



SUS TAIN ABLE

2020

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INVESTMENT AND
CLIMATE REPORT

 LA FRANÇAISE

PATRICK RIVIÈRE
Chairman of the Executive
Board of La Française



Remaining faithful to its ambition to be a sustainable company, the La Française Group stayed true to its word in 2020 and pursued its efforts to make savings a means of taking action and to ensure that the big changes affecting our world are opportunities for rethinking the future.

As we have always said – there is no such thing as a profitable long-term investment if it isn't sustainable.

This is the philosophy that drives us forward and that has seen us make significant commitments, such as achieving 100% sustainable open-ended funds by 2022, or supporting this transformation by utilising our research capabilities, particularly over climate issues in an effort to work towards the Paris Agreement.

Against this backdrop, climate finance and its associated risks have been behind much of our work and have structured a significant part of our investment solutions, as well as our allocation strategies. In the future, these will be extended to include the protection of biodiversity, quite simply because it is vital!

But we do not limit ourselves to environmental issues because we believe that as an asset manager, we have a specific role to play by integrating social and societal dimensions at the heart of our investment policies, particularly in real estate.

We have all been witness to an increasing shift towards a sustainable economy, all the more so due to the Covid crisis. This is the case for everyone, but none moreso than the asset management sector.

The requirements imposed on our business activities are commensurate with the stakes involved. They will need experience, human and technical resources, access to data and a full understanding of that data, research and innovation, and more. All these are areas in which our Group has been investing for over ten years and will continue to invest for the benefit of its investors and clients.

This is what we want to share with you as part of this report.

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SUSTAINABLE INVESTMENT MADE IN LA FRANÇAISE

Engaging in a low-carbon world



LA FRANÇAISE

The La Française Group is a leader in the management of real estate and financial assets. Our teams, present in France and internationally, are mobilising to give meaning to your savings.

We pay particular attention to the consequences of our investments on the world of tomorrow. We value your savings while supporting the transitions necessary to face environmental challenges. Find out how to meet the challenges of climate change through our range of low-carbon solutions or how to invest in savings-based solutions tailored to your needs on

la-francaise.com

PROMOTIONAL DOCUMENT INTENDED FOR NON-PROFESSIONAL INVESTORS AS DEFINED BY MIFID.

The SRI Label does not guarantee the financial performance of the fund La Française Asset Management is a management company approved by the AMF under number GP97076 on 01/07/1997. The prospectus of La Française Actions France PME (mutual fund) was approved on 15 October 1993 by the Financial Markets Authority. For more detailed information about the investment fund, please refer to the prospectus and to the Key Investor Information Document (KIID) available at www.la-francaise.com

Risk of loss in capital, discretionary, shares, counterparty, liquidity linked to investments in small-cap securities, interest rate, credit, potential conflicts of interest.

The funds in our Carbon Impact range have all received the SRI label.



PASCALE AUCLAIR
Secretary General
La Française



The fifth "La Française Sustainable Investment and Climate Report" report emphasises the Group's ongoing efforts to carry out its asset management business based on the conviction that there is no such thing as a profitable long-term investment that is not sustainable. For the Group, "Doing Good" and "Doing Well" are not mutually exclusive – they are two sides of the same approach.

In addition to its role as investor on behalf of third parties, in 2020 and during the first half of 2021, the La Française Group reviewed its entire Corporate Social Responsibility (CSR) policy. This CSR policy helps awareness of the wider world, stakeholders' expectations and respect for the environment and places this at the core of its business strategy. It is therefore essential for the Group to align the sustainable requirements applied when selecting its portfolio investments with its commitments to both its own business practices and its behaviour towards stakeholders. Chief among these are its employees, but such commitments equally apply to its customers and suppliers.

INTRO

PURPOSE AND MISSION

The Group's purpose is based around four main areas:

Vision: The world is going through a period of transformation marked by ecological, social and, more recently, health crises that act as catalysts for change. Emerging sociological and economic trends are suddenly dominating the landscape. This new departure partly renders past approaches to performance obsolete, forcing us to build new scenarios to anticipate future performance.

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

Promise: Use our capacity for innovation to create value on an individual level through the profitability of investments and on a collective level through their social and environmental impact.

Message: Seeing the world not as it is but as we would like it to be. To transform this altruistic vision of living well together into a pragmatic dual-impact investment approach (profitability and sustainability).

CLIMATE CHANGE IS A SYSTEMIC RISK ON THE MARKETS

As with excessive debt among big economic players and the huge gap in income and wealth inequalities, climate change is now acknowledged by central banks as being a systemic risk on the markets. Having recognised this to be the case for a number of years, the La Française Group analyses major trends in the financial markets, fully integrating this factor into its analytical process.

Climate change and the need to take into account the external environmental factors generated by economic activity stands to influence the evolution of the globalised economy, the development of large urban centres and will accelerate technological progress. This is therefore a major factor in market assessment, even though some of the damage associated with excessive temperature rises will not fully materialise for several decades.

The health crisis that the world is going through has led to an unprecedented and determined response from public authorities around the world to stem the economic consequences of the large-scale lockdown imposed on whole countries – the only response available at the start of the pandemic. It is a striking example of what could constitute an *inevitable policy response*¹ in the event of a climate crisis. Economies are emerging weakened, in particular by the spectacular increase in public debt which will take decades to be absorbed, while the investment needs in the transition to a carbon-free economy are immense.

Managing a wide range of financial and real estate assets, the La Française Group is particularly sensitive to the effects of climate change on the financial and real estate markets and is actively participating in the development of climate finance. Some of the assets managed by the Group are in illiquid market segments with physical and transitional risks that are particularly difficult to manage because they are held for long periods of time. This is why the Group has invested heavily in working groups, publications, discussions with its customers and savings products based around this central theme. This high level of climate sensitivity has led to extensive research on the subject, the development of ad hoc approaches and dedicated investment product ranges. **It also forms part of our research work on the allocation of long-term assets tailored to different potential socio-economic scenarios. This work required the development of an integrated economy-climate model paired with the financial world. It had to be particularly well suited to anticipating the performance of assets and apply an algorithm for building a robust portfolio over long periods of time.**

1. Reference to PRI works: [The Inevitable Policy Response 2021: Policy Forecasts | Articles | PRI \(unpri.org\)](https://www.unpri.org/inevitable-policy-response)

A SUSTAINABLE STRATEGY

More generally, the La Française Group is aware that Environmental, Social and Governance (ESG) factors significantly affect the financial performance of investment assets, both in terms of profitability and risk, and that this influence continues to grow. **Rather than excluding the least responsible companies, the Group's philosophy has been to support the transition of these investments towards improving their responsible positioning. This does not exclude stronger positions with regard to certain activities, particularly when they have strong and known consequences on the climate.**

As a manager of long-term savings on behalf of its customers, the La Française Group pays particular attention to the consequences that its investments will have on society and therefore on the conditions under which these savings can be valued. Its responsibility is not only to make these savings grow, but also to create the conditions for living together in the future, particularly with regard to the social challenges that the transition associated with climate change involves.

INTRO

A COMMITTED PARTICIPANT

The La Française Group is involved in a number of leading international bodies and initiatives in the field of responsible investment, including the Principles for Responsible Investment (PRI), the United Nations Environmental Programme Finance Initiative (UNEP FI) Investment Committee Office, the CDP (formerly Carbon Disclosure Project) and Climate Action 100+. In France, the Group is also involved in the Responsible Investment Forum (FIR), the Responsible Investment Committee of the Association Française de Gestion (AFG), the Sustainable Real Estate Observatory (OID) and the ASPIM ISR Commission.

In line with its commitment to the climate, the Group supports the Paris Climate Agreement signed at COP21. With this in mind, and in order to go further towards defining its objectives, the La Française Group has decided to embark on two new demanding initiatives. These are:

- ◆ The Science Based Targets initiative (SBTi)
- ◆ The Net Zero Asset Managers initiative (NZAMI)

This summary report aims to present the La Française Group's initiatives in terms of sustainable investment, the philosophy linked to sustainable investment and the way in which it is integrated into investment processes.

It complies with the information obligations relating to the decree of "Article 173 VI" and positions itself to integrate the new obligations of the decree implementing Article 29 of the energy-climate law on non-financial reporting by market stakeholders. This report is drawn up in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosures on reporting climate-related financial risks and its structure incorporates the guidelines recommended in four chapters: Governance, Strategy, Risk Management, Indicators and Objectives.

All the actions, reports, codes, policies (exclusion, voting, engagement, etc.), the sustainable investment charter, methodological reports and indicators of the La Française Group are summarised and accessible in the document "[La Française Commits](#)".

COMMITMENTS FORMALISED THROUGH A NEW CSR² STRATEGY

The Group is strengthening both its commitment as a Responsible Company and its objectives as a Sustainable Asset Manager, and sets out its CSR strategy around four main pillars:

- ◆ **Sustainable Investor:** as a responsible company and Asset Manager for financial and real estate assets, the Group takes responsibility for its decisions, activities and financial products in a clear and committed manner.
- ◆ **Governance & influence:** the Group guarantees the implementation of CSR and seeks to assert its strategic positioning to achieve and monitor the objectives it has set out for itself. An influential, committed and determined member of the financial world, the group plays its role in society through its involvement as a responsible Asset Manager.
- ◆ **Climate & biodiversity:** through its well-defined strategy, the Group wants to see its actions and investments fall in line with efforts to fight climate change and preserve biodiversity, in order to measure the positive impacts of its Asset Manager and responsible business approach.
- ◆ **Human Capital:** the Group considers its employees and Human Resources (HR) as key to anchoring CSR within the company, promoting positive actions and good CSR practices

2. CSR: Corporate Social Responsibility

Increasingly demanding governance is crucial to guarantee the success of La Française Group's approach in terms of corporate social responsibility (CSR). This encourages a long-term strategy and measurable objectives and ensures ownership of the objectives at all levels of the company.

In addition, the trust on which relationships with various stakeholders are based creates a duty of loyalty for the Group, which must ensure the effective implementation of its CSR commitments.

The governance of this CSR strategy is provided by a multi-level system. The structure of the Group helps it meet its objectives, while changes made to the various steering and supervisory bodies of the Group and its entities help keep track of its commitments.

G OV ER NANCE



ORGANISATION

In terms of structure, the Group relies on the following strengths:

◆ **A Sustainable Investment MD**, member of the Group Executive Committee, reporting directly to the Secretary General of the Group. This person is responsible for the deployment of sustainable investment within all the management divisions and research teams, and for coordination with the Group's CSR strategy. They preside over a monthly Sustainable Investment Executive Committee (COMEX), attended by the Group's Management Board, which:

- firstly, defines the Sustainable Investment development strategy, directs development and distribution, shares news about research, regulations, product-services, risks, reporting, communication, etc.
- secondly, it confirms the Group's CSR strategy and ensures it remains fully consistent with our commitment as a Sustainable Investor.

This Sustainable Investment COMEX is the most direct way of providing information and ensuring the involvement of the Executive Board.

The Sustainable Investment Manager also chairs an Agora Sustainable Investment Committee which meets every two months to share information, best practices and discuss issues about the various business lines of the Group as well about its support functions: compliance, human resources, marketing, legal, etc. Partners and affiliates are part of this Sustainable Investment Committee, which enables an industry-wide acclimatisation to these issues and a broader awareness within the Group.

Working alongside all the Group's expert teams, the Sustainable Investment Manager has also set up a wide-ranging training plan in e-learning format composed of 12 expert modules. These have proved very successful and bring all employees into this strategic dynamic.

◆ **An ESG-climate proprietary research centre, La Française-Sustainable Investment Research (LF-SIR), in place since 2014 and based in London.** The centre shares its expertise and proprietary models across all management divisions, as well as within securities risk monitoring teams. This expert centre was given a boost to its resources in 2020 and now covers not only equities but also credit and government debts. Experts from this integrated research centre also represent the Group in organisations and initiatives involved in responsible investment, particularly at international level.

