
Confidence
must be earned

Amundi
ASSET MANAGEMENT



2019

Responsible Investment Policy

CPR Asset Management

Introduction

As a fully-owned autonomous subsidiary of Amundi, CPR Asset Management (CPR AM), works exclusively in third-party investment management (for institutional, corporate, insurance, private banking, fund management, and wealth management clients). For nearly three decades, thanks to the commitment of its 100 employees, the company has been able to develop a unique management philosophy across the main asset classes - equities, fixed income, credit and asset allocation. At the end of March 2019, CPR AM has accumulated €50 billion in assets under management.

CPR AM's main advantages are its unique set-up and profile, combining the responsiveness and accessibility of a human-scale player with the financial strength and operational capabilities of a large group. It strives to develop innovative and scalable solutions for its clients, adapted to their needs and constraints.

Responsible investment is one of its founding pillars and ESG continually remains an essential commitment. With €6.6 billion under management, the company is committed to selecting investments according to a specific methodology taking into account ESG risk factors and impact measures deployed on a range of dedicated solutions and open-ended products for all asset classes.

CPR AM is convinced that investment in the financial markets is a means of introducing better practices on the part of both public and private actors. To achieve this, CPR AM relies on the resources made available by the Amundi Expertise ESG team, a non-financial research and analysis center common to the entire Amundi group.

Engagement therefore provides an additional angle to building ESG criteria into our fund management. We consider that dialogue with companies is fully relevant when it is used to optimise portfolio management and construction, notably when seeking to limit risk. We assess the scope of our actions by measuring the progress made by companies from one year to the next, and reflect on the impact of taking into account ESG criteria through reports dedicated to environmental, social and governance indicators for our most engaged portfolios.

In 2018, Amundi announced an ambitious 3-year action plan aiming at integrating ESG issues in all its management. CPR AM is part of this three-year action plan for a 100% responsible offer.

The purpose of this document is to explain the governance, policy and strategy for integrating ESG criteria into CPR AM's investment policy.

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1. Relying on Amundi's resources

To achieve its ESG objectives, CPR AM relies on the resources made available by the Amundi Expertise ESG team.

Amundi developed its own ESG rating approach applicable to all its asset classes. This approach is based on texts with a universal scope, like the United Nations Global Compact, the OECD's guiding principles on corporate governance, the International Labour Organization (ILO), etc. Amundi's ESG analysis is based on a Best-in-Class approach. This methodology consists in rating companies on their ESG practices according to their sector, based on a scale going from A for best practices to G for the worst ones. In order to rate more than 5,500 issuers around the world, Amundi's ESG rating is primarily based on a consensus between the analysis of multiple extra-financial data providers.

1.1 Three dimensions for ESG analysis

Amundi's analysis process examines corporate behavior in three fields: Environment, Social, Gouvernance (ESG). Amundi assesses the companies' exposure to risks and opportunities and the management of these challenges in each of their sectors.

A. Environnemental dimension

There are positive and negative sides to environmental issues, and this analysis assesses how issuers deal with them: it examines companies' ability to control their direct and indirect environmental impact, by limiting their energy consumption, reducing their greenhouse emissions, fighting resource depletion and protecting biodiversity. It also criticizes an issuer's contribution to building a positive ecology in the territories in which it operates.

B. Social dimension

The objective here is to measure how a company defines a strategy to develop its human capital, drawing on fundamental principles with a European and universal reach. The "S" in ESG has a dual meaning. It covers two distinct concepts: the social aspect linked to a company's human capital, and the one linked to human rights in general.

C. Governance dimension

This dimension is set to ensure that a company's management is able to organize a collaborative process between the different stakeholders that guarantees it will meet long-term objectives (therefore guaranteeing that company's value over the long term). This dimension provides an analysis of how a company integrates all of its stakeholders in its development model: not only its stakeholders, but also its employees, clients and suppliers, local communities and the environment.

2.2 Engagement through voting

▪ Voting

The Corporate Voting & Engagement team systematically votes at the General Assembly Meetings of European and international companies in which Amundi holds more than 0.05% of the capital, i.e. more than 2,900 general meetings in 2018. The voting policy helps influencing companies' orientations and aims to insure consistency in the areas of progress selected. In our analysis of a dialogue with companies, we wish to give particular importance to two themes in 2019: – Climate, in particular, the decarbonisation of our economies – The control of wage balance within the framework of compensation policies. These two themes represent systemic risks for our society. Companies must take into account such major and topical subjects in order to be in line with society's expectations and guarantee their good development.

▪ Pre-meeting dialogue

The pre-meeting dialogue establishes a permanent dialogue with companies on the main issues of financial performance and social responsibility, as well as their associated action plans. In 2018, the Corporate Voting and Engagement team met and dialogued with 230 issuers. This resulted in

substantial improvements (justifying a change in our voting intentions) in companies' practices, in approximately 20% of cases.

