related financial reporting.

As an active investment manager with exposure to equity and debt capital we regularly meet with executive management teams and engage companies on environmental and social issues.

CLIMATE RISKS

There are two types of climate risks facing organisations: physical risks resulting from damage directly caused by extreme weather events and flooding and transition risks linked to the effects of the transition towards a low-carbon economy. This includes legal, regulatory and political developments, changes in supply and demand, innovation and technological breakthroughs and changing customer behaviours. We believe that it is mainly transition risks that affect investors over the short and medium term. If, however, global warming leads to a significant rise in temperatures, the physical risks would become more dominant.

Our participation in various initiatives working on climate risks has shown that the identification of physical risks is particularly difficult, in particular, because it requires an extremely fine level of geospatial granularity.

Transition risks linked to the market or to technology are appearing but could materialise at large scale very quickly not least given the non-linearity of climate risks. The legal, economic and political risks, for example linked to the implementation of a carbon tax or a carbon price, should materialise more gradually.

ESG RISKS

In terms of ESG, many environmental, social or governance risks are closely linked to sectors and countries. For States, as for the real estate sector, the risks are primarily linked to geographic location: urban, peri-urban, coastal, etc.

For the assessment of these ESG risks, La Française group has established expert teams to focus on ESG-climate risks in listed equity, debt securities and real estate. The analyses take industry-specific guidance into account, such as those issued by the Sustainability Accounting Standard Board (SASB¹⁵), the OID¹⁶ or the Institut de l'Épargne Immobilière et Foncière (IEIF¹⁷) and Mercer¹⁸ for multi-asset approaches.

We have started to take ESG and climate risks into account as part of long-term asset allocation. This work is not as yet sufficiently extensive to be included in this report.

14. www.fsb-tcf.org - 15. www.sasb.org - 16. o-immobilierdurable.fr/en/home/ -
17. www.ieif.fr - 18. www.mercer.com/our-thinking/wealth/responsible-investment.html



ROBUSTNESS AND ACCESSIBILITY OF ESG AND CLIMATE ANALYSES FOR FULL INTEGRATION

The robustness of the procedures for analysing ESG and climate issues ensures that the associated risks and opportunities are properly taken into account in the group's Carbon Impact range and ESG funds. **These methodologies, some of which are described in the attached glossary, are the result of research and development, combining the experience of investment managers and ESG experts. They are continuously updated and enriched,** taking note of advances in the academic world and new regulatory standards.

ESG and climate data is made available to investment managers through La Française group's information system, which also includes all financial data. The transparency of the ESG and climate assessments thus makes it possible to integrate these issues into analysis, risk premia and expectations.

We believe that climate risks must be included in the group's risk management alongside other more traditional factors, such as market risk or reputational risk. This inclusion requires increased cooperation between the various specialists (climate, ESG, portfolio management, risks), the establishment of training courses, the development of procedures and, ultimately, widespread deployment. La Française group, drawing on the experience acquired in particular on the Carbon Impact product range, has put in place the elements of this increased cooperation and adaptation of the ESG-Climate risk fields.



RISK CONTROL AND COMPLIANCE

First-level risk control ensures the consistency of portfolio management with the responsible investment implementation processes. Many quantitative controls are carried out, whether for securities or real estate. Some are fully automated, such as blocking the trading system in order to prohibit the possibility of operating on excluded securities.

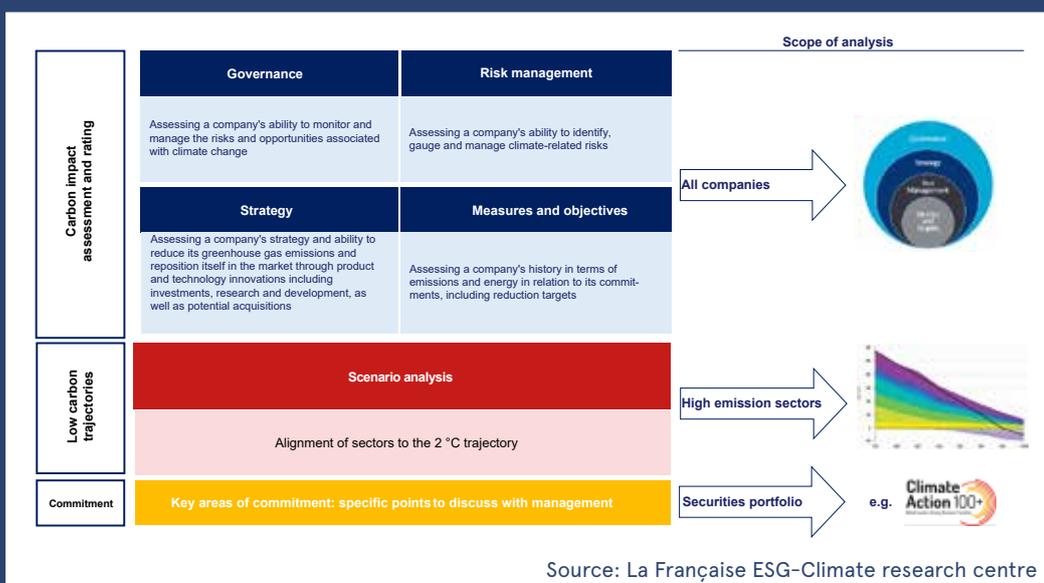
The Compliance and Internal Control Division exercises second-level control. Third-level control is carried out by the auditors of the Group's shareholder, Crédit Mutuel Nord Europe.



IDENTIFICATION OF CLIMATE RISKS FOR THE CARBON IMPACT PRODUCT RANGE

Portfolio managers from the Carbon Impact product range have been working with our ESG and climate experts to identify climate-related risks and opportunities as well as to anticipate the respective financial impact. They take part in conferences, industry initiatives and company meetings to constantly update our information on climate issues.