◆ **A proprietary Research team focusing on our real estate investments**, and whose 2020 assignments were largely dedicated to taking into account the challenges of the new regulatory framework and the labelling of our real estate Funds. This team works as much as possible in synergy with the SIR team, although data management issues are very different for the real estate asset class.

◆ **A strengthening of the support teams to rise to the challenges of applying the regulation (EU)2019/2088 known as the "Sustainable Finance Disclosure Regulation" (SFDR).** This focus on Sustainable Finance is particularly important for our Compliance teams within which a CSR/ESG referent has been appointed to cover this topic across the board for all asset classes and to clarify the CSR strategy. This also involves our Risk Management teams, which have been restructured to monitor sustainability risks much as they do financial risks, both within the teams dedicated to securities and those dedicated to real estate. Finally, a Risk Management Department now aggregates all the Group's risks, including sustainability risks, through an approach that integrates the mapping of these risks and their listing, monitoring KPIs, and plans to reduce these risks.



STEERING AND SUPERVISORY BODIES

In terms of Governance, the Group is strengthening its system to include the management and monitoring of all Sustainability issues. First of all, we examined the best governance practices in the financial sector as recognised by the AMF through the TCFD (Task Force on Climate related Financial Disclosures) and studied the regulatory framework for "entreprises à mission"* as defined by the Pacte law. (*companies that adopt social or environmental goals alongside their main corporate purpose)

The management of issues and opportunities relating to the Group's sustainable investment strategy is seamlessly and fully integrated into the existing management bodies of the Group and its entities. The Group's ambitious objectives in terms of Sustainable Investment development are monitored on a monthly basis by the Real Estate and Financial Assets COMEXs, and cross-functional Sustainable Finance issues are similarly monitored by the La Française Group COMEX.

A formal report on development objectives is provided on a quarterly basis by the Management Board before the members of the Supervisory Boards for each Group entity. Sustainable Investment is one of the five major focal points of our Medium-Term Plan (MTP) 2023. It is applicable to each company in the Group and will, of course, be monitored by the Group's Supervisory Board.

Ahead of the Supervisory Boards, the Risk Committees of each company provide full information to managers on a quarterly basis, looking at the risk and compliance issues as related to our sustainability strategy, consistently addressing both financial and non-financial risks. Sustainability risks are therefore included in our risk mapping, along with financial, operational and compliance risks. They are assessed and reduced by prioritising major risks through documented action plans in order to minimise net risks. The implementation of these control plans and the identification of significant residual risks are reported to both the Risk Committees and the Supervisory Boards.

At Group level, the Supervisory Board is kept informed of the progress of the Sustainable Investment Strategy by the Management Board. This major strategic focal point was identified as part of our Medium-Term Plan 2023.

In order to strengthen the monitoring of the Group's actions and its control in this area, **the Group appointed a CSR/ESG contact within its Supervisory Board in 2021.** This appointment to the highest governance body of the Group stands testimony to its commitment and ambition as stated in its Medium-Term Plan. **The Chairman of the Group's Supervisory Board is the CSR/ESG contact within the Board, again positioning this area as a top priority.**

This contact is also a member of the Group Audit and Risks Committee and deals with CSR/ESG subjects, as well as those related to climate change and the evolution of biodiversity at Supervisory Board level. Within the Audit and Risks Committee, he organizes an annual review of CSR/ESG strategies and risks within the Group, both at company level and through its ESG products and services.

The Group's Supervisory Board is kept informed each quarter by the conclusions of the Audit and Risk Committee on sustainability risks, which are integrated into the Group's risk mapping just like financial, operational or compliance risks. Risk monitoring at Group level is carried out from a standpoint of risk appetite as defined by our shareholder CMNE. This is achieved by monitoring KPIs, the development of which is the subject of a summary report to the Group Supervisory Board.

GOVERNANCE

REMUNERATION

Finally, the **Remuneration Committee** validates all changes to the remuneration policy of the various Group entities every year. In accordance with the provisions of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (the "AIFM Directive") and Directive 2014/91/EU on transferable securities fund managers (the "UCITS V Directive"), and the SFDR regulation on the publication of information on sustainability, the Group undertakes to establish, implement and maintain remuneration policies, procedures and practices enabling the promotion of sound and efficient risk management, including sustainability risks.

Among the quantitative and qualitative criteria used to determine an employee's variable remuneration, the following criteria are included:

- ◆ For Managers, the integration of Sustainability risks into investment decisions, and respect for the guidelines set for any portfolio,
- ◆ For Risk Managers, monitoring the compliance of the Funds' commitments in terms of Sustainability,
- ◆ For Internal Auditors, supervision of regulatory constraints in terms of Sustainability.
- ◆ For the Sales Staff, contribution to the development of assets in compliance with the customers' risk and return guidelines, including Sustainability risks.

For employees whose variable remuneration is subject to deferral, a penalty system may apply if the employee exposes the Group or any of its companies to abnormal or excessive risk-taking, or if the employee exposes one or more Funds to a significant risk not foreseen by their risk monitoring policy, including sustainability risks.

“The health crisis, a disruptive factor, has been an accelerator of change, which clearly includes sustainable investment. What is your view of this and how did you experience 2020 in your work, from the perspective of sustainable development?”

*Philippe Lecomte
Member of the Management Board
President La Française Finance Services*



“Clearly we are witnessing an acceleration in the demand for sustainable management which is unprecedented in our businesses. This trend was largely initiated by the regulator, which continues to promote it, but it is now being joined on the part of investors by growing final demand for sustainable products. Within La Française AM, we are convinced that the role of finance is, from this point of view, essential to disseminate this change to the entire economy and we have thus long been poised to participate actively in it.

We are fortunate to have entered this segment several years ago. We have an extra-financial research centre, now fully integrated into the teams and management processes. This centre has been active for more than 7 years and has successfully developed proprietary methodologies on many issues in sustainable investment.

This is what has enabled us to deploy this sustainable approach across all asset classes. Moreover, beyond ESG which is gradually becoming the norm, we offer more targeted and thematic solutions, particularly with regard to the climate issue with low-carbon transition products for equities, corporate bonds and government bonds. Logically, this also includes diversified funds on this topic.”

**Jean Luc Hivert
Managing Director La Française Asset
Management**



“2020 was marked by the tightening of European and national regulations. We welcome these advances, which will enable the real estate industry to mobilise on key issues. For more than 10 years, we have been analysing our assets by integrating extra-financial criteria and we do not regret it! Our teams are ready to respond to these often complex regulations for those who have not anticipated them.

2020 also saw the opening of the SRI label to real estate funds. Here again, La Française REM responded by being amongst the first management companies to receive a label for a real estate fund with LF Grand Paris Patrimoine.

Very clearly, the environment is changing with investors who are no longer willing to content themselves with fine speeches but who are calling for increased transparency and “proof” of the sustainability of our management.”

**Philippe Depoux
Member of the management board
President La Française Real Estate Managers**



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“In your opinion what are the essentials of a sustainable strategy in your fields and how does La Française stand out from the rest?”

Philippe Lecomte

“It should be remembered that with the current renewal rate of real estate assets being around 1% per year, the priority issue for us lies in improving on our existing assets. Instead of excluding the least suitable assets in terms of ESG, La Française REM is supporting the transition of our assets and helping them to improve their positioning in terms of environmental responsibility. We are advancing our assets along a dual axis: reducing energy consumption and CO₂ emissions and adapting our assets to respond to changing uses. Reducing the negative external effects of our buildings must not come at the expense of our users' comfort.

To do this, we analyse all our acquisitions using an ESG matrix, which allows us to incorporate the financing of any ESG action plans into the business plans of the asset.

We take a two-pronged approach to existing assets: a broad approach to improving assets by labelling certain funds. Thus for LF Grand Paris Patrimoine, we systematically deploy 17 levers for improvement, ranging from the creation of charging stations for electric vehicles or secure bicycle locations to better organisation of waste treatment, including increasing the connectivity of our buildings and, naturally, optimised energy management. In addition, we conduct campaigns targeting all of our assets on certain specific points such as the widespread use of renewable energy, the analysis of the exposure of our assets to climate risks or the sustainable management of all of our green spaces.”

Philippe Depoux

“Implementing a sustainable strategy cannot be improvised and first of all requires research resources – ideally proprietary ones – in order to master data and methods. This foundation to our work is crucial. It must include a powerful analytical capacity and, in our opinion, an approach geared towards transition and support for companies and stakeholders. It's a commitment over time! Our strategy aims to develop an offer of understandable, aspirational and meaningful products... in order to meet the demand and needs of investors.”

Jean Luc Hivert

“As you have now seen, La Française has stuck to its commitment for a long time and this commitment is reflected through four distinctive points:

- ◆ Our approach to the **climate issue** with a very cutting-edge analysis capacity – in particular data collection and processing and a range of products on all asset classes
- ◆ Our desire to **be an agent of change** – we participate and act through numerous market initiatives in France and across Europe. It is essential for us to have our voice heard!
- ◆ Our ability to integrate the **necessary adaptations to new practices**, to changes in our selection and investment processes as well as in our organisation
- ◆ And finally, **awareness-raising and training for all** Group employees.”

Philippe Lecomte

IN 2020, THE GROUP CONTINUED ITS AMBITIOUS AND ASSERTIVE INVESTMENT SELECTION APPROACH AND WORKED ON FORMALISING ITS CSR POLICY. THE EMPHASIS ON RESEARCH AND INNOVATION MAKES IT POSSIBLE TO DEVELOP NEW METHODOLOGIES AND NEW PRODUCTS.

As an asset manager, La Française Group is a sustainable and committed investor. This is expressed at Group level through its Corporate Social Responsibility (CSR). An element of this is that the company factors in the impact of its decision-making process and its activities on society and the environment. For the Group, the practical application of its CSR policy means becoming aware of the wider world, the expectations of stakeholders and respect for the environment and placing this at the core of its business strategy. CSR is a strategic focal point that creates long-term value for the Group.

In 2020, the group initiated a review of its CSR strategy, which continued into early 2021 and to which external and internal stakeholders were invited. The result is a strategy based around four pillars: Sustainable Investment; Governance and Influence; Climate and Biodiversity; Human Capital, and 12 action points through which the Group demonstrates its ambitions and commitments. For more details, the La Française Group's CSR policy is available on the Group website.

From a regulatory standpoint, 10 March 2021 marks the entry into force of the AMF Doctrine 2020-03 and the Disclosure Regulation. These regulations, which respectively apply to the marketing of funds in France and the European Union, relate to the publication of information on sustainability in the financial sector in order to provide greater transparency and a basis of comparison for end-investors. In the light of these new regulations, the La Française Group has a range of funds available on the market that are for the most part sustainable. "Article 9" products have defined and quantifiable objectives in terms of ESG (Environmental, Social and Governance) risks. These are products with a social or environmental objective, that meet the definition of sustainable investments. "Article 8" products do not have a specific ESG objective but take ESG criteria into consideration when constructing their portfolios.

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The table below shows the positioning of funds in Article 9 and 8 (as at: June 2021) for the real estate management business (LF REM) and the securities management business (LFAM).