In the 2021 Action Plan, Amundi announced that ESG issues will be systematically integrated into corporate shareholder dialogue.

2. Exclusion Policy

Amundi and CPR AM apply targeted exclusion policies throughout their management processes which form the basis of their fiduciary duty. These rules are applied to all of Amundi and CPR AM's active investing strategies and exclude companies that do not comply with its ESG policy, international conventions, internationally recognized frameworks, and national regulations.

Amundi and CPR AM thus exclude the following:

- Companies involved in the production, sale, storage or services for and of anti-personnel mines and cluster bombs, prohibited by the Ottawa and Oslo treaties;
- Companies involved in the production, sale or storage of chemical, biological and depleted uranium weapons;
- Companies that violate, repeatedly and seriously, one or more of the ten principles of the Global Compact.

In addition, Amundi and CPR AM practice specific sectoral exclusions to controversial industries: coal and tobacco.

Coal

- In 2016, Amundi decided to leave issuers that generate more than 50% of their revenue from coal mining, in line with the commitments of Crédit Agricole in regards to the fight against climate change and managing energy transition.
 - In 2017, the threshold was lowered to 30% and completed with a qualitative and prospective analysis of companies producing 100 million tones, or more, of coal per year.
 - In 2018, Amundi pursued its proactive divestment initiative in the coal mining sector, by setting the threshold at 25%.
 - In 2019, Amundi extended its policy to companies active in coal power generation. Thus, the following rules apply:
 - exclusion of companies generating more than 25% of their revenues from coal mining extraction or with annual coal extraction of 100 Mt or more without intention to reduce,
 - exclusion of companies with revenue in coal mining extraction and coal power generation above 50% of their total revenue*,
 - exclusion of coal power generation and coal mining extraction companies with a threshold between 25% and 50%* with no intention to reduce the % of revenue from coal power generation or coal mining extraction (analysis based on corporate communication or direct contact with companies).
- * and with coal mining revenues lower than 25% of total revenues.

Tobacco

- In 2018, Amundi decided that the ESG rating of companies in which more than 10% of the turnover comes from tobacco, could not be rated higher than E (this includes suppliers, manufacturers and distributors). As a result, these companies are excluded from our SRI funds range, historically subject to the exclusion of issuers rated E, F or G.

3. CPR AM risk-based approach

While CPR AM created its first responsible investment solution in 2006, the dynamic was launched in 2016 with structuring research work on an ESG methodology through risks in co-development with an institutional client.

This risk-based approach methodology developed in 2016 was broken down into two approaches: a **global approach** applicable to all asset classes and a **thematic approach** specific to the challenges of our Thematic Equity range.

For these two approaches to responsible investing, our philosophy is the same: to seek materiality in defining our "investable" universe to create sustainable value.

This risk approach goes beyond the simple use of the issuers' overall rating and is based on the analysis of the financial materiality of the ESG criteria by asset class and region. It aims to build an ESG universe that has financial characteristics that enable the implementation of financial management.

Our fund managers are involved in managing financial and non-financial aspects each day. To do this, they have a range of solutions to provide exhaustive, transparent communications (exposure, reason for the exposure, performance attribution resulting from the exposure).

3.1 ESG Global approach

This solution based on financial materiality relies both on the overall ESG rating and on a selection of financially relevant E, S & G criteria ("weak signals") in order to define an ESG investment universe allowing the implementation of an additional financial alpha. The criteria and their materiality are at the heart of our approaches

Pragmatism and financial practicalism are at the heart of our responsible investment philosophy in order to combine financial and extra-financial performance. Our global approach is designed to apply to all asset classes and geographical areas while meeting their specificities.

Financial materiality at the heart of our methodology

Our approach differs from traditional portfolio construction approaches (Best-in-Class, Best-Effort and positive selection on the extra-financial rating) or derived from an overall view of the ESG rating. We have in fact defined it from the concept of "materiality" in the ESG criteria in order to avoid the compensation effect between criteria underlying the construction of the overall score.

This approach consists of evaluating the financial relevance (materiality) of the 15 common criteria in order to retain only the criteria that will positively impact the risk / return profile of a given universe. The selection of criteria is specific to each asset class and geographic area. As the financial materiality of the criteria is dynamic over time, the selection is reviewed annually.

Upstream of financial management, we define an eligible universe at two levels: exclusion of the worst issuers on the global ESG rating and the criteria currently considered the most material.

The risk-based approach of CPR AM thus minimizes the risk for investors. The application of the ESG filter does not alter the portfolio's exposure to the various factors neither does it alter the risk/return trade off.

The ESG integration in 2018 in our quantitative equity range is a testament to our ambition to become one of the major players in Responsible Investment.