The group's centre of expertise provides portfolio managers with climate-related data and analyses. It has developed specific methodologies for analysing climate risk and opportunities: Carbon Impact Analysis and Low Carbon Trajectory. Data is shared between all stakeholders: analysts, portfolio managers and risk managers, on a shared research platform as well as on the internal portfolio management and order placement software.



A number of tools is available for managing climate-related risks and opportunities:

- ◆ A methodology for calculating various types of carbon footprints (absolute emissions, carbon intensity, etc.)
- ◆ A carbon optimizer that simulates the impact of an investment in a given company on the total portfolio footprint
- ◆ A scenario analysis for high-emitting sectors to measure 2-Degree-Alignment and an aggregation tool at portfolio level
- ◆ A measurement of the Climate Value-at-Risk as detailed in the Indicators section of this report

To what extent have
climate-related risks
and opportunities
influenced your
investment process?

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VIRGINIE WALLUT

La Française Real Estate Managers

We are aware that real estate can give rise to climate-related risk just as much as it can suffer from its effects. For us, the challenge is to improve the company's positive impact by harnessing the buildings in our portfolio as a way to actively participate in the energy transition and mitigating the risks to these assets in order to maintain the profitability for our investors.



ERIC BECQUET

BNP Paribas Cardif

Our clients plan for their future and protect their loved ones through our insurance products. As a socially responsible investor, we adapt our investment policies to influence the world of tomorrow, avoid inevitable depreciation, invest insurance premiums in support of climate and ecological transition, and protect the future planet of our policyholders.



FLORENT COMBES

Garance Mutuelle

The increasingly material impact of ESG factors on financial assets on one hand means less and less of a compromise is required when it comes to taking these risks into account with regards to both private and sovereign issuers, and on the other, that we are able to orient investments towards financing the transitions to a more sustainable society



JEAN-LUC HIVERT

La Française Asset Management

The market turmoil experienced in the first half of 2020 demonstrated the resilience of funds that include ESG factors, enabling them to deliver better levels of performance. By directing our capital flows, be it equity or debt, towards companies selected on the basis of financial and extra-financial criteria, we are playing a role in supporting the necessary climate transition and thus contributing to fund performance that is both sustainable and impactful.



NADINE VIEL LAMARE

Transition Pathway Initiative

2019 was the year when asset owners really started to walk the talk on a larger scale. This was the year when climate-related analysis had a real impact on portfolio composition. And there is much more to come.



CHRISTOPHE DESCOHAND

Moniwan by La Française

As a distributor of saving products to retail clients, we are seeing customers paying greater attention to climate-related issues when selecting the products in which they invest alongside other social concerns, such as the development of their local economy and job creation.

These preferences are driven both by individual convictions and a belief that these factors can yield more positive performance over time.

This in turn influences our product selection to respond to the dual nature of our clients expectation: investment performance with a view to protecting future generations, and visible value-creation giving meaning to their savings.



PASCAL BAUSSANT

Baussant Conseil

In our role as savings distributors, our clients and savers (individual people) expect us to do more for the climate: offer responsible solutions, look for ways to make an impact and, above all, remain consistent to our internal philosophy.



STÉPHANIE LIPMAN

La Française Sustainable Investment Research

Climate-related risks and opportunities are a core element of my job as an ESG analyst, looking at not only the potential impact of a given business on the environment and climate, but also how climate change might affect this business in the future. These two questions provide a backdrop against which I assess what a company both is and isn't doing, and they enable our team to evaluate the extent to which a company seems well-positioned to transition to a low carbon economy.

To what extent has the current health crisis lead to changes in your job?



CHRISTOPHE BRAINCOURT
Managing Partner, Ornano GP

We are used to managing our clients' risk budgets, the health crisis we are currently living through will have a lasting change on that paradigm.

In this age of social distancing, it is up to us to reinvent the notion of close contact and connectivity. Our digital flexibility and the security of our means of communication absolutely key. It is a must also to be in contact remotely.

QUESTION & ANSWER



CONVERGING VIEWS

Roland Rott
Virginie Wallut
Laurent Jacquier Laforge



Roland, as the Director of Sustainable investment Research for Listed Equity and Debt and Virginie, as the Director of Research & SRI for Real Estate, what do you think of the availability and relevance of ESG-climate indicators?

LJL

RR

The most readily available indicators are ESG scores and carbon footprint metrics. Yet, both have known limitations. For example, we are aware that a carbon footprint should not necessarily be interpreted as a risk metric. This is why we have developed our "Low Carbon Trajectory" methodology climate-related risk metric, which allows us to make investment decisions. To find the most relevant ESG indicators, we rely on the work of the sustainable investment research team.

In real estate, it is the asset manager who generates the data. At La Française, thanks to the data collection work which we have carried out over the past ten years or more, we have generated a holistic vision of our assets, which gives us the possibility of providing each of our funds with its own ESG assessment. There is a common thread that binds all our funds: the aim to reduce energy consumption and CO2 emissions. We believe it is important for us to take part in market initiatives in order to contribute to market benchmarks and to be able to compare ourselves to our peers. For example, La Française has chaired the Observatoire de l'Immobilier Durable (OID) for the past five years; we are a founding member of the organisation.

VW

INDICATORS

Indicators calculations were carried out on the portfolios managed by La Française group at FYE 2019. The universe has been extended to portfolios managed by the German group Veritas – acquired in 2018. The comparisons between 2019 and 2018 are therefore not balanced in scope.