	LF REM	LFAM	NewAlpha AM	
Art. 9	<p>SCPI: LF Grand Paris Patrimoine Crédit Mutuel Pierre 1 Epargne Foncière LF EUROPIMMO (formerly LFP EUROPIMMO) LF OPPORTUNITE IMMO (Formerly LFP OPPORTUNITE IMMO) Selectinvest 1</p> <p>OPCI / Sicav: LF Immo SR LF Immo SR II LF Immo Tourism LF Résidences sénior Certivia 1 Certivia 2</p>	<p>La Française Action €CO2 Responsable La Française Action Euro Capital Humain La Française Carbon Impact 2026 La Française Carbon Impact Global Government Bonds La Française Action Carbon Impact CMNE Participation - Euro Shares - World Shares - Bonds LF LUX - IP CARBON IMPACT EURO LF LUX - IP CARBON IMPACT GLOBAL LF LUX - SUSTAINABLE REAL ESTATE SECURITIES</p>	No funds in this category	
Art. 8	No funds in this category	<p>LFAM financial management</p> <p>La Française Sub Debt La Française Trésorerie SRI CMNE Part, monetary</p>	<p>Delegated financial management</p> <p>LF JKC China Equity LF JKC Asia Equity</p>	No funds in this category

All asset classes combined (Real Estate and Securities), SRI funds represented 22% of assets under management at the end of 2020. The funds invested in "sustainable" financial assets (corresponding to the classifications of Articles 8 and 9, classification took effect on 10 March 2021) which are open to the public **represent 87%** of all open-ended funds invested in securities.

La Française AM has set itself the objective of having a **range of funds open to the market that are 100% sustainable by the end of 2022** and the management company is continuing the process of transforming its funds to achieve this objective.

La Française REM, the Group's subsidiary dedicated to real estate management, is aware of its responsibility as a leader in the real estate investment market, particularly through its real estate portfolio of nearly 4,000,000 m², and is resolutely committed to a sustainable approach. Following the signature of the Paris Agreement and the definition by France of a roadmap to combat global warming (National Low Carbon Strategy), **La Française REM** intends to play its part by setting a **target for the reduction of CO₂ emissions from its portfolio that is compatible with a 1.5°C climate trajectory, based on what is known as an ARC strategy: Avoid, Reduce, Compensate.**

3. Source: IEIF at 31/12/2020 in terms of capitalisation

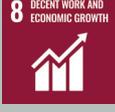
SUSTAINABLE DEVELOPMENT GOALS

THE 17 SUSTAINABLE DEVELOPMENT GOALS (SDGS) OFFER A RECOGNISED AND USEFUL FRAMEWORK FOR SETTING UP A RESPONSIBLE STRATEGY AND BRINGING ABOUT A SUSTAINABLE, LOW-CARBON AND MORE INCLUSIVE SOCIETY.

In its strategy, the La Française group has embraced two SDGs for itself and its various activities in terms of transferable securities and real estate assets. These SDGs⁴ give structure to its products and its development:

SDGS	STRATEGY	DEVELOPMENT IN 2020
	Innovation is at the heart of the group's strategy, which has created a "La Française Emerging Business" section, housing its "innovative platform". Technology lies at the heart of these developments.	Innovative platform
	Climate change is at the root of the Group's philosophy as well as its product and innovation strategy.	Climate by design

As a company and via its CSR policy, the Group participates in the following SDGs:

SDGS	STRATEGY	DEVELOPMENT IN 2020
	Work-study programmes and training policy for employees	Training programme for employees in sustainable finance and responsible real estate
	Workplace equality and diversity policy Gender equality agreements	91 points out of 100 for the year 2020 on the gender equality index.
	Profit-sharing and incentive agreements Remote working agreements	Success of the teleworking activity continuation plan during lockdown periods
	Disability awareness policy Disability policy	
	Waste management Printing policy Purchasing policy	Reduction in the number of printers available
	Carbon offset	Carbon offset proposal on our Moniwan website

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

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



INTEGRATION OF ESG CRITERIA IN OUR BUSINESS AS AN ASSET MANAGER

REAL ESTATE DIVISION

The integration of ESG and climate criteria in real estate is divided into four aspects:

- ◆ The environmental aspect relates to our commitment to reduce the negative external effects of our real estate assets. Particular attention is paid to reducing CO₂ emissions in order to combat global warming.
- ◆ The social aspect relates to our commitment to best incorporate external constraints in order to make things run as smoothly as possible. Particular attention is paid to new practices with the management company seeking to place the user at the heart of its management strategy.
- ◆ The governance aspect relates to our engagement policy which aims to involve all stakeholders concerned for the lifetime of the asset, foremost among them the user, our "property managers⁵" and the employees of La Française REM who

carry out the day-to-day management of our assets.

- ◆ The climate aspect relates to our commitment to carry out an analysis of the vulnerability of our assets to physical climate risks. The management company's commitment is to increase the resilience of these assets in the face of climatic variations.

To integrate these criteria, La Française REM carries out an ESG audit of all of its assets in the acquisition phase. Assets are assessed based on an ESG matrix developed by La Française REM since 2009 and refined each year. In 2020, assets were evaluated based on a hundred criteria ranging across the E, S and G aspects, using the following themes:

Environment	Social/Societal	Governance
CO ₂	Services, well-being and comfort	Governance of the ESG strategy
Energy	Services and comfort of occupants	
Climate risks	Accessibility and soft mobility	Stakeholder relations
Biodiversity	Flexibility/modularity	
Waste	Connectivity	
Water		

5. "Property managers" carry out the rental and technical management, as well as the administrative and legal monitoring of real estate within the framework of the mandates entrusted by the owner.



INTEGRATION OF ESG CRITERIA IN OUR BUSINESS AS AN ASSET MANAGER (CONT'D)

In addition, in 2020, La Française REM formalised a new construction charter. The objective of this charter is to determine a minimum standard in terms of ESG qualities to be respected for all new acquisitions and major renovations in order to comply with La Française's commitments on the subject, and notably:

tions and major renovations in order to comply with La Française's commitments on the subject, and notably:

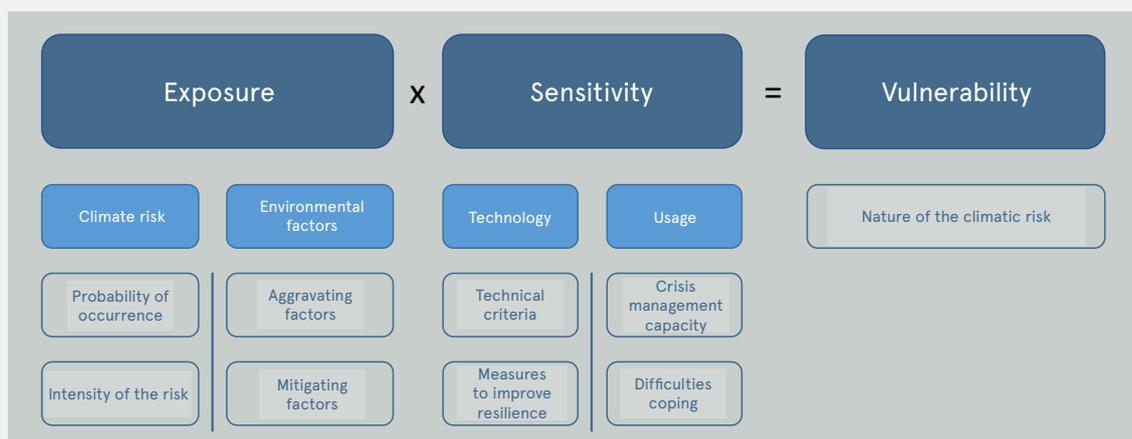
The fight against global warming		Conservation of resources	Territorial integration
Energy efficiency	CO ₂ emissions		
Energy performance	Carbon footprint	Reuse of materials	
Presence of BMS (Building Management System)	Banning of fossil fuels	Biodiversity	Low-impact worksite
Commissioning	Use of renewable energy	Water-saving equipment	Employment resources
	Charging stations for electric vehicles	Efficient waste areas	
	Secure bicycle rooms	Use of low CO ₂ emitting products	

STRATEGY



INTEGRATION OF ESG CRITERIA IN OUR BUSINESS AS AN ASSET MANAGER (CONT'D)

Finally, in 2020, La Française REM started to analyse the vulnerability of its funds' real estate assets to physical climate risks using Bat'Adapt, a tool developed by the Observatoire de l'Immobilier Durable (Sustainable Real Estate Observatory). The tool makes it possible to diagnose the climatic vulnerability of a building based on a cross-analysis of the exposure of assets to climate risks and their sensitivity resulting from the analysis of some of their characteristics:



As at 31 December 2020, all the assets of four funds had been processed: La Française Grand Paris Patrimoine, La Française Immo SR 1 and 2, as well as Opportunity Immo. This represents more than 100 assets, mainly offices and business premises, covering a surface area of over 400,000 m².

The societal dimension of responsible investment is approached through two areas:

- ◆ the search for real estate solutions for vulnerable people, especially senior citizens
- ◆ regional development.

As at 31 December 2020, La Française REM has brought firm, qualitative solutions to the poor housing of elderly people, who are all too often isolated, by allowing 975 senior citizens to be accommodated in the latest generation Senior Services Residences. 1,399 more housing units are currently under construction. In addition, 440 senior citizens were able to stay in their homes while making their savings solvent thanks to a life annuity sale. This solution allows older people to increase their purchasing power and/or to fund work to adapt their housing to their needs.

STRATEGY



INTEGRATION OF ESG CRITERIA IN OUR BUSINESS AS AN ASSET MANAGER (CONT'D)

FINANCIAL ASSETS DIVISION

The sustainable approach has been a part of equity management for years. In 2020, this integration was extended to other asset classes managed by the La Française Group, by implementing solutions adapted to each of these asset classes and more particularly for corporate debt and state debt. Over the years, the research centre has

established proprietary methods to quantify the ESG assessment of issuers. This systematic approach is complemented by a strategic analysis focused on their capacity for innovation and adaptability.

Stage 1
Integration of raw data



Environmental sustainability	Human capital	Organisational capital
Carbon efficiency Carbon intensity Financed emissions	Governance structure of human capital Labour management rating Gender parity Policy rating	Customer relationships Product safety Product quality
Energy efficiency Green energy Energy intensity	Recruitment capacity Staff turnover Other compensation and benefit programme	Logistics management Typical supply chain Raw material supply Human rights in the supply chain
Efficiency of raw materials Waste emission efficiency Natural capital	Employee satisfaction Glassdoor.com ratings review Monitoring employee satisfaction	Relationship with other key stakeholders Relationship with the local community Corporate philanthropy
Efficiency in water management Intensity of water withdrawal Intensity of water consumption	Work performance and retention Health and safety rating Labour productivity	Protection of shareholders' rights ISS shareholder score
Pollution management Objective against pollution Pollution performance Volatile organic compounds Sulphur oxide intensity Nitrogen oxide intensity	Learning and knowledge Professional development rating Training, health and safety rating	Board effectiveness ISS Board score Quality of advice Fraud and business ethics
Environmental governance Target objectives concerning renewable energies Annualised emissions targets Waste management Carbon management Energy strategy	Professional relationships % of employees who are members of a trade union. Massive layoffs	Executive salaries ISS compensation score Executive compensation practices
Environmental sustainability rating	Human capital rating	Organisational capital rating
Transparency and reporting ISS audit rating Transparency and quality of reporting		

Stage 2
Automated calculation of the Key Performance Indicators and the Value/Risk factors