3.2 ESG Thematic approach

These solutions are based on strong equity thematic investment opportunities backed by megatrends with a demanding sustainable approach. Such approach relies both on a selection of E, S & G criteria adapted to the material challenges of the theme, along with a strict monitoring of controversies and impact.

With the challenges being specific to each theme, we have designed a specific approach based on our philosophy: to seek materiality in the definition of our "investable" universe to create sustainable value.

An ESG approach adapted to each theme

After the construction of the universe according to the investment philosophy of the theme, the sustainable approach defines the "investable" universe.

In order to avoid the compensation effect between the criteria underlying the construction of the global ESG rating, we adopt a two-level approach: exclusion of the worst issuers on both the overall ESG rating, and the environmental, social and governance criteria selected for their relevance to the theme.

In addition to Amundi's ESG analysis, the management team analyzes the controversies that identify the companies that are subject to the worst ESG controversies.

The implementation of impact measures, another part of our responsible investment approach

When available, indicators can be used as decision-making tools in the management of the fund and / or can also provide transparency on the impact of investments.

For example, in managing the fund that seeks to meet the food challenge CPR Invest - Food For Generations, we aim to keep the water and carbon intensity of the portfolio below the levels of the investment universe. We are also tracking the portfolio's waste recycling rate, which we want to maintain at a high level.

In addition to minimizing water and carbon intensities and maintaining the high rate of waste recycling, impact measures should encourage an increasing number of companies to publish such data and report year-on-year improvement.

As a reference actor on thematic equity management since 2009, CPR AM's ambition is to turn contemporary trends into long-term growth-enhancing investment themes
The new themes launched since 2017 all incorporate a responsible approach to combine meaning and performance research.

4. A transparent information

ESG reports on ESG open-ended funds are published every month since May 2019. These reports will be extended to non-ESG funds in the following months. These reports include a comparison of the portfolio's ESG rating with that of its benchmark index or investment universe, as well as comments on the ESG performance of issuers which constitute the fund.

Carbon reports are also published on certain thematic funds. These include carbon emissions, geographical and sectoral contribution, coal exposure, etc. We also provide Impact reports on some ESG thematic funds (already available on CPR Invest -Food For Generations, Education soon).

5. A certified and labelled SRI and ESG offer

AFNOR certification

CPR AM obtained in February 2014, as part of an Amundi group certification, the Service Commitment certification "Socially Responsible Investment Approach (SRI) for portfolio management" issued by AFNOR Certification, an independent certification and evaluation body for systems, services, products and people in France.

This certification, delivered by an independent and recognized party, validate the quality and transparency of the SRI process through 7 service engagement.

For each fund concerned by AFNOR certification, CPR 7-10 Euro SR, CPR Monétaire SR, CPR Reflex Solidaire, CPR AM has established a Transparency Code according to the format recommended by the AFG. Updated every year, it details the SRI approach followed, the applied ESG analysis criteria and associated commitments. A monthly report specific to each fund makes it possible to assess portfolio investments.

LuxFlag Label

LuxFlag, the Luxembourg fund labeling agency, has awarded the ESG label to 3 thematic equity funds of CPR AM: CPR Invest - Food For Generations, CPR Invest – Education and CPR Invest – Climate Action. Issued by a group of independent experts, the label guarantees the respect of ESG integration rules in the fund investment process. It thus ensures our clients an external validation of the responsible investment approach and a better readability in the selection of their investments.

5. Glossary

Responsible Investment solutions

Investment solutions that incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns addressing sustainable development issues (social Impact, preservation of natural resources, energy transition, fight against global warming...)

Socially Responsible Investment (SRI)

Investment solutions that incorporate ESG factors into investment decisions and follow Amundi's SRI rules:

- Exclusion within each sector of companies rated E, F, and G, on a scale from A to G, A being the highest rating and G the lowest
- Selection of companies with the highest ESG score:
 - Average ESG rating of the portfolio should be above or equal to ESG average rating of the benchmark
 - Average ESG rating of the portfolio should be above or equal to C
- At least 90% of the portfolio should be rated

Environmental, Social, Governance (ESG) criteria

The ESG criteria are extra-financial metrics used to assess the ESG practices of companies, States or local authorities:

- "E" for Environment: Energy consumption and CO2 emissions, Protection of biodiversity, Use and management of water...
- "S" for Social/ Society: Respect of Human rights, Human capital, Health & Safety...
- "G" for Governance: Structure of the Board of Directors, Shareholders' rights, Prevention of corruption...

Impact investing

Impact investing refers to investment strategies which the objective is to have concrete, measurable impacts. Impact investing can seek to focus either on one aspect of ESG (e.g. if the client wants to measure its investments' environmental impact, impact investing can be used to measure among other things, tons of CO2 avoided by financed projects, megawatts saved...), be it environment, social or governance.

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