Methodologies and sources are explained in the "Methodological Glossary" appendix.

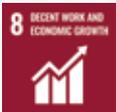
Three additions were made to the indicators and objectives compared with 2018:

1. The group explicitly chose a limited number of Sustainable Development Goals (SDGs) among the 17 of the United Nations 2030 Agenda. These are goals for which we are able make commitments and take action. They differ for securities and real estate (see 2. Strategy for more details).
2. In line with what we anticipated in the 2018 report, a Climate Value-at-Risk analysis was carried out on portfolios invested in equities and corporate bonds using the methodology developed by Carbon Delta¹⁹.
3. An alignment analysis on a medium-term trajectory compatible with a 2°C warming was carried out on corporate bonds with the aim is to extend this analysis in subsequent years.



FINANCIAL ASSETS

Financial assets play a role in the following 4 SDGs in their investment strategy:

SDGS	STRATEGY	2019 DEVELOPMENT
	<ul style="list-style-type: none"> • Carbon Impact LFAM Strategy • ENR funds of our affiliate Acofi 	<ul style="list-style-type: none"> • Carbon Impact funds invest in solution providers that develop clean energy • Launch by Acofi of a new renewable energy debt fund with the Greenfin label in 2019
	<p>Human Capital Strategy</p>	<p>A new methodology is in development and should enable operational implementation in 2020</p>
	<ul style="list-style-type: none"> • Innovation and adaptability are the driving forces behind the strategic analysis of equity funds • Infrastructure funds of our affiliate Acofi 	<p>Climate Value-at-Risk analysis has enhanced the contribution made by opportunities and technological innovations to the robustness of portfolios analysis</p>
	<p>Carbon Impact strategy available in a range of equity and bond products</p>	<p>2019 launch of a corporate bond fund from the Carbon Impact range</p>

19. Environmental fintech specialising in the analysis of climate scenarios, www.carbon-delta.com

INDICATORS



- FINANCIAL ASSETS (CONT'D)

EQUITIES

The universe under review covers all the equities in the portfolio. The coverage rate reaches 98% for ESG scores, 99% for carbon emissions and 97% for the Climate Value-at-Risk analysis.

The ESG score is 6.68, largely at the same level as in 2018 and 4.9% above that of the European STOXX 600 index.

The carbon intensity is 172.0 tonnes per million euros of turnover, 39% below the 2018 level and 25% below that of the European STOXX 600 index.

The weighted average carbon intensity stands at 192.7 tonnes per million euros turnover, 28% above the 2018 level and 3% above the European STOXX 600 index.

The following table gives the ten highest carbon intensities:

COMPANY	CARBON INTENSITY in tonnes per million euros of turnover
American Electric Power Company	6,647.8
Southern Company	5,248.8
Emera Inc	5,091.2
Heidelberg Cement AG	4,606.9
Air Products and Chemicals Inc	3,635.9
FirstEnergy Corp	3,449.4
Energy Corp	2,008.8
Fortis Inc	1,978.4
Public Service Enterprise Group Inc	1,749.4
Linde Plc	1,693.1

THE CARBON FOOTPRINT IS 91.5 TONNES PER MILLION EUROS INVESTED, 44% BELOW THE 2018 LEVEL AND 20% BELOW THAT OF THE EUROPEAN STOXX 600 INDEX.

The Carbon Impact equity funds

Consolidated La Française Lux Inflection Point Carbon Impact Global and Carbon Impact Euro funds have a carbon intensity of 53.0 tonnes per million euros of turnover, an weighted average carbon intensity of 61.5 tonnes and a carbon footprint of 22.3 tonnes per million euros invested. The very strong positioning of these funds on carbon related metrics reflects their low carbon strategy.

Climate Value-at-Risk analysis

The Climate Value-at-Risk analysis is built on three global warming trajectories: 1.5 °C, 2.0 °C and 3.0 °C. Public policies to reduce carbon emissions, technological opportunities and physical risks are detailed in the following table for both the portfolio and the Euro STOXX 300 index.

	Climate VaR	Emissions	Technology	Physical risk
1.5 °C scenario				
Portfolio	2%	-13%	18%	-3%
Euro STOXX 300 index	-2%	-15%	17%	-4%
2.0 °C scenario				
Portfolio	-2%	-9%	11%	-3%
Euro STOXX 300 index	-6%	-11%	10%	-4%
3.0 °C scenario				
Portfolio	-4%	-3%	3%	-3%
Euro STOXX 300 index	-7%	-4%	2%	-4%

The portfolio is better positioned than the Euro STOXX 300 index irrespective of the global warming scenario, and on all contributions. Its Climate Value-at-Risk is positive in the 1.5°C global warming scenario.

Voting and Engagement

As an active owner, in 2019, La Française group voted at **96.4% of General Meetings** and on 95.9% of the resolutions presented, thereby amounting to 406 companies out of the 421 held in the portfolio. **The percentage of resolutions on which the group voted against the management recommendation stands at 25.9%; an increase compared to 2018.**

La Française group publishes the summary and details of votes in real time, coupled with the voting policy which is updated each year. The results of the exercise of voting rights can be viewed on the group's website [here](#).

An engagement report is available [here](#) and summarises the actions taken in 2019 in line with the engagement policy published by the group last year.

INDICATORS



FINANCIAL ASSETS (CONT'D)

CORPORATE BONDS

The universe under review covers all the corporate bonds in the portfolio. The coverage rate stands at 79% for ESG scores, 83% for carbon emissions and 73% for the Climate Value-at-Risk analysis.

The ESG score is 5.91, 8% below the 2018 level and 7% above that of the Barclays Euro Aggregate Corporate index.