Stage 3
Rating by Factor
Stage 4
ESG rating

Sector weighting of Ratings by Factor

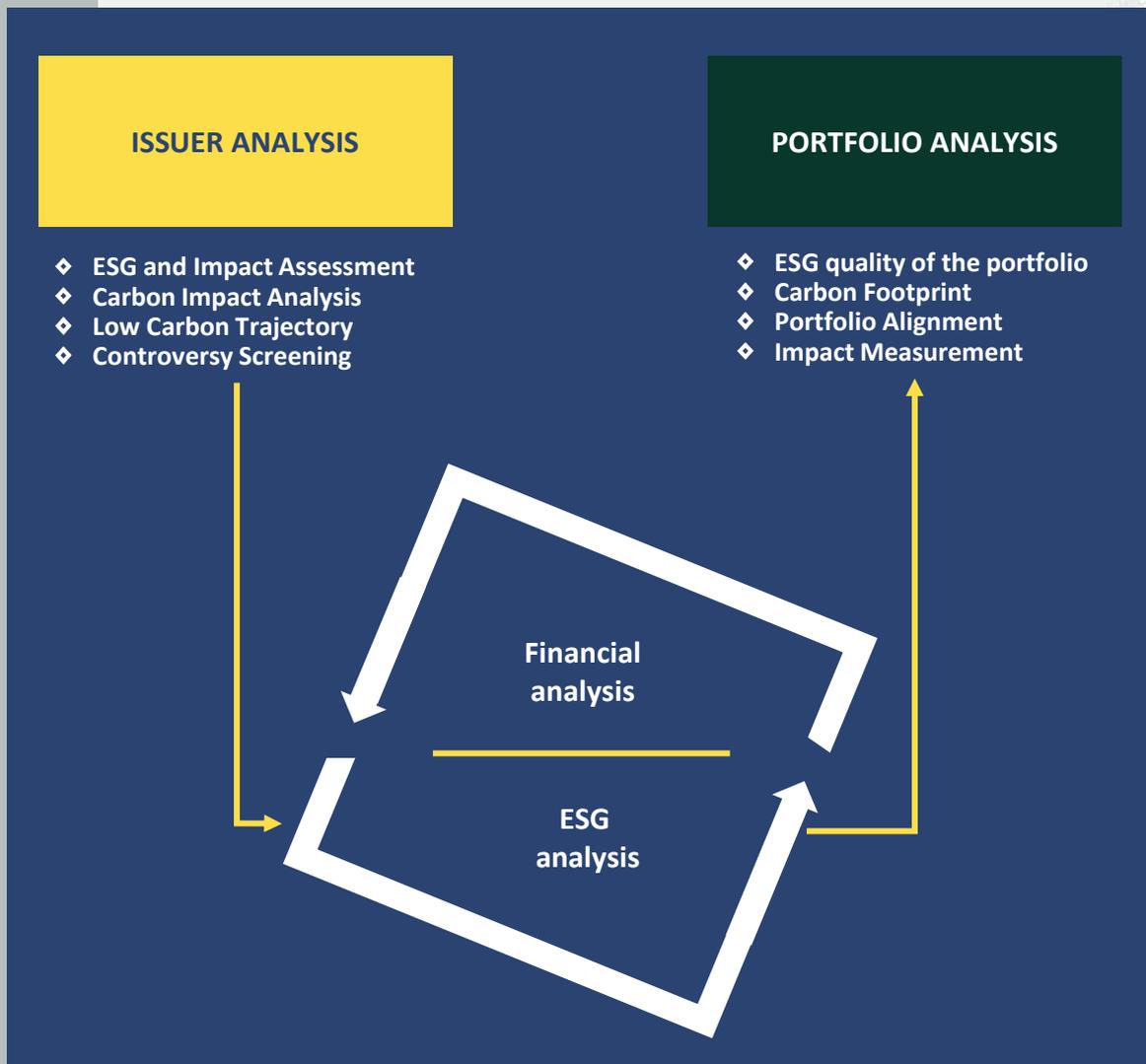
We can therefore estimate the ESG characteristics of each company invested.

For companies with high greenhouse gas emissions (GHG), calculating the path of the transition required by a low-carbon economy is an essential part of our ap-

proach. In 2020, this approach was extended to state debt for sovereign debt portfolios, covering the ESG and "Carbon Impact" dimensions of countries.

The London-based Sustainable Investment Research Centre constitutes a hub for ESG integration. The research team is made up of specialists covering a variety of economic sectors and themes in charge of fundamental ESG analysis, and quantitative ESG analysts. All of these analysts work together to estimate data requirements, develop methodologies and communicate the findings of their

research. ESG research analysts work closely with financial analysts and portfolio managers. Each investment case is analysed and discussed during joint meetings and the selection of securities in the portfolios incorporates ESG information on an ongoing basis.



SYSTEMATIC AND RIGOROUS INTEGRATION OF ESG DATA

ESG data is integrated into the investment process as systematically and rigorously as financial data and is sourced from several ESG data providers. The methods developed by the research team allow for the aggregation of this data in order to maintain an internal Group database that contains multiple layers of information such as ESG scores, carbon impact scores and carbon footprints. This ESG data is available both at the individual issuer level and at the portfolio level, regardless of the geographical location of reference. The ESG data aggregated to obtain a company-level score is mainly derived from information provided by the companies themselves. About one-fifth of the data on greenhouse gas emissions is based on estimates. Methodological notes detailing sources, methods and scores, such as ESG or Carbon Impact scores, are available to stakeholders.

The Sustainable Investment Research Centre publishes its research notes on an internal information platform accessible to all employees. This platform allows us to communicate in real time to both analysts and managers as soon as the information is made available (for more information on our methods, you can view the transparency codes for our asset management products on each of the specific products webpage [here](#)). The methodological glossary in the appendix gives an overview of the ESG and climate scoring methods used by the La Française group in the area of securities and real estate.

IN 2020, LA FRANÇAISE LAUNCHED AN EQUITY FUND AROUND HUMAN CAPITAL

Furthermore, in line with our conviction of the importance of getting involved in social issues, **La Française launched a thematic equity fund in 2020 focusing on human capital**. In particular, it looks at three key elements - skills for the future, employee health and well-being, and inclusion and equality - as overarching themes for investment selection. The importance of people as a long-term performance factor has been demonstrated in numerous academic studies. Our Group's involvement in the necessary transition to a low-carbon economy is also a reminder that this transition must be socially just and must therefore be carried out in support of human beings.



INTEGRATION OF CLIMATE CRITERIA IN OUR ASSET MANAGER BUSINESS

REAL ESTATE DIVISION

La Française REM has set a target to combat global warming for the majority of its real estate funds. Specifically, the funds aim to achieve low carbon exposure in order to meet the long-term global warming limitation targets set by the Paris Agreement. It consists of aligning the greenhouse gas emissions of the fund's assets with a trajectory limiting global warming to 1.5°C between the post-industrial era and 2100, using the methodology developed by the CRREM (Carbon Risk Real Estate Monitor).

The CRREM has defined decarbonisation pathways towards a 1.5°C warming limit scenario specific to each country and sub-sector (offices, hotels, retail, etc.). Each trajectory starts from the current carbon and energy values and proposes a clear decarbonisation pathway to 2050.

Working towards a trajectory means working now for the long-term sustainability of the funds. Using the tool developed by the CRREM allows funds to define an amenable and sustainable low-carbon trajectory by defining short-, medium- and long-term strategic plans to reduce their emissions

and keep up with international targets.

The sustainability indicator being monitored, in order to assess the achievement of the target, is the difference between the volume of greenhouse gas emissions measured in kilograms of CO₂ equivalent per m² per year of the fund and the emissions threshold beyond which the fund exceeds its fair share of emissions according to a trajectory limiting global warming to 1.5°C as defined by the CRREM.

If the fund's level of CO₂ emissions is above the CRREM level for the country and sector, the fund commits to financing negative emissions in order to bring the fund's level of emissions below the stranding threshold, i.e. it will use a mix of solutions that capture excess carbon dioxide from the atmosphere.



INTEGRATION OF CLIMATE CRITERIA IN OUR ASSET MANAGER BUSINESS (CONT'D)

THE LOW CARBON TRAJECTORY (LCT) METHODOLOGY IS ONE OF THE RECENT DEVELOPMENTS OF OUR LF SIR RESEARCH CENTRE.

FINANCIAL ASSETS DIVISION

The LCT methodology, (i.e. “Low Carbon Trajectory”) is one of the most recent developments in our research. It has become one of the main tools used for our climate analyses and forms an integral part of the low-carbon analysis of “Carbon Impact” products launched in 2015. This LCT methodology makes it possible to estimate the alignment of companies with respect to the Paris Agreement, in particular for sectors with high carbon emissions, until 2030. In 2020, this analysis was extended to more sectors and companies.

The LCT methodology is part of the sectoral decarbonisation approaches that allow the calculation of a temperature per sector of a portfolio. It is particularly suitable for portfolios that have a high exposure to high carbon emitting sectors. For the purpose of this methodology, we use the sectoral scenarios from the IEA (International Energy Agency), which include a two-degree scenario and a scenario below two degrees.

The Group is closely following new methodological developments that aim to estimate the alignment of portfolios with specific climate scenarios such as the IPCC's 1.5-Degree Scenario (IPCC stands for Intergovernmental Panel on Climate Change). These methods are referred to as portfolio temperature estimates. In 2020, our research centre participated in a working group of the SBTi (Science-Based Targets Initiative), which launched the Science-Based Targets Climate Guide for the financial sector last October. This methodological guide provides a useful basis for the financial sector to measure the climate alignment of portfolios. Based on the work of the SBTi, we have initiated a process to develop a proprietary approach to systematically measuring the alignment of our Equity and Corporate Debt portfolios with the Paris Agreement.

**S
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On the basis of this work, the La Française Group has developed a range of climate change-orientated funds. The first climate change-orientated equity fund from the Group was launched in June 2015, ahead of COP 21. Called La Française Lux Inflection Point Carbon Impact Global⁶, this fund aims to strike a balance between the reduction of carbon emissions by investing in issuing companies in rapid transition and companies offering solutions (in particular technological solutions). It also measures the avoided emissions brought about by investments in renewable energy. A similar equity fund focused on the eurozone was launched in 2018: La Française Lux Inflection Point Carbon Impact Euro⁷.

A fund invested in **corporate bonds** with the same philosophy surrounding a transition to a low-carbon economy was created in 2019. This fund had to be adapted because the sectors emitting the most carbon, in particular electricity producers, form a significant chunk of the bond market. The concepts of trajectory alignment compatible with a low rise in temperature and scenario analysis are favoured over simple carbon footprint and intensity measurements. The inclusion of Green Bonds and Sustainability-linked Bonds is also part of the portfolio managers' toolbox. The range was enriched in 2020 with the launch

of a maturity fund version: La Française Carbon Impact 2026. Extensive work has been carried out to adapt the Carbon Impact methodology to other types of bond funds, in particular sovereign issuers.

As such, designed in 2020 and launched in the first half of 2021, La Française Asset Management has applied its climate approach to **sovereign bonds** with the aim of contributing to the financing of the Transition:

- ◆ The fund La Française Carbon Impact Global Government Bonds offers an innovative investment solution whose primary aim is to combat climate change with a reduction in the carbon intensity of the portfolio of at least 20% compared to its reference universe;
- ◆ Its philosophy aims to direct its allocations to the countries most committed to the transition towards a low-carbon economy while reducing the carbon impact of investments today.
- ◆ Impact bonds (Green bonds) represent an important part of the allocation in order to commit to and directly finance projects that promote the fight against climate change;
- ◆ The Carbon Impact scoring methodology based on the analysis of Adaptation (physical risks) and Transition risks allows us to identify the winning countries in the Transition and to exclude the those which are losing.

6. Sub-fund of the UCITS "La Française LUX", created on 15 June 2020, approved in Luxembourg and regulated by the CSSF (Commission de Surveillance du Secteur Financier – Financial Sector Supervisory Commission)

7. Sub-fund of the UCITS "La Française LUX" created on 1 October 2018 by modification of the sub-fund La Française LUX – Inflection Point European Equity launched on 12 March 2009, approved in Luxembourg and regulated by the CSSF (Commission de Surveillance du Secteur Financier – Financial Sector Supervisory Commission)



CONSIDERATION OF BIODIVERSITY

REAL ESTATE DIVISION

In 2020, La Française REM formalised a charter for the sustainable management of green spaces. The management of the green spaces of its assets is essential in order to guarantee the comfort of the occupants and limit damage to biodiversity.

