Sustainable approach applied to FDC’s sub-fund *FDC SICAV Obligations EUR – Actif 1*

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Value. Shared.

FDC exclusion list

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Human Rights Exclusion

Controversial Weapons Exclusion

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Minimum Domain Requirement

For each domain, the rating has to be above 1 out of 4

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Overall SRI rating above average (>2)

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FDC SRI Portfolio (minimum 90% of assets rated above average)

On top of FDC's exclusion list, the mandate is managed according to a SRI "Best-In-Class" approach. This approach is involving a relative ESG assessment on a sector by sector basis that allows the portfolio management team to select the best performers that are also considered to be less risky from an investment perspective.

1) A customized sustainable approach for each fixed income segment

Governments

- SRI assessment made on four pillars: Environment, Social, Governance and Human Rights exclusion filter
- Low impact on a European universe
- Enable to detect long term trends

Agencies & Supranationals

- Government SRI assessment used for government-like entities
- Corporate SRI methodology used for entities with a close to corporate profile (e.g. state owned utilities)

Corporates

- FDC exclusion list
- SRI assessment made on: Environment, Social, Governance, Business behaviour, Human Rights and Controversial weapons exclusion filter
- SRI rating used to determine eligibility to portfolio

Our sustainable approach differs depending on the type of bonds. For **governments**, countries are assessed through four pillars: Environment, Social, Governance and Human Rights exclusion filter bearing in mind the goal of capturing their capacity to achieve a sustainable growth and to face their future commitments. They are given a rating for each pillar fueling the final SRI rating. As of today and on the European universe, these ratings do not restrict the investment universe in absolute for our SRI strategies but allow us to detect trends over longer periods.

On the corporates universe, on top of the assessment of the three ESG pillars and Business behaviour criteria, our approach is based on two exclusion filters:

- **Human Rights exclusion filter** based on the definition provided by the UN Global Compact covering the universal declaration of Human Rights and the core conventions of the International Labor Organization.

- **Controversial weapons exclusion filter** aimed at refraining from investing in securities of issuers which engage in business activities prohibited by the Ottawa and Oslo Conventions (Cluster Munitions and Anti-Personnel Mines).

Our approach for agencies and supranationals is quite diverse, as three different situations can occur:

- **First: an agency very close to a corporate issuer** (i.e. the "utilities" sector).
  The assessment is done in the same way as a corporate issuer, we generally notice that they communicate quite well on their Corporate Social Responsibilities practices.

- **Second: an agency very close to the government of the country where it is located** such as entities separated from the government but aiming at managing issue from public responsibility. The ESG rating of the government prevails.

- **Third: an issuer falling in between.**
  An internal ESG assessment is required by our ESG research team to get their qualitative view and an indicative ESG rating determining the eligibility of the issuer to an SRI strategy.

2) A sustainable research process based on quantitative and qualitative assessment…

The interaction between financial criteria and ESG criteria is a permanent aspect in our company evaluation process. The overall ESG rating is calculated for each company within the investment universe, and these ratings are then used to populate a proprietary database. The rating scale ranges from 0 to 4, where 0 is the lowest. This ratings database reflects our critical evaluation of companies' ESG positioning and helps in selecting bonds that may be considered for inclusion in FDC's portfolio. We analyze companies' ESG positioning using internal research and our ability to engage in dialogue with companies and organizations such as unions or NGOs. We also rely on external research provided by the rating agencies Vigeo Eiris and Sustainalytics, with whom we have established long term partnership. Far beyond data processing from external research providers, our ESG analysts conduct complementary, in depth, qualitative analysis. They regularly meet with representatives of company top management, and also produce transversal research reports and sector studies.

ESG Domains	Weight in the overall SRI Rating (w)
Environment rating (E)	30% (average among all sectors)
Social Development rating (S)	30% (average among all sectors)
Corporate Governance rating (G)	20% (across all sectors)
Business Behavior rating (B)	20% (average among all sectors)
Overall issuer rating	**E*w(E) + S*w(S) + G*20% + B*w(B)**

Minimum threshold to be met by issuers on each ESG domain rating to avoid controversies

Divergence analysis in case data from two external providers differs

Evaluation of the 4 ESG Domains

- Analysis based on approx. 200 ESG indicators
- Company evaluation based on sector specific indicator weights
- applying Best in Class approach (positive sector screening)

Minimum 90% of assets rated above average in the portfolio

* ESG: Environmental-Social-Governance. Source: Allianz Global Investors, 2019. For illustrative purposes only

For an issuer to be eligible for FDC's portfolio, each of the 4 sub-ratings has to be greater than 1 and the overall rating for all 4 domains aggregated must be above 2.

3) …which enables some flexibility

To provide more leeway to the portfolio management team in **the implementation of the SRI process, the Best-In-Class approach has to be applied, at any time, to at least 90% of FDC's portfolio**. The remaining 10% can be invested in securities issued by issuer with no SRI rating or with a low SRI rating.

Indeed, this bucket will enable the portfolio managers to keep some of the holdings they have on issuers for which the ESG performance is not among the Best-In-Class, but for which they see a significant improvement in the way they integrate ESG issues in their business. It will concern issuers with whom an engagement process has been undertaken and we are in a continuous dialogue with in order to incentivize them to improve their practices. As it is a long-standing process, we are quite positive at keeping their securities in our SRI portfolio, considering they are more Best-Effort issuers than Best-In-Class issuers, and have to be accompanied in their move towards more sustainability.