The carbon intensity of 118.5 tonnes per million euros of turnover, is 25% below the 2018 level and 46% below that of the Barclays Euro Aggregate Corporate index.

The weighted average carbon intensity is 84.5 tonnes per million euros of turnover, 10% below the 2018 level and 49% below that of the Barclays Euro Aggregate Corporate index.

The following table gives the ten highest carbon intensities:

THE CARBON FOOTPRINT IS 67.1 TONNES PER MILLION EUROS INVESTED, 35% BELOW THE 2018 LEVEL AND 40% BELOW THAT OF THE BARCLAYS EURO AGGREGATE CORPORATE INDEX.

COMPANY	CARBON INTENSITY in tonnes per million euros of turnover
NTPC Ltd	19,913.4
Buzzi Unicem SPA	7,664.0
Consol Energy Inc	5,797.2
CLP Holding Ltd	5,289.9
Vedanta Resources Plc	4,836.4
JSW Stell Ltd	4,420.8
Fortum Oyj	3,873.3
Cemex Finance	3,854.9
Abja Investment Co	3,092.4
Arcelor Mittal	2,917.7

The example of the Carbon Impact 2026 fund

The consolidated La Française Carbon Impact 2026 fund has a carbon intensity of 88.3 tonnes per million euros of turnover, an weighted average carbon intensity of 86.9 tonnes and a carbon footprint of 49.9 tonnes per million euros invested. The very strong positioning of this fund reflects its low-carbon strategy.

Climate Value-at-Risk analysis

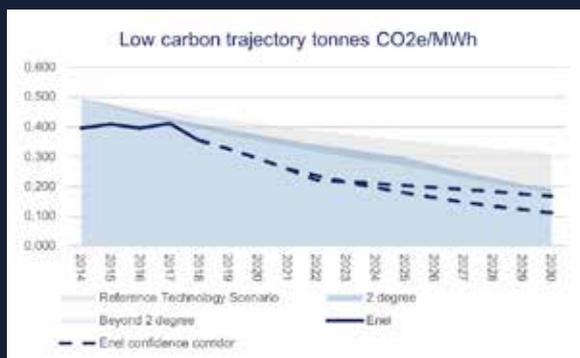
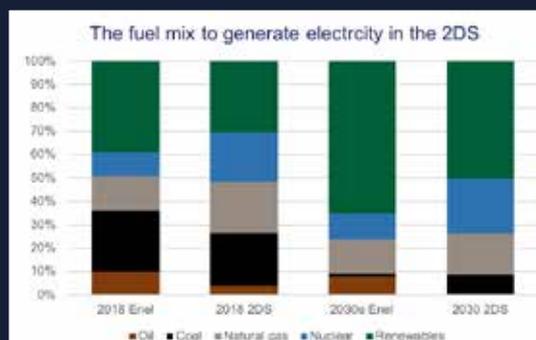
The Climate Value-at-Risk analysis is built on three trajectories of global warming: 1.5 °C, 2.0 °C and 3.0 °C. The contributions in terms of carbon pricing, technological opportunities and physical risk are detailed in the following table.

	Climate VaR	Emissions	Technology	Physical risk
1.5 °C scenario				
Portfolio	-7%	-8%	9%	-8%
2.0 °C scenario				
Portfolio	-8%	-6%	6%	-8%
3.0 °C scenario				
Portfolio	-8%	-2%	2%	-8%

Compared to the portfolio invested in equities, the portfolio invested in corporate bonds bears fewer costs related to carbon pricing but also fewer benefits attached to technological opportunities and more physical risk.

Alignment to the 2 °C warming scenario, example of ENEL

The LCT methodology applied to ENEL starts with a breakdown of ENEL's energy mix at present and in 2030; it then compares it to the data which would be necessary in order to remain at a 2 °C warming scenario.



Based on this energy mix and our forecasts including in particular the development of carbon capture projects (CCS/CCU) and ENEL's ability to achieve its objectives, we have worked out the carbon trajectory of ENEL within a confidence interval. With regard to the three IEA scenarios that we have chosen, we can conclude that ENEL is aligned to a scenario restricting global warming to below 2 °C.

INDICATORS



FINANCIAL ASSETS (CONT'D)

SOVEREIGN LOANS

The universe under review covers all government and sovereign bonds held in the portfolio. The coverage rate is 97% for both ESG scores and for carbon emissions in terms of overall portfolio value.

The average ESG score is 6.61, which is unchanged from 2018.

The overall carbon intensity is 381.2 tonnes per million euros of GDP, 3% higher than in 2018.

The weighted average carbon intensity is 358.9 tonnes per million euros of GDP, 26% higher than 2018.

The following table lists the ten countries with the highest carbon intensities:

COUNTRY	CARBON INTENSITY in tonnes per million euros of turnover
Mongolia	4,195.7
Ukraine	3,852.7
Kazakhstan	2,543.2
Russia	2,195.5
Belarus	2,159.3
Azerbaijan	1,916.3
South Africa	1,889.8
Senegal	1,391.4
Macedonia	1,245.2
China	1,202.7

**THE CARBON
FOOTPRINT IS 485.2
TONNES PER MILLION
EUROS INVESTED,
25% ABOVE THE
2018 LEVEL.**

The futures contracts on short sovereign bonds have a carbon intensity of 227.0 tonnes per million euros of GDP and a weighted average carbon intensity of 220.5 tonnes per million euros of GDP. Their carbon footprint is 271.6 tonnes per million euros invested.

The futures contracts on long sovereign bonds have a carbon intensity of 245.1 tonnes per million euros of GDP, a weighted average carbon intensity of 254.4 tonnes per million euros of GDP and a carbon footprint of 199.9 tonnes per million euros invested.