Sustainable management means implementing maintenance practices that respect the environment and biodiversity. It consists of a compromise between the relatively strict and constrained management of green spaces and the naturalistic management of reserves, geared towards the protection of the natural environment. The objective is to apply different management methods depending on the type of space, the desired result and its use, and to make the green space an environment favourable to biodiversity while meeting the needs and expectations of users. It therefore takes into account maintenance and urban landscape concerns in order to best adjust the techniques used to the constraints imposed by safety, use and the aesthetic point of view of users. In doing so, it attempts to disregard the notion of "tidying up" to place more emphasis on concerns for the environment and the living beings that are part of it. It raises awareness that biodiversity and maintenance are not incompatible and that safety and aesthetics are not synonymous with the eradication of spontaneous biodiversity. It also promotes alternative solutions to the techniques used to date, some of which are polluting and dangerous to health.

Through the implementation of sustainable management practices for green spaces, La Française REM has solid, powerful means to act in favour of environmental preservation.

The objective of this charter is to determine a minimum standard in terms of the maintenance of green spaces to be respected by all service providers involved in the management and maintenance of green spaces.

It revolves around 4 themes:

- ◆ preservation of local flora and fauna
- ◆ chemical-free plant care
- ◆ reduction of water consumption
- ◆ re-use of green waste

FINANCIAL ASSETS DIVISION

Aware of the importance of protecting and restoring biodiversity and the role La Française can play as an investor, we are working to participate in and contribute to one of the market initiatives that aim to synergistically develop data collection and assessment methods to measure the impact on portfolios and then set targets for impact reduction. The main challenge at this stage remains access to data and the development of methodologies to aggregate this data at different levels (portfolio, group) and integrate it into investment decisions.

STRATEGY

CERTIFICATION

The La Française Group has adopted a voluntary certification approach in reference to public or private standards. This approach aims to provide our investors with standardised analyses that enable them to make even more objective choices. For us, it is a guarantee of transparency and commitment to the highest standards.

Launched at the end of 2015 by the public authorities, the SRI label is a government label allowing investors to identify savings and investment products that seek to reconcile financial and non-financial performance, by integrating the consideration of environmental, social and good governance criteria (ESG criteria) in their investment and management processes.

REAL ESTATE DIVISION

After several years of review by a working group to which La Française was one of the main contributors, the real estate version of the SRI label was launched in the fourth quarter of 2020.

In 2020, La Française was able to affix this label to an SCPI (REIT-equivalent), 'LF Grand Paris Patrimoine', by adopting a Best in Progress/rating improvement approach. La Française's investment philosophy is to support the transition of its assets under management in order to continuously improve their social responsibility ratings. This is a priority issue for the sector as the current renewal rate of the real estate stock is barely 1% per year, making improving the ESG performance of the existing stock a priority issue for the sector.

FINANCIAL ASSETS DIVISION

As at 31 December 2020, six SRI-labelled securities⁸ funds were marketed in accordance with the public benchmark:

- ◆ La Française Actions Euro Capital Humain⁹,
- ◆ La Française Lux Inflection Point Carbon Impact Euro,
- ◆ La Française Lux Inflection Point Carbon Impact Global,
- ◆ La Française Obligations Carbon Impact¹⁰,
- ◆ La Française Carbon Impact 2026¹¹,
- ◆ La Française Trésorerie¹².

In November 2020, the Carbon Impact Global fund was awarded the highly demanding German FNG (Forum Nachhaltige Geldanlagen) certification.

Finally, in December 2020, the La Française Actions France PME fund¹³ obtained France Relance certification from the Ministry of the Economy, Finance and Recovery.

8. The SRI Label does not guarantee the Fund's performance. – 9. Sub-fund of the "LA FRANCAISE" SICAV created on 4 June 2003 and regulated by the French Financial Markets Authority – 10. La Française Obligations Carbon Impact was launched on 12 February 2020 by modifying the La Française Obligations Europe SAI fund, approved by the AMF on 22 October 2019, a sub-fund of the French La Française SICAV approved on 14 August 2018 by the AMF and created on 12 November 2018, by merger-absorption of the La Française Moderate Multibonds mutual fund created on 18 January 2001 – 11. Sub-fund of the "LA FRANCAISE" SICAV created on 22 October 2019 and regulated by the French Financial Markets Authority – 12. La Française Trésorerie ISR, a mutual fund created on 7 February 2003 and MMF approved by the AMF on 21 January 2019 – 13. Mutual Fund approved by the AMF on 15 October 1993 and created on 22 October 1993



TAKING INTO ACCOUNT ESG AND CLIMATE CRITERIA AMONG PARTNERS AND AFFILIATES

In line with its commitments as a responsible investor, NewAlpha¹⁴ has continued to strengthen ESG integration for all asset classes. Progress has been made on the hedge fund side, as well as on private debt funds. **In early 2021, NewAlpha launched a fund of equity funds, Emergence Europe, which incorporates ESG criteria with a particular focus on the climate policy of the selected managers and on gender equality within the teams.** This fund aims to support French and European entrepreneurial management companies in the implementation of ESG best practices. NewAlpha participated in **the drafting of an SRI guide that aims to raise awareness** among management companies of the expectations of institutional investors with regard to SRI.

Finally, as part of its investments in Fintech, NewAlpha has taken a stake in the company SESAMm. This leader in big data and artificial intelligence for asset management offers services in the field of responsible investment and ESG reporting.

Acofi Gestion¹⁵ 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.

In 2020, attention to non-financial criteria became more rigorously formalised. Management teams strive to introduce impact clauses into loan contracts, and ESG dimensions in the financial analysis of debtors. Thus, at the end of 2020, Acofi Gestion set up the first impact real estate financing that integrates objective investment criteria for carbon footprint reduction, waste management, energy consumption reduction and wastewater treatment.

In 2020, Acofi also prepared the **launch of two new impact financing funds**, one dedicated to senior real estate debt integrating environmental criteria, and the other dedicated to collateralised debt in favour of SMEs with social criteria (regional jobs).

14. Management company approved by the AMF under number GP05000001 on 20 January 2005

15. <https://www.acofi.com/isr-esg>



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

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

Finally, the La Française Group adopted a **specific 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 The climate** (Environment): opposition to the approval of company accounts that have not responded to the CDP questionnaire¹⁶ and to the approval of accounts from companies in the energy sectors which do not commit to setting up an "SBT – Science-Based Target" CO₂ reduction objective.
- 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 is comprised of less than 40% women.
- 3 Independence of the Board of Directors:** votes against the election of non-independent members to the various committees, if:
 - a** at the end of the vote, the audit committee is not composed of 100% independent members.
 - b** at the end of the vote, the remuneration committee is not composed of at least 50% independent members.
 - c** at the end of the vote, the appointment committee is not composed of at least 50% independent members.
- 4 Remuneration** (Governance): vote against the report or the remuneration policy if there is no clear and transparent policy regarding the holding of shares by management.
- 5 Multiple mandates** (Governance): vote against the election or re-election of members of the Board of Directors if they hold more than four mandates at the end of re-election.

16. 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/fr>

The Group published its 1st engagement policy¹⁷ in 2019 and reviews it on an annual basis. Each year, it publishes an [engagement report](#) which reviews the results of the policy implemented.

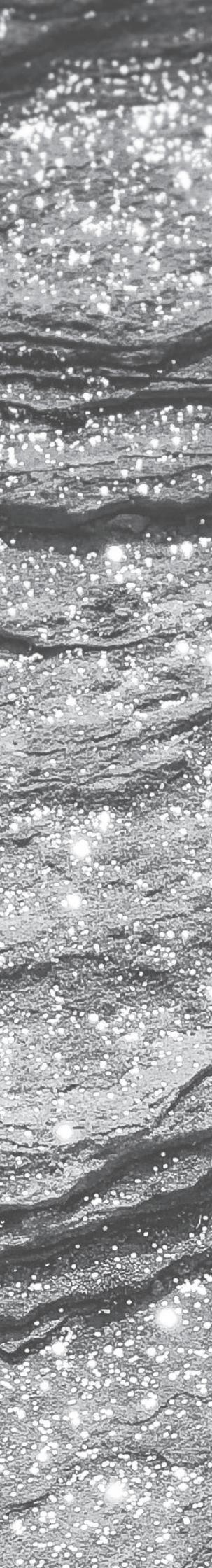
It engages on an individual basis with companies regarding ESG issues. SIR analysts and managers engage in a constructive dialogue with companies listed in the portfolio. Moreover, they maintain an active dialogue, in particular concerning areas where information is incomplete and which are considered essential to assess alignment with the aims of the Paris Agreement among the heaviest CO₂ emitting companies. This engagement can be undertaken with companies in our equity portfolios (e.g. Lufthansa last year) and with companies in our credit portfolios (e.g. LBBW in 2020).

In addition, the La Française Group has participated in collaborative working groups on climate change. Between 2019 and 2020, we were part of the group testing the Science-Based Targets (SBT) methodology for the financial sector, testing one of the three methodologies selected by SBT, the 'temperature rating' approach on our equity portfolios in this context. We also participated in the PRI EU Taxonomy Practitioners Group which tested the practical implementation of taxonomy on portfolios, including case studies. Investor work resulted in a PRI report "[Testing the Taxonomy: Insights from the PRI Taxonomy Practitioners Group](#)", and the publication of some case studies, including that of La Française, available on the PRI website [here](#).

The Group continues to be involved in collaborative engagement initiatives on two key themes: climate change (Climate Action 100+, CDP's campaigns targeting the world's most carbon-intensive companies) and corporate social data (Workforce Disclosure Initiative, which so far has targeted nearly 800 companies worldwide).

Finally, the [exclusion policy](#) of the La Française Group provides for a total withdrawal from coal in 2040 and from 2030 for OECD countries. The Group's management company currently excludes mining groups that derive more than 25% of their revenues from coal and electricity companies that derive more than 25% of their revenues or production from coal or have plans to build/open new coal-fired power plants.

17. www.la-francaise.com/en/regulatory-information/



RISK
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REAL ESTATE DIVISION



IDENTIFICATION OF REAL ESTATE ESG AND CLIMATE RISKS

CLIMATE RISKS

La Française REM has identified three types of climate risk:

- ◆ liability risks resulting from any legal action brought against the fund,
- ◆ physical risks resulting from damage directly caused by meteorological phenomena
- ◆ transition risks linked to the effects of the implementation of a low-carbon economic model: legal, regulatory and political developments, changes in supply and demand, innovations and technological breakthroughs and customer and stakeholder perception of the contribution to the transition.

The Management Company incorporates sustainability risks and opportunities into its research, analysis and investment-decision process in order to improve its ability to manage risks more comprehensively and generate long-term sustainable returns for investors.

The Management Company believes that investors are mostly likely to be affected by transition risks over the short and medium term. If, however, global warming leads to a significant rise in temperatures, the physical risks would become predominant.

LIABILITY RISKS LINKED TO CLIMATE CHANGE

Liability risk linked to climate change is a risk of litigation that could result in possible legal action for non-compliance with environmental regulations. While there are many environmental standards, the most probable grounds for potential legal action would be related to the failure to comply with the energy efficiency requirements set by the tertiary eco-energy plan and/or the environmental code on land pollution. These risks could erode the financial profitability of the product.

La Française's commitment, which goes well beyond regulatory limitations, minimises this risk. As part of the risk and litigation management policy, should possible litigation arise, financial measures can be taken in order to anticipate the possible impact of this risk on the futures fund (such as quantification of the risk and setting aside the necessary sums to cover this risk). A summary of these financial measures will be appended to the funds' periodic report.



