

PRINCIPAL ADVERSE IMPACT

Meeting the green finance challenges

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In one of our previous newsletters, we explained how the European Union is progressively implementing the Sustainable Finance Disclosure Regulation (SFDR). This regulation aims at providing greater transparency on the degree of sustainability of financial products in order to channel private investment towards sustainable investments. Under this regulation, the Principal Adverse Impacts (PAI) are intended to measure and avoid the potential negative impacts of an investment.

WHAT ARE THE PAI?

Principle Adverse Impact (PAI) have been defined by the EU as “negative effects, material or likely to be material on sustainability factors that are caused, aggravated by or directly linked to investment decisions and advice performed by the legal entity”. In short, PAIs are the negative consequences of investment decisions on the Environment, Social or Governance (ESG).

PAI are a practical application of the "Do Not Significant Harm" principle (DNSH). They are intended to avoid significant adverse effects on the environmental Taxonomy objectives such as the sustainable investments goals of the SFDR regulation.

These sustainability factors are mainly, as of today, focused on climate and more broadly on environmental issues but without forgetting the social dimension: employee and human rights or fight against corruption.

Since March 2021 financial markets' participants, are required to provide a **statement as part of a narrative disclosure** on how they will incorporate PAI into its investment decision process. From June 2023, they will also be required to report on the Principal Adverse Impact Indicators.

WHAT ARE THE PAI INDICATORS?

The PAI are a set of indicators and metrics of which financial market participants are required to report at the management entity/group level across their investments, as well as at funds level when they are submitted to PAI. There are 16 mandatory indicators in total: 14 are applicable to corporate assets, 2 of which are specific to sovereigns and supranational assets, and the last 2 apply real estate assets. In addition to these mandatory indicators, market participants must opt for two optional indicators.

Corporate Assets: they will implement the monitoring of the 14 mandatory indicators relating to the following key negative impacts on sustainability factors below:

Greenhouse gas (GHG) emissions	1. GHG emissions 2. Carbon footprint 3. GHG intensity of investee companies 4. Exposure to companies active in the fossil fuel sector 5. Share of non-renewable energy consumption and production 6. Energy consumption intensity per high impact climate sector
Biodiversity	7. Activities negatively affecting high impact climate sector
Water	8. Emissions to water
Waste	9. Hazardous waste ratio
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECF Guidelines for Multinational Enterprises 12. Unadjusted gender pay gap 13. Board gender diversity 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)

Sovereign and supranational assets: two mandatory indicators:

Environmental	1. GHG intensity
Social	2. Investee countries subject to social violations

Real Estate assets : two mandatory specific indicators, when applicable, for these assets:

Fossil fuels	1. Exposure to fossil fuels through real estate assets
Social	2. Exposure to energy-inefficient real estate assets

THE PRINCIPAL ADVERSE IMPACTS AT LA FRANCAISE

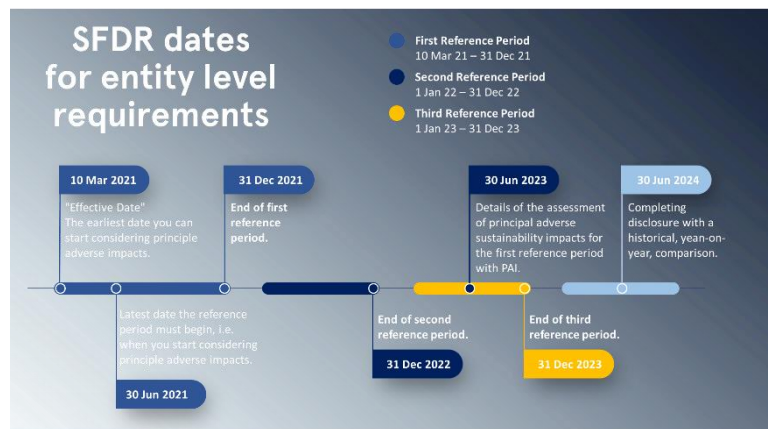
La Française Asset Management, as part of the Group La Française, is in line with the regulatory timeline and will progressively develop information relative to the identification and prioritisation of key negative sustainability impacts and related indicators. Our ongoing Principal Adverse Impact statement will be completed by a report on Principal Adverse Impact Indicators.

Our proprietary research center will be in charge of the PAIs analysis in order to validate the quality of the data and ESG - Climate methodologies. These factors integration in our portfolios management allows us to demonstrate a solid and proven construction of our sustainability investment choices.

REMARKS AND CALENDAR

La Française acknowledges the asset management industry responsibility to provide clarity and transparency regarding sustainable investments. We strongly believe that the SFDR and therefore the concept of Principal Adverse Impact will improve the sustainable aspect of our industry.

However, it should be noted that sustainability risk assessment is quite complex and sometimes based on hard-to-obtain and incomplete ESG data, or materially inaccurate. Finally when identified, there is no guarantee that such data will be properly assessed.



Sources:

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Source : La Française Asset Management. Data as of 31/05/2022.

* A directive that provides a framework for corporate reporting on sustainability and climate change issues and the assessment of the impact of their activities on the environment and society in general.

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