FUNDS OF MORE THAN 500 MILLION EUROS IN ASSETS

Any funds with more than 500 million euros in assets under management are in scope for this report. As of 31/12/2019, this includes five funds: Obligations 3-5 M, La Française Sub Debt, La Française Rendement Global 2025, La Française Lux Multistratégies Obligataires and La Française Trésorerie.

	Obligations 3-5M		La Française Sub Debt	La Française Rendement Global 2025	La Française Lux - Multistratégies Obligataires	La Française Trésorerie
	Corporate bonds	Sovereign bonds				
Coverage	97% for ESG scores and 94% for carbon emissions.	100% for ESG scores and carbon emissions.	83% for ESG scores and 95% for carbon emissions.	53% for ESG scores and 59% for carbon emissions.	100% for ESG scores and 100% for carbon emissions.	87% for ESG scores and 85% for carbon emissions.
ESG score	5.5 approx 14% below that of the Barclays Euro Aggregate Corporate index.	6.6 very close to that of last year at 6.5.	5.9 approx 8% below that of the Barclays Euro Aggregate Corporate index.	5.4 approx 15% below that of the Barclays Euro Aggregate Corporate index.	5.9 approx 8% below that of the Barclays Euro Aggregate Corporate index.	6.0 approx 5% below that of the Barclays Euro Aggregate Corporate index.
Carbon intensity	179.0 tonnes per million euros of turnover, 18% below that of the Barclays Euro Aggregate Corporate index.	339.3 tonnes per million euros of turnover, 19.6% higher than in 2018.	80.2 tonnes per million euros of turnover, 63% below that of the Barclays Euro Aggregate Corporate index.	237.5 tonnes per million euros of turnover, 9% above that of the Barclays Euro Aggregate Corporate index.	151.7 tonnes per million euros of turnover, 31% below that of the Barclays Euro Aggregate Corporate index.	34.6 tonnes per million euros of turnover, 84% below that of the Barclays Euro Aggregate Corporate index.
Weighted average carbon intensity	116.8 tonnes per million euros of turnover, 30% below that of the Barclays Euro Aggregate Corporate index.	329.7 tonnes per million euros of turnover, 15.6% above that of last year.	74.0 tonnes per million euros of turnover, 56% below that of the Barclays Euro Aggregate Corporate index.	270.3 tonnes per million euros of turnover, 62% below that of the Barclays Euro Aggregate Corporate index.	129.9 tonnes per million euros of turnover, 22% below that of the Barclays Euro Aggregate Corporate index.	18.9 tonnes per million euros of turnover, 89% below that of the Barclays Euro Aggregate Corporate index.
Carbon footprint	107.6 tonnes per million euros invested, 4% below that of the Barclays Euro Aggregate Corporate index.	321.3 tonnes per million euros invested, 19.2% higher than in 2018.	51.4 tonnes per million euros invested, 54% below that of the Barclays Euro Aggregate Corporate index.	194.9 tonnes per million euros invested, 74% above that of the Barclays Euro Aggregate Corporate index.	105.6 tonnes per million euros invested, 6% below that of the Barclays Euro Aggregate Corporate index.	15.0 tonnes per million euros invested, 87% below that of the Barclays Euro Aggregate Corporate index.



REAL ESTATE

Real estate participates in the following four SDGs:

SDGS	STRATEGY	2019 DEVELOPMENT
 	Implementation in the buildings operations	<ul style="list-style-type: none"> . Use of renewable energies to reduce the carbon footprint linked to the energy consumption of our assets . Thermal solar panels (hot water) or photovoltaic panels (electricity) on 27 assets
	Participate in the inclusive city by responding to a fundamental need: have a roof Offer suitable accommodation	<ul style="list-style-type: none"> . Construction of housing marketed at rents capped to middle-income households . Acquisition of programmes marketed as flexible ownership . Construction of new senior citizen service residences . Construction of new student residences . Life annuity financing . Conversion of vacant offices into temporary accommodation
	Implementation in the buildings operations	<ul style="list-style-type: none"> . Partnership with MUGO to rethink our green spaces . Urban farm on the Aviso building in Puteaux (92)

INDICATORS

REDUCE GHG EMISSIONS




Reduce greenhouse gas emissions and actively take part in the fight against global warming by anticipating regulatory objectives

In 2019, as part of its policy to combat global warming, La Française further developed the use of renewable energies. On its French and foreign assets, across all types of real estate, it uses solar energy, biomass, geothermal energy, and an innovative heat recovery system using wastewater. These environmentally friendly energy production methods were deployed

on assets with a total surface area of over 185,000 m². In addition, it equipped 27 assets with energy/hot water production solutions using solar energy, thus contributing to increasing the production capacity of renewable energy in Europe. For example, photovoltaic panels are installed on the roof terraces of the Higashi building in Lyon and a rapeseed oil boiler covers a significant part of the site's heating needs.

The universe under consideration is that of SCPIs invested in commercial real estate in France and our two SRI OPCIs, i.e. 727 assets for a total surface area of 2.3 million m². The estimated coverage rate for carbon emissions is 84%.

The carbon intensity of the office portfolio is 16.9 kg per m², down 2.8% compared to 2018 and 1.1% below the average provided by the Observatoire de l'Immobilier Durable (OID).

The carbon footprint is 5.1 tonnes per million euros invested, down 19.6% compared to 2018 under the dual effect of a decrease in carbon emissions and an increase in the valuation of assets. The footprint varies from 2.4 to 4.1 tonnes per million euros invested for offices depending on their construction date, while it reaches 16.7 tonnes for shops, 19.1 tonnes for business premises and 28.3 tonnes for logistics warehouses.