IDENTIFICATION OF REAL ESTATE ESG AND CLIMATE RISKS (CONT'D)

CLIMATE RISKS (CONT'D)

PHYSICAL RISKS LINKED TO CLIMATE CHANGE

Climate change is manifested in particular by natural hazards likely to cause damage to the assets of the fund and/or affect their activity. These risks could affect the valuation of the fund's assets.

Physical risks linked to climate change are the exposure of the fund's assets to a climatic hazard. The most significant climatic hazards for real estate located in Europe are:

- ◆ Heat waves, which can degrade thermal comfort and damage networks;
- ◆ Droughts, which can increase the risk of structural degradation in clay soils and can expose assets located near forests to fire risks;
- ◆ The shrinkage and swelling of clay, which can degrade the structures of buildings with shallow foundations or buried networks;
- ◆ Floods, which can affect buildings through water infiltration into the walls or damage to underground networks;
- ◆ Coastal flooding that can affect buildings due to water infiltration into materials, and damage caused to structures and networks. Coastal flooding is often accompanied by storms, which cause further damage to buildings;

Physical risks are assessed for each asset individually, according to their exact location and their specific characteristics, with an outlook to 2030.

When purchasing an asset located in mainland France, these risks can be minimised by the use of a mapping tool made up of three components:

- ◆ a map of climate risks that can be used to find out the potential exposure to climate risks
- ◆ a sensitivity analysis based on technical or operational elements concerning the building and its management
- ◆ a vulnerability diagnosis based on a cross-analysis of exposure and sensitivity data

The technical or operational elements taken into account by this tool are as follows:

Exact address of the asset	Activity	Building open to the public
Type of facade	Presence of sun protection	Types of insulation
Type of roofing	Type of foundation	Presence of crawl space
Type of ventilation	Presence of basement	Presence of sensitive equipment in the basement
Artificial surface area	Type of green space management	Type of planting of green spaces
Green space surface area		

A summary of the fund's exposure level (which consists of a risk score ranging from 0 to 100) to each climate risk will be appended to the fund's periodic report. Initially, only exposure to climate risks linked to acquisitions during the year will be consolidated. Within three years (financial year 2023), the management company will consolidate the climate risk exposure of at least 90% of the fund's value-weighted assets.

When an asset is deemed to be highly exposed to a physical risk, adaptive actions (for which the cost has been calculated), are included in the provisional budget and can therefore have a direct impact on the return on the asset. These actions are necessary to preserve the valuation of the asset over the long term. For heat waves, for example, this involves ensuring that cooling devices are suitable for the size of the space, looking into the possibility of installing new natural ventilation systems, checking the quality of the glazing and the presence of shading, etc. A summary of the cost of the adaptive actions deployed over the year to minimise the physical risks of the funds' assets by 2030 will be appended to the fund's periodic report.



IDENTIFICATION OF REAL ESTATE ESG AND CLIMATE RISKS (CONT'D)

CLIMATE RISKS (CONT'D)

TRANSITION RISKS LINKED TO CLIMATE CHANGE

Transition risks linked to climate change are the fund's exposure to changes induced by the ecological transition. These risks are mainly linked to the development of anti-pollution taxation systems and more restrictive carbon markets which would lead to an increase in the price per tonne of CO₂. These risks could erode the financial profitability of the product.

The most probable albeit long-term transition risk is due to the possible taxation of CO₂ emissions which would be in excess of the thresholds set by the national regulations adopted as part of the Paris Agreement (National Low-Carbon Strategy for France – SNBC).

The only regulation adopted under the SNBC for the real estate segment to date is the tertiary eco-energy plan. The anticipated fine for 2030 is EUR 7,500 per asset that does not comply with the plan's objectives. This risk is minimal with regard to the assets of the fund, insofar as the fund takes this objective into account on a daily basis in its investment strategy and its asset management.

Furthermore, no carbon tax is anticipated for the funds in 2021.

RISKS LINKED TO BIODIVERSITY

The erosion of biodiversity has a similar effect on ecosystems as global warming and increases the risk of occurrence of the climatic hazards described in physical risks associated with global warming.

While the erosion of biodiversity could have an impact on the value of real estate assets, the risk that the use and/or construction of our funds' assets could have on biodiversity seems more significant to us. LF REM will analyse the primary negative impacts in terms of sustainability on this risk according to a regulatory schedule.



RISK CONTROL AND COMPLIANCE

In 2020, La Française REM published an ESG risk management policy. This policy was created as part of the consideration of non-financial criteria in the asset selection and management policy of La Française REM. It is adapted to each underlying asset. It aims to:

- ◆ describe and frame the process for taking ESG criteria into account, ensuring that it meets the fund's objectives
- ◆ ensure that there is an internal procedure put in place by the SRI team to guide the ESG assessment of the relevant real estate assets
- ◆ describe the audit policy implemented by the Internal Audit

To ensure compliance with internal investment rules, a two-level audit has been put in place:

The main level 1 audits are detailed in the procedures for taking ESG criteria into account during the investment and management phases. They mainly relate to the mandatory ESG audit before any acquisition so that the investment committee can base its decisions on real estate, financial and non-financial criteria.

Second-level audits are carried out by the Internal Audit, which, as part of the annual audit plan, ensures that:

- ◆ the ESG assessment procedure for real estate assets is properly respected,
- ◆ the selection procedure for real estate assets is properly respected,
- ◆ the various first level audits are carried out properly.

In addition, the internal audit plays a role in the SRI Committee alongside the management of LF REM and the SRI Director.



IDENTIFICATION OF ESG AND CLIMATE RISKS FOR FINANCIAL ASSETS

The health crisis experienced in 2020 can only lead us to continue and strive ever further to gauge the impact of sustainability risks on the economy.

Generally speaking, we can only identify the risks we face as an investor in transferable securities based on data provided by the companies in which we invest.

Whether this is climate, social or governance data, it forms the basis of our risk analysis on a par with the accounting data on which rests our financial risk analysis. We are therefore active in various coalitions (see the engagement section above) which, alongside other investors, allow us to lobby companies to publish more and better information, particularly relating to climate (by using TCFD¹⁸ recommendations, for example, as a basis for reports, by answering the CDP questionnaire) as well as social aspects. As asset managers investing in the capital or debt of companies, we meet with them regularly and also engage in a dialogue with them in regard to this matter.

During the year, we also strengthened our issuer coverage and data reliability process, reinforcing dialogue between our research centre, management and risk, and clearly defining processes for data production, storage and access.

The robustness of the procedures for calculating ESG and climate scores ensures that the associated risks and opportunities are properly taken into account in the Group's Carbon Impact range and ESG funds. These procedures, which are broadly described in the attached methodological glossary, are the result of years of research and development, combining the experience of managers and responsible investment practices. They are continuously updated and enriched, taking advantage of advances in the academic world and new standards set by regulations.

ESG and climate scores are made available to managers, financial engineering, risk management and compliance through the La Française Group's internal information system, which also includes all financial data. The clarification of the ESG and climate scores thus makes it possible to integrate these areas into assessments, risk premiums and expectations.

We believe that climate risks must be included in the Group's risk management alongside other more traditional elements, 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, and the development of procedures enabling widespread, consistent deployment. The La Française Group, drawing on the experience acquired in particular on the Carbon Impact range, has put in place the initial elements of this increased cooperation and acclimatisation of the teams in charge of deploying this "Sustainability" theme with all its implications.

A lot of work on investment universes, methodologies for calculating indicators on portfolios, assessment of physical and transition risks for different asset classes is underway. This should provide a set of indicators for the portfolios in order to optimise their management and strengthen the risk management process.

The work carried out has already led us to formalise:

- ◆ The investment universe of each of our funds in order to monitor the development of the coverage and to be able to analyse the development of the indicators of our funds versus their universe
- ◆ Methodologies for calculating the aggregation of indicators at fund level and automating their production for our central tool
- ◆ Sets of indicators (KPIs) according to the non-financial strategies of the funds and their SFDR classification, which will also be integrated into the client reports.

RISK

MANAGEMENT

FINANCIAL ASSETS DIVISION

18. <https://www.fsb-tcfd.org/>

ESG RISKS

In terms of ESG, environmental, social or governance risks in general concerning companies are closely linked to their sector and geographic peculiarities. For States, as for the real estate sector but on a different scale, the risks are primarily linked to geographic location: urban, peri-urban, coastal, etc.

For an initial assessment of the reality of these ESG risks, the La Française Group relies on its SIR ESG-climate centre of expertise, as well as technical publications, such as the Sustainability Accounting Standards Board (SASB¹⁹) and Mercer²⁰ for multi-asset approaches.

We have also started work to take ESG and climate risks into account as part of the allocation of long-term assets.

CLIMATE RISKS

In terms of climate, TCFD identifies two types of risks borne by organisations:

- ◆ the **physical risks** resulting from damage directly caused by meteorological phenomena
- ◆ the **transition risks** linked to the effects of the implementation of a low-carbon economic model: legal, regulatory and political developments, changes in supply and demand, innovations and technological breakthroughs and customer and stakeholder perception of the contribution to the transition.

We incorporate sustainability risks and opportunities into our research, analysis and investment-decision process in order to improve our ability to manage risks more comprehensively and generate long-term sustainable returns for investors.

We believe that investors in financial assets are mostly likely to be affected by transition risks 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 bodies working on climate risks has also shown us 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 yet to appear but could materialise very quickly. The legal, economic and political risks, for example linked to the implementation of a carbon tax or a price on carbon, should materialise more gradually.

19. <https://www.sasb.org/> - 20. <https://www.mercer.com/our-thinking/wealth/responsible-investment.html>



IDENTIFICATION OF ESG AND CLIMATE RISKS FOR FINANCIAL ASSETS (CONT'D)

RISKS LINKED TO BIODIVERSITY

As with global warming, the erosion of biodiversity has a similar effect on ecosystems and increases the risk of occurrence of the climatic hazards described in the physical risks associated with global warming (see "Consideration of biodiversity" pg. 28)

We are adhering to the regulatory calendar to estimate both the sustainability risks associated with maintaining biodiversity and the primary negative impacts.

RISK

MANAGEMENT



RISK CONTROL AND COMPLIANCE

First-level risk control ensures the consistency of portfolio management with the responsible investment implementation processes. Numerous quantitative checks are carried out.

This first level of control is carried out:

- ◆ By the management, which, before investing in a new security, ensures that the security has been subject to ESG and, where applicable, carbon analysis and that it is part of the investable universe. Some controls are fully automated, such as blocking the trading system (pre-trade) in order to prohibit the possibility of operating on excluded securities. They refer to the Group's exclusion policy on "controversial arms" aspects, and also cover other sectors such as tobacco, coal, compliance with labels, specific constraints for certain funds, etc.
- ◆ By risk management, which carries out a monthly review of the securities in the portfolio and monitors the suitability of the securities with the investable universe, on the one hand, and movements in ESG or Carbon Impact scores from one month to the next, on the other. This monitoring of movements is formalised in a monthly review with the management teams.

In order to strengthen the analysis of sustainability risks, a lot of work has been initiated by the risk management team to assess and integrate these risks into the funds' risk mapping in the same way as financial risks.



RISK CONTROL AND COMPLIANCE (CONT'D)

Therefore, depending on the fund's objective and its SFDR category, risk management will set up a set of indicators to be monitored that vary according to the funds' strategies. La Française deploys two types of strategies: "low-carbon" implemented in equity, sovereign and credit asset classes and 'Human Capital' implemented in equity funds.

To date, the main indicators (KPIs) deployed based on the SFDR Art.8 and Art.9 classification are the following for the Equity and Debt classes;

	Article 8 SFDR	Article 9 SFDR
Equity	<ul style="list-style-type: none"> ESG scores and E, S, and G scores for funds and their index Evolution of the sub-indicators (19 in number) for the 3 pillars Fund exclusion and coverage thresholds versus index 	<ul style="list-style-type: none"> In addition to the indicators of Art.8; Carbon footprint of the fund and the index Distribution of themes (in transition, clean tech, etc.)
Fixed Income	<ul style="list-style-type: none"> Exclusion threshold E, S, G and ESG scores % coverage Top/Flop on the ESG score 	<ul style="list-style-type: none"> In addition to the indicators of Art.8; Fund/index carbon emissions and improvement ratio Breakdown by low-carbon category and identification of Laggards and Losers Percentage of Green Bonds

These indicators are evolving and more shall be added as our work progresses.

Second-level control, carried out by the Compliance and Internal Control Department (DCCI), is part of the risk and compliance monitoring procedure applied to all the La Française Group's operations and in accordance with the annual internal control plan.

Finally, third-level control is carried out by the auditors of the Group's shareholder, Crédit Mutuel Nord Europe.

Indicator calculations were carried out on the portfolios managed by the La Française Group in late December 2020.

The methodology and sources are explained in the "Methodological Glossary" appendix.

INDI CA TORS

REAL ESTATE

The year 2020 was marked by the Covid-19 health crisis. The successive periods of lock-down and the state-ordered under-use of our assets has largely slowed down the deployment of our ESG 2020 strategy.

Real estate plays a role in the following four SDGs:



THE FIGHT AGAINST GLOBAL WARMING

To reduce the greenhouse gas emissions linked to the operation of its assets and thus fight against global warming, La Française uses the following three levers:

- ◆ increasing the simplicity of its assets by limiting their energy consumption while integrating comfort concerns in line with use
- ◆ increasing the use of carbon-free energy sources, in particular by increasing the use of renewable energy
- ◆ financing negative emissions by using a range of solutions that capture carbon dioxide from the atmosphere.

In view of the successive periods of lock-down, leading to the partial or total closure of its assets, La Française considers that the energy consumption and therefore the greenhouse gas emissions for the year 2020 do not accurately reflect the changes in the energy and environmental performance of its assets. Given their irrelevance, this data will not be published by La Française REM.

In 2019, the carbon intensity of the office portfolio was 16.9 kg CO₂-eq 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 was 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 varied from 2.4 to 4.1 tonnes per million euros in-

vested for offices depending on the date of their construction. It was 16.7 tonnes for shops, 19.1 tonnes for business premises and 28.3 tonnes for logistics warehouses.

In 2020, La Française REM carried out an ESG audit of assets in the acquisition phase, with the exception of buildings not delivered at the time of their acquisition. (In order to base the audits on actual rather than theoretical consumption, the initial environmental audit is delayed for one year after the first tenant moves in). The ESG audit includes an assessment of the energy and environmental performance of each asset. The average carbon intensity of the assets acquired by La Française REM in 2020 in France was 13.7 kg CO₂-eq/m²/year compared to the average of 16 kg CO₂-eq/m²/year provided by the Observatoire de l'Immobilier Durable for France. Their carbon footprint was 1.5 tonnes CO₂ equivalent per million euros invested.

The average carbon intensity of the assets acquired by La Française REM in 2020 outside France was 33.8 kg CO₂-eq/m²/year. Their carbon footprint was 5.9 tonnes CO₂ equivalent per million euros invested.

The difference between the environmental performance of assets located in France and outside France is explained by the different energy sources in the energy mix in each country. By way of illustration, with a conversion factor of 0.461 kg CO₂-eq/kWh, the average German electricity mix emits six times more carbon dioxide than the average French electricity mix (0.0791 kg CO₂-eq/kWh).

◆ REAL ESTATE (CONT'D)

Furthermore, in an unprecedented context, La Française continued to work on the deployment of its ESG strategy by achieving, in 2020:

- ◆ a partnership with Deepki to automate and improve the reliability of the information required to collect energy consumption data for commercial buildings over 1,000 m².

In 2020, La Française REM had identified 441 assets for this partnership, which is an important step in the ESG strategy of the management company, particularly in terms of energy.

- ◆ the contracting of renewable energy purchases with various green energy suppliers, notably the Compagnie Nationale du Rhône, in order to combat global warming. By way of illustration, with a conversion factor of 0.006kgCO₂-eq/kWh, hydropower production is 10 times less CO₂ emitting than the French energy mix (rate of 0.06 KgCO₂-eq/kWh). The precise energy mix of each green energy supplier will be determined by the guarantees of origin of the energy produced each year and may vary according to its composition.

At 31/12/2020, 34 tertiary assets totalling 397,000 m² were powered in whole or in part by electricity generated from renewable sources. La Française REM has mainly used hydraulic or solar energy, alongside geothermal energy, biomass, innovative systems for recovering heat from wastewater or energy recovery from waste incineration by using urban heating networks. In addition, on 509 residential plots totalling nearly 30,000m², hot water was produced in whole or in part by solar panels installed on the roof or by using biomass.

- ◆ New construction charter (see paragraph 2.2)
- ◆ Test phase of different solutions for optimised energy management
- ◆ Campaign for the implementation of solutions encouraging soft mobility (charging stations for electric vehicles and secure bicycle spaces)

INDI CA TORS



REINTRODUCING NATURE INTO THE CITY

Large-scale urban agriculture projects within our assets are always designed to closely involve tenants. The health crisis has therefore considerably slowed down the deployment of our major projects. However, we can mention the Iléo building in Boulogne on which a garden has been set up which offers its tenants 100m² of vegetable mound gardens, 115m² of aromatic plants, 477m² of flower beds and grasses and on which 175 trees and shrubs were planted in 2020.

In total in 2020, as part of La Française's partnership with Mugo, 14,800 plants were planted (trees, shrubs and perennials) and 1,390 m² of grassland was sown over the past year. 92% of these plants are native and 76% are melliferous.

In addition, in 2020, La Française REM formalised a **charter for the sustainable management of green spaces** (see paragraph "Consideration of biodiversity"), which is systematically applied to the assets of the SRI-labelled fund, but which is intended to be applicable to 100% of assets with green spaces:



FINANCIAL ASSETS

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

SDGS	STRATEGY	DEVELOPMENT IN 2020
	Low carbon strategy	Carbon Impact funds invest in solution providers that develop clean energy
	Human Capital Strategy	Fund launch La Française Actions Euro Capital Humain
	Innovation and adaptability are the driving forces behind the strategic analysis of equity funds	
	Low-carbon strategy	The low-carbon strategy is applied to a range of equity and corporate debt funds

INDICATORS



FINANCIAL ASSETS (CONT'D)

EQUITIES

The universe under review covers all the equities in the portfolio. The coverage rate in value is 98% for ESG scores and 99% for carbon emissions.

The ESG score of the portfolio is 6.6, slightly better than the score of the European STOXX 600 index. This is not surprising given the large share of investments in countries outside the European area, most of which have lower scores than European securities.

The carbon intensity of the consolidated portfolio is 135.7 tonnes per million euros of turnover, 33% below the European STOXX 600 index.

The weighted average carbon intensity stands at 187.8 tonnes per million euros of turnover, 6% 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
Spark Infrastructure Group	18,366.6
Trex Company	5,990.0
Emera Inc	5,096.0
Xcel Energy Inc	4,908.8
Heidelberg Cement AG	4,606.9
Nanobiotix SA	4,069.1
Entergy Corp	3,806.6
Air Products and Chemicals Inc	3,635.9
Arcelor Mittal SA	2,917.7
Chugoku Electric Power Inc	1,888.3

THE CARBON FOOTPRINT IS 84.1 TONNES PER MILLION EUROS INVESTED, 8% BELOW THE 2019 LEVEL AND 31% BELOW THAT OF THE EUROPEAN STOXX 600 INDEX.

THE EXAMPLE OF CARBON IMPACT EQUITY FUNDS

The consolidated La Française Lux Inflection Point Carbon Impact Global and Carbon Impact Euro funds have a carbon intensity of 68.0

tonnes per million euros of turnover, a weighted average carbon intensity of 113.9 tonnes and a carbon footprint of 35.3 tonnes per million eu-

ros invested. The very strong positioning of these funds reflects their low carbon strategy.

VOTING AND ENGAGEMENT

Regarding the exercise of voting rights in 2020, the La Française Group voted at 98.4% of General Meetings and on 97.7% of the resolutions presented, thereby amounting to 417 companies out of the 424 held in the portfolio. The percentage of resolutions on which the

Group voted against the management recommendation stands at 25%, remaining stable as compared to 2019.

The La Française Group publishes the summary and details of votes in real time, coupled with the voting policy adopted, which is up-

dated each year. The results of the exercising of voting rights can be viewed on the Group's website [here](#).

An engagement report is available [here](#) and summarises the actions taken in 2020 with regard to the engagement policy adopted.



FINANCIAL ASSETS (CONT'D)

CORPORATE BONDS

The universe under review covers all corporate bonds in the portfolio. The coverage rate in value is 95% for ESG scores and 81% for carbon emissions. The portfolio's ESG score is 6.36. This is 6% below the Barclays Euro Aggregate Corporate index.

The carbon intensity of the portfolio is 170.3 tonnes per million euros of turnover, 16% below the Barclays Euro Aggregate Corporate index.

The weighted average carbon intensity is 120.5 tonnes per million euros of turnover, 21% below that of the Barclays Euro Aggregate Corporate index.

The following table gives the ten highest carbon intensities:

COMPANY	CARBON INTENSITY in tonnes per million euros of turnover
Buzzi Unicem SPA	8,045.5
Vedanta Resources PLC	4,317.8
Fortum OYJ	3,873.3
Cemex SAB	3,854.9
ENCE Energia y Ceculosa SA	3,178.8
Arcelor Mittal SA	2,917.7
CNX Resources Corp	2,585.7
OCI NV	2,357.2
Endesa SA	1,630.5
Diamondback Energy Inc	1,585.1

THE CARBON FOOTPRINT IS 121.7 TONNES PER MILLION EUROS INVESTED, 20% BELOW THAT OF THE BARCLAYS EURO AGGREGATE CORPORATE INDEX.

THE EXAMPLE OF CARBON IMPACT BOND FUNDS

The La Française Obligations Carbon Impact and La Française Carbon Impact 2026 funds have a carbon intensity of 112.7 tonnes per million euros of turnover, a weighted average carbon intensity of 65.2 tonnes and

a carbon footprint of 89.8 tonnes per million euros invested. The very strong positioning of these funds reflects their low carbon strategy.



FINANCIAL ASSETS (CONT'D)

SOVEREIGN LOANS

The universe under review covers all sovereign loans in the portfolio. The coverage rate in value is 100% for ESG scores and for carbon emissions.

The portfolio's ESG score is 6.64. The portfolio's carbon intensity is 274.3 tonnes per million euros of gross domestic product. The weighted average carbon intensity stands at 263.9 tonnes per million euros of gross domestic product.

The following table gives the ten highest carbon intensities:

ISSUING COUNTRY	CARBON INTENSITY in tonnes per million euros of turnover
Mongolia	1,388.0
Ukraine	1,137.0
Kazakhstan	955.0
South Africa	929.2
Russia	733.9
Senegal	568.2
Macedonia	518.6
Saudi Arabia	494.8
Poland	483.1
Ecuador	430.9

**THE CARBON
FOOTPRINT IS
282.8 TONNES PER
MILLION EUROS
INVESTED.**

INDI CA TORS



FINANCIAL ASSETS (CONT'D)

FUTURES

The futures contracts on short sovereign bonds have a carbon intensity of 289.2 tonnes per million euros of gross domestic product. Their weighted average carbon intensity stands at 288.5 tonnes per million euros of gross domestic product. Their carbon footprint is 406.2 tonnes per million euros invested.