INDICATORS

NATURE IN THE CITY



Creating nature in the city, to mitigate changes in biodiversity and ecosystems brought by the increasingly strong physical influence of human activities.

In 2019, La Française set up its partnership with Mugo. On the first three buildings monitored, 30,993 plants were planted (trees, shrubs and perennials) and 1,150 m² of meadow were sown during the past year. 100% of these plants are native and over 75% are melliferous plants. On the Aviso building

in Puteaux (92), an urban farm of 2,000 m² has been installed which has enabled its gardeners, assisted by tenant employees, to harvest 480 kg of fruit and vegetables.

HEADING TOWARDS A MORE INCLUSIVE CITY



Making the City more inclusive, to respond to "Living Together", the only acceptable democratic society project

In 2019, La Française acquired 130 residential lots reserved for middle-income households and marketed at capped rents, bringing its residential portfolio dedicated to middle-income households to 421 lots for a total area of 24,000 m². By doing so, it helps in increasing the supply of rental housing for middle-income households, the missing link in the residential real estate sector.

La Française also acquired two flexible ownership properties, bringing its residential portfolio held by flexible owners to 13 lots. This innovative scheme provides middle-class households access to ownership of affordable homes. In total, all the families who took part in the flexible ownership scheme were able to acquire 345 m² more than in "traditional" acquisitions,

amounting to one additional 27 m² room per household. La Française therefore provides an innovative solution that makes it possible to make young middle-class households, often first-time buyers, financially viable.

In 2019, La Française acquired a senior citizens' residence and took delivery of two senior care homes and one student residence, bringing the number of senior citizens' residences in operation to nine plus one student residence for a total surface area of 55,000 m². By allowing young people and senior citizens to live in adapted housing, La Française plays its part in heading towards the inclusive city.

La Française acquired 51 life annuity homes, bringing the portfolio under life annuity asset management to

435 units. La Française therefore enabled as many senior citizens to finance part of their care and/or to pass on part of their holdings while remaining in their home.

In 2019, to help resolve the shortage of residential supply and urban sprawl in high-occupancy areas, La Française converted offices into housing either temporarily or permanently. As part of its partnership with Camelot, La Française converted six vacant office buildings into temporary housing for a total surface area of 18,300 m², which made it possible to accommodate 131 residents over the year. It has also initiated an operation to permanently transform offices into housing in densely populated areas over a surface area of 5,300 m².

**IN SUPPORT OF ITS
PROGRESSIVE APPROACH
AND ENGAGEMENT,
THE GROUP HAS SET
OBJECTIVES BOTH AT
COMPANY LEVEL AND
IN ITS TWO BUSINESS AREAS
OF EXPERTISE:
FINANCIAL ASSETS
AND REAL ESTATE ASSETS.**

OBJECTIVES

LA FRANÇAISE GROUP
FINANCIAL ASSETS
REAL ESTATE



LA FRANÇAISE GROUP



**Implementation of a coal exclusion policy in 2020
Development of the exclusion policy each year until
2025 to include selected fossil fuels**

To actively fight against climate change, it is vital to prioritise action where impacts are the most important. Coal is the energy fuel emitting the highest levels of CO₂, hence the world must cease to use coal. The challenges are twofold: firstly, to no longer build new power plants which lifespan of at least 40 years, will result in significant emissions at a time when emissions must be reduced to

zero. Secondly, encourage the early closure (in certain cases) of existing plants. To support this transition, we have decided to put in place a coal exclusion policy at group level by which we will exclude any company from our business that has more than 25% of its turnover (or in the case of electrical companies, its produced energy) from coal.

To come to terms with the

urgent need to act and promote a transition to a low carbon economy, we will also adapt the exclusion policy every year until 2025: compliance with a global warming scenario limited to 2 °C requires tackling coal first and foremost, but the International Energy Agency's scenarios show us that some other fossil fuels must, as a priority, also be reduced as well as selected methods of extraction.



FINANCIAL ASSETS



Excluding tobacco

The harmful effects of tobacco on public health

are well established and we believe that the savings that investors have entrusted to La Française should not be used to finance capital or debt from companies whose products are clearly harmful to health.



**Driving La Française's securities portfolios on a medium-term trajectory compatible with a 2 °C terms scenario
Decreasing in absolute terms CO₂ emissions of LFAM's consolidated securities portfolios by 12.5% by 2025**

To actively contribute to the fight against climate change, La Française's investment management company, LFAM, wishes to place the emissions of its portfolios on a medium-term trajectory compatible with a scenario of limiting

global warming to 2 °C. To do this, LFAM will have to reduce not only the CO₂ intensity of its investments, but also reduce emissions as an absolute value to contribute to the objective of zero net CO₂ emissions by 2050, which would correspond

to limiting global warming to 2 °C. La Française is therefore committed to the idea that the absolute CO₂ emissions represented in the consolidated portfolio of its securities should be reduced by 12.5% by 2025.

OBJECTIVES



REAL ESTATE



Use of renewable energy over 500,000 m² and renewable energy production across 50 assets

To actively contribute to the fight against climate change, La Française has set a goal of making significant use of renewable energies. At the end of its three-year plan, La Française will use energy produced from renewable sources (therefore excluding nuclear energy) across 500,000 m² of all types of properties (offices, residential, shops, activities) both in France and abroad.

Going one step further, La Française takes advantage of real estate being real assets to become a producer of renewable energy. By the end of its three-year plan, 50 assets will be fitted with facilities producing renewable energy. In 2019, La Française initiated two partnerships to analyse the potential for the large-scale deployment of on-site photovoltaic facilities and to assess the geo-energy capital of significant assets in our portfolio.