The futures contracts on long sovereign bonds have a carbon intensity of 586.5 tonnes per million euros of gross domestic product. Their weighted average carbon intensity stands at 586.5 tonnes per million euros of gross domestic product. The carbon footprint is 1419.2 tonnes per million euros invested.

FUNDS OF MORE THAN 500 MILLION EUROS IN ASSETS

The funds with more than €500 million in assets under management at 31/12/2020 are La Française Trésorerie ISR, La Française Sub Debt and La Française Rendement Global 2025.

LA FRANÇAISE TRÉSORERIE ISR

The coverage rate in value is 100% for ESG scores and 87% for carbon emissions.

The portfolio's ESG score is 6.6. The carbon intensity is 164.6 tonnes per million euros of turnover. The weighted average carbon intensity stands at 120.0 tonnes per million euros of turnover. The carbon footprint is 111.20 tonnes per million euros invested.

LA FRANÇAISE SUB DEBT

The coverage rate in value is 100% for ESG scores and 82% for carbon emissions.

The portfolio's ESG score is 6.5. The carbon intensity is 101.8 tonnes per million euros of turnover. The weighted average carbon intensity stands at 60.6 tonnes per million euros turnover. The carbon footprint is 55.0 tonnes per million euros invested.

LA FRANÇAISE RENDEMENT GLOBAL 2025

The coverage rate in value is 84% for ESG scores and 65% for carbon emissions.

The portfolio's ESG score is 5.4. The carbon intensity is 214.1 tonnes per million euros of turnover. The weighted average carbon intensity stands at 277.5 tonnes per million euros turnover. The carbon footprint is 211.6 tonnes per million euros invested.

LAURENT JACQUIER LAFORGE

Global Head of Sustainable Investing
La Française



IN ORDER TO RESOLUTELY SUPPORT ITS PROGRESSIVE APPROACH AND SHOW ITS ENGAGEMENT, THE GROUP IS COMMITTED TO OBJECTIVES BOTH AT COMPANY LEVEL AND IN ITS TWO AREAS OF EXPERTISE: FINANCIAL ASSETS AND REAL ESTATE.

OBJECTIVES

LA FRANÇAISE GROUP
REAL ESTATE
FINANCIAL ASSETS



LA FRANÇAISE GROUP



Alignment with the Paris Agreement

To actively contribute to the fight against climate change, it is urgent to act now and to ensure that the operation of our business places us on a trajectory compatible with the Paris Agreement, which the Group supports.

To this end, **the La Française Group wishes to define a CO₂ emissions reduction target in line with the Paris Agreement and approved by SBTi (Science-Based Targets Initiative)** by becoming a signatory of the initiative in 2021. The key idea of the SBT initiative is that the setting of greenhouse gas (GHG) emission reduction targets must be in line with climate science. These targets are considered to be "in line with the science" if they aim at a level of decarbonisation sufficient to limit the global average temperature increase to below 2°C above pre-industrial levels, as

stated in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (AR5 IPCC). SBTi thus allows signatory companies to set their own GHG reduction targets, which must be ambitious and significant but also consistent with their sector of activity. SBTi then confirms these objectives in the light of criteria relating to the scope chosen by the company, the duration of the commitment to the objectives (minimum 5 years, maximum 15 years), their level of ambition, the scope of emissions (scope 3) and, last but not least, their commitment to transparency via reports.

In the same spirit, the Group wishes to **become involved in the Net Zero Asset Managers Initiative (NZAMI)** supported by various coalitions, including the PRI and the CDP, of which we are active members. The

initiative aims to transition investment portfolios to carbon neutrality by 2050, bringing the Paris Agreement to the world of finance and ensuring that the global temperature increase does not exceed 1.5°C. This initiative has the special feature of bringing together only management companies which, in addition to the objective of zero carbon emissions by 2050, will therefore have to participate actively in a 50% reduction of carbon emissions by 2030 and review their intermediate objectives every five years. They will also have to take into account Scope 1 and 2 in the carbon emissions measurements of their portfolios, and even Scope 3 if possible, setting up a dedicated voting and engagement policy, and creating investment products in line with these objectives.



Sustainable investment training for all employees

In order to make each of the Group's employees an active participant in sustainable investment, La Française Group has decided to set up a training programme for all

its employees **in French and English over 2021, consisting of 13 modules of 30 minutes each on average, taught by in-house experts in the areas covered.** An internal pro-

gramme dedicated to real estate has also been created, consisting of a common base on real estate SRI, broken down in more detail for each real estate business.



REAL ESTATE



Combatting global warming by aligning the greenhouse gas emissions of a majority of our funds with a decarbonisation trajectory in line with the Paris Agreement

The principle of aligning the greenhouse gas emissions of the fund's assets consists of:

- ◆ knowing the CO₂ emissions of each of our assets:
 - Scope: more than 90% of the fund's assets weighted in value
 - Method: conversion of energy consumption for scopes 1 and 2, according to the regulatory calculation methods of each country and according to the type of energy used. The total energy consumption of the assets will be determined by the bills of the shared and private areas.
- ◆ Compare this consumption, expressed as an equivalent number of kilos of CO₂ per square metre per year, against the values communicated by the CRREM for each type of asset, depending on its location.
- ◆ Monitor the development of CO₂ emissions of the fund's assets annually and at the CRREM value used.
- ◆ Identify, for each of the assets, the actions to be implemented in order to reduce CO₂ emissions to meet the CRREM target value in 2030, and implement them.
- ◆ Quantify, at fund level, any discrepancy between the average emissions of the assets, broken down by value, and the CRREM threshold value for each type of asset, and if necessary finance CO₂-negative emissions for a volume equivalent to the volume of CO₂ above the stranding threshold defined by the CRREM.
- ◆ Initially, the management company undertakes to calculate CO₂ emissions for all investments made during the year, with the exception of projects under construction, for which the calculation of CO₂ emissions is postponed until one year after the first tenant has moved in, in order to take actual rather than theoretical consumption as the basis for calculation.
- ◆ Within 3 years (by December 2023), the management company undertakes to calculate CO₂ emissions for more than 50% of the fund's value-weighted assets.
- ◆ Within 5 years (by December 2025), the management company undertakes to calculate CO₂ emissions for more than 90% of the fund's value-weighted assets.

OB
JEC
TIVES



REAL ESTATE (CONT'D)



Fund labelling

The E, S, G criteria do not stop at carbon and energy. They also relate to comfort, usage, services, biodiversity, water, the integration of the building into its territory, the connectivity of the buildings, the training of the various stakeholders, etc. The holistic approach of the SRI label makes it possible to seek to reduce the negative external effects of the fund's assets while integrating external constraints as fully as possible in order to offer users comfort in line with their expectations.

Labelling a fund helps to protect the value of assets now and in the future by anticipating a tightening of regulations and increasing the resilience of its asset value. In addition, it also allows the management

company's practices to be adjusted across the board. In this respect, La Française REM has set up an ambitious training plan of about 20 hours of training for 250 to 600 people, depending on the subject - general or specific.

At 31/12/2020, La Française REM obtained the SRI label for the SCPI LF Grand Paris Patrimoine, mainly composed of office assets in Ile de France. Our goal is to label other real estate funds so that the ESG approach continues to spread within the management company. The labelling of a fund is a unifying project with concrete results and annual milestones to which the teams can refer. Particular attention will be paid to the variety of funds selected, both in terms of asset type, geography and type of investment.

OBJECTIVES



FINANCIAL ASSETS



100% of open-ended funds integrating an ESG approach by the end of 2022

La Française Asset Management, management company of the Group has announced its ambition to offer a range of 100% sustainable investment open-ended funds by the end of 2022.

This objective is part of La Française Group's ongoing strategy, with 87% of the assets of LFAM open-ended funds already meeting the sustainability criteria, six of which were labelled funds by the end of 2020. The La Française Group has been developing its ESG strategy in an innovative way since 2008. It has taken symbolic steps in this regard, such as the launch of a low-carbon strategy to coincide with the signing of the Paris Agreement in 2015. The Group is currently rolling out its sustainable strategy across all of its asset classes and, as such, will be able to offer a sustainable multi-asset product range.

The Group has invested in the means and resources necessary to achieve these objectives, in particular through its proprietary ESG research centre based in London: LF SIR.



Adapt the Group's exclusion policy by extending it to non-conventional fossil fuels

Compliance with the Paris Agreement is a crucial objective. It implies that all sectors participate but requires a major transition for some of them, which we support in particular through our Carbon Impact range. However, some activities are no longer compatible with limiting global warming to 2°C or less and should clearly be stopped as soon

as possible if alternatives exist. This is the case with coal, for which we have deployed a total exclusion policy that extends over several years. The Group plans to extend this policy to unconventional fossil fuel extraction such as oil sands, Arctic drilling etc. and – to the extent possible – publish this update in 2021.



APPPE ND IX

METHODOLOGICAL GLOSSARY



ESG SCORES

EQUITIES AND CORPORATE BONDS

ESG scores are determined by La Française Sustainable Investment Research, using raw data taken from various suppliers. These scores are supplemented by two factors arising from our strategic analysis: the capacity of companies to adapt and innovate. 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 sustainability, the social score on that of human capital and the governance score on that of organisational capital. A total of 46 indicators are used and continuously updated. Indicators are standardised within each sector and each region, the extreme values are filtered and the indicators are then scaled between 0 (lowest score) and 10 (highest score) and aggregated according to a specific weighting for each sector to give the final score.

SOVEREIGN LOANS

The ESG scores are taken from ISS Oekom data.



ESG SCORES (CONT'D)

REAL ESTATE

ESG scores are based on a methodology developed by the real estate management division of the La Française Group. They are based on a transposition of the methodology applied to corporate stocks and bonds to the specific nature of real estate. More than sixty criteria are divided into 15 sections and continuously assessed and updated. As part of its environmental strategy, La Française has been carrying out technical audits and energy diagnostics of portfolio buildings for more than five years.

In 2020, the advent of Covid-19 focused users' attention on health concerns, including the possibility of receiving employees while respecting social distancing measures, and on air quality. Eight questions concerning these two criteria have been added to the 2020 vintage.

Carried out by construction professionals from a set of recommendations developed internally, the objectives of technical audits are to establish technical databases of buildings, assess the state of conservation of their equipment and establish multi-year work plans. They are carried out for each asset as part of the investment due diligence with the effect, apart from assisting in the decision making process, of making available as soon as the asset is acquired an exhaustive database that is essential for efficient asset management.

Carried out by a firm specialising in energy, the objective of energy diagnostics is to assess environmental performance based on a protocol specific to the La Française Group.

The numerous data recorded enable La Française to establish benchmarks, the robustness of which is attested by the number of assets evaluated, and to situate each asset in its typology in order to adapt the long-term management strategy accordingly. This gives La Française an accurate view of the set of assets under its management.

MAIN ITEMS AND NUMBER OF ASSOCI- ATED INDICA- TORS

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 relate to Scope 1 and 2, i.e. direct emissions linked to production and indirect emissions linked to energy consumption necessary for production. These are expressed in CO₂ equivalent.

EQUITIES AND CORPORATE BONDS

Total portfolio turnover:

sum of the annual turnover of each company in the portfolio weighted by the exposure of the portfolio in the company 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 of the portfolio in the company 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 compared to the total turnover of the portfolio

Carbon footprint of the portfolio:

total carbon emissions of the portfolio compared to 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

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

CARBON (CONT'D)

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 compared 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 compared to annual gross domestic product) weighted by the weight of the country in the total value of the portfolio

Carbon footprint of the portfolio:

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

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

STANDARDISED FUTURES

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

The 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.

REAL ESTATE

Total carbon emissions of the portfolio:

sum of the annual carbon emissions of each building corresponding to the actual energy consumed (and not intrinsic, i.e.: corresponding to a conventional use for five energy uses)

Carbon intensity of the portfolio:

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

Carbon footprint of the portfolio:

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

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