The inclusive city – a necessary feature of the sustainable city – meets the objective of reducing exclusion and inequalities. The challenge is to match available cash flows with the needs of households: housing for young or middle-income households and decent living or finance the dependency of seniors.

As part of its three-year plan, La Française aims to acquire 50 operated residences and/or residential units intended to accommodate a portion of the population suffering from a lack of suitable options (including student housing, senior housing, life annuity, and also multifamily units with capped rents and/or ceiling on households income.

To increase the supply of housing while favouring land recycling and soft densification over urban expansion, La Française aims to encourage the conversion of vacant offices into permanent or temporary housing where possible.



**One urban agriculture project per year
All new buildings with green spaces will be subject
to a biodiversity study**

As part of its three-year plan, La Française has set the goal of developing one large-scale urban agriculture project per year. The role of the city and buildings in the development of the link between man and nature is a strategic challenge. Biodiversity associated with real estate is a source of technical, social and societal innovations. Urban agriculture creates value by playing a role in the conservation of biodiversity at territorial level, by strengthening the social link and by helping to reduce our carbon footprint.

All new projects with green spaces will be subject to a biodiversity study

In terms of biodiversity, the choice of plantings, the type of maintenance and stakeholders involvement are important development areas for its conservation. Local, native species are best fit to environmental conditions and most

of the time require less maintenance. These plants also have the advantage of providing a refuge and a diversified food resource adapted to the local fauna. They blend into the landscape and help to re-establish ecological corridors in agricultural or urbanised areas in order to bind natural environments together.

Finding alternatives to the use of pesticides or preserving water resources makes it possible to limit the impact on biodiversity in areas created and managed by man.

Finally, raising awareness among stakeholders requires to engage each of them so that they realize their individual responsibility in the protection of biodiversity, thereby helping to create the conditions to commit everyone to change their practices and take action to meet the challenge ahead of us.

A
PP
METHODODOLOGICAL
GLOSSARY
E**ND****I****X**



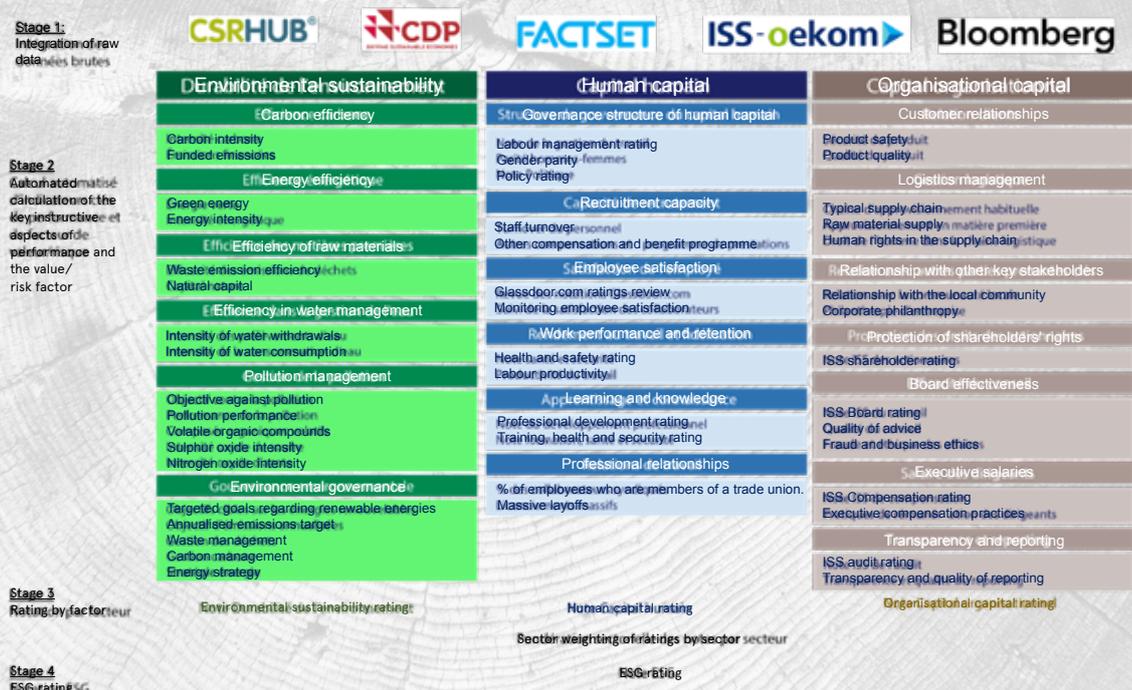
ESG SCORES

CORPORATE EQUITIES AND BONDS

ESG scores are determined by La Française Sustainable Investment Research, using raw data taken from various suppliers. The objective is to gauge the ability of companies to adapt their business model to climate change, social requirements and the principles of good governance. More than 6,200 companies have been rated, including 4,900 in developed countries and 1,300 in emerging countries.

The environmental score is based on the concept of environmental sustainability, the

social score on that of human capital and the governance score on that of organisational capital. A total of 45 indicators are currently used and continuously updated. Indicators are standardised within each sector, the extreme values are curtailed and the indicators are then scaled between 0 (lowest score) and 10 (highest score). The final score is aggregated according to a sector specific weighting.



SOVEREIGN LOANS

The ESG scores are taken from ISS ESG data.

APPENDIX



ESG SCORES (CONTINUED)

REAL ESTATE

ESG scores are based on a methodology developed by the real estate management division of La Française group, transposing that which is applied to corporate stocks and bonds to the specific nature of real estate. More than fifty criteria are divided into 15 sections and continuously updated. As part of its environmental strategy, La Française has been performing technical audits and energy diagnostics of portfolio buildings for more than five years.

Carried out by construction professionals from a set of recommendations developed internally, the objective of these technical audits is to establish databases of the buildings we own, assess the state of facilities and equipment and establish multi-year work plans. They are carried out for each asset as part of the investment due diligence process, in order to assist in the decision making process and mean that a database of relevant information is available as soon as an asset is acquired, which we view as essential for efficient asset management.

Additionally, specialist energy firms will carry out energy diagnostics in order to assess environmental performance based on a protocol specific to La Française group.

The data points recorded enable La Française to establish benchmarks that become more robust as we assess and evaluate more assets. This allows us to classify and categorise assets in order to adapt the long-term management strategy accordingly and helps to give La Française a comprehensive and an accurate view of the set of real assets under its management.

MAIN ITEMS AND NUMBER OF ASSOCIATED INDICATORS

Environmental sustainability 28 indicators	Social 29 indicators	Governance 10 indicators
<ul style="list-style-type: none"> Circular economy Resilience & risks Biodiversity Waste Water Energy(-ies) CO2 	<ul style="list-style-type: none"> Health - Well-being & comfort Safety Local socio-economic impact Accessibility - Handicap Connectivity & smart building 	<ul style="list-style-type: none"> Business ethics Governance of the ESG strategy Stakeholder relationships



CARBON

Carbon emissions figures are based on Scope 1 and 2 emissions, i.e. direct emissions from owned or controlled sources, and indirect emissions from purchased electricity. These are expressed in CO2 equivalent.

A PP ENDIX

CORPORATE EQUITIES AND BONDS

Total portfolio turnover:

sum of the annual turnover of each company in the portfolio weighted by the exposure expressed as a percentage of the enterprise value of the company (market capitalisation plus net financial debt)

Total carbon emissions of the portfolio:

sum of the annual carbon emissions of each company in the portfolio weighted by the exposure expressed as a percentage of the enterprise value of the company (market capitalisation plus net financial debt)

Carbon intensity of the portfolio:

total carbon emissions of the portfolio divided by the total turnover of the portfolio

Carbon footprint of the portfolio:

total carbon emissions of the portfolio divided by the total value of the portfolio

Weighted average carbon intensity of the portfolio:

sum of the carbon intensities of each company in the portfolio (annual carbon emissions compared to annual turnover) weighted by the weight of the company in the total value of the portfolio



CARBON (CONTINUED)

SOVEREIGN LOANS

Total GDP of the portfolio:

sum of the annual gross domestic products of each country in the portfolio weighted by the portfolio's exposure to the country expressed as a percentage of the country's sovereign debt

Total carbon emissions of the portfolio:

sum of the annual carbon emissions of each country in the portfolio weighted by the portfolio's exposure to the country expressed as a percentage of the country's sovereign debt

Carbon intensity of the portfolio:

total carbon emissions of the portfolio relative to the total GDP of the portfolio

Weighted average carbon intensity of the portfolio:

sum of the carbon intensities of each country in the portfolio (annual carbon emissions relative to annual GDP) according to the weight of the country in the total value of the portfolio

Carbon footprint of the portfolio:

total carbon emissions of the portfolio relative to the total value of the portfolio

N.B.: The weighted average carbon footprint of the portfolio is equal to the carbon footprint of the portfolio

STANDARDISED FUTURES

The carbon intensity and carbon footprint of the portfolio of derivative contracts are independently compared to the direct exposures to the underlying. There is no netting of direct exposures and exposures in derivative contracts.

The carbon intensity and carbon footprint are calculated according to notional exposures (number of contracts multiplied by the nominal value of the contract and by the value of the contract) net on each underlying, equities or sovereign bonds, following the same logic as for direct exposures.

APPENDIX

REAL ESTATE

Total carbon emissions of the portfolio:

sum of the annual carbon emissions of each building corresponding to the actual energy consumed

Carbon intensity of the portfolio:

total carbon emissions of the portfolio relative to the total usable surface area of the portfolio

Carbon footprint of the portfolio:

total carbon emissions of the portfolio relative to the total value of the portfolio



CLIMATE VALUE-AT-RISK

The Climate Value-at-Risk for a portfolio is calculated for a given climate change scenario and represents the present value of the cost and valuation impacts relative to the value of the portfolio.

Costs and benefits have three contributors: public policies to reduce carbon emissions, technological opportunities and physical risk. These are recorded over a period of several decades. The Climate Value-at-Risk for a portfolio is calculated for a given climate change scenario and represents the present value of the cost and valuation impacts relative to the value of the portfolio.

Public policies for reducing carbon emissions are expressed separately, depending on the target temperature trajectory scenario through the carbon price taken from integrated economic and climate models (Integrated assessment models).

Technological opportunities arise from the deployment of innovations making the transition to a low-carbon economy possible. They are driven by the patent portfolios of companies held in the portfolio.

Finally, **physical risk** results from the impact that climate change will have on the assets and the operations of the companies in the portfolio.

The discount rate for impacts is the average cost of capital of the companies in the portfolio.

Climate Value-at-Risk thus brings together the assessment of transition risks and opportunities and the physical risks of climate change. On the transition side, it explores political risk, i.e. the cost for companies to achieve carbon emission reduction targets set by countries, and green opportunities, i.e. the profits that companies with low-carbon technology derive from providing the means to reduce emissions. At a physical level, the methodology examines the impacts of climate change and extreme weather events on business activities.

A 1.5 °C global warming scenario exposes companies to a significant level of transition risk. It is at the sectoral level that the risks become very clear: utilities, transport, agriculture, as well as the mining and oil sectors are at high risk. A 3.0 °C global warming scenario, however, exposes companies to a significantly greater level of physical risk.

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