Fonds de Compensation

FDC SICAV Obligations EUR – Actif 3

Amundi Sustainable Approach

Sustainable and Responsible Investing has been a long standing and essential part of the strategic positioning and behavior of Amundi. As asset manager's responsibility extends beyond the purely financial aspect, Amundi has built into its investment policies not only financial, but also ESG criteria, namely Environmental, Social and Governance criteria. Amundi firmly believes that this approach, which provides an all-round vision of companies, consolidates value creation. It has led Amundi to take account of ESG criteria across its management activities, and to implement an engagement policy. Underlying ESG integration is the conviction that a strong sustainable development policy enables issuers to better manage regulatory and reputational risks and also contributes to improving their operational efficiency.

As a leading asset manager, and in line with the commitments made as PRI signatory, Amundi takes an active part in many working groups conducted by market bodies so as to move responsible finance, sustainable development and corporate governance forward. Amundi's engagement is also reflected in its participation in the main market initiatives.

ESG dedicated resources

Amundi has implemented significant resources in order to implement ESG and SRI strategy. **17 analysts*** are dedicated to ESG issues. They cover all aspects of ESG analysis, quantitative research and corporate governance. They work closely and allocate their tasks as follows:

- A team of 12 analysts is responsible for monitoring business sectors, validating securities' ESG ratings, monitoring cross-sectoral ESG themes and maintaining a dialogue with companies, in the framework of the policy of engagement, particularly with the most controversial companies.
- 1 quantitative analyst is specialized in SRI.
- 4 analysts are in charge of analyzing and exercising voting rights, including pre-meeting dialogue when needed. They contribute to defining the voting policy and collaborate with ESG analysts on engagement for influence.

In order to rate more than **5000 issuers worldwide*,** Amundi initially refers to the analyses of **8 extra financial providers***, selected for the in-depth set of criteria used for their analysis, their broad coverage, the quality of their analysis and their ability to justify their ratings and their responsiveness to corporate news. In addition to these providers, analysts handle information from a range of sources, including NGOs, press and public documents, directs contacts with companies and stakeholders, etc. A distribution interface called "Stock Rating Integrator", available in real time in the fund managers' tools, give them access to company and government ESG ratings, alongside financial ratings.

ESG assessment

Our ESG analysis is based on proprietary research, undertaken by our in-house team. It is supported by a robust quantitative basis combined with in-depth qualitative analysis. Amundi's ESG analysis addresses a triple requirement. It is:

- **Systematic:** all securities analysed are systematically examined according to a set of analysis criteria forming the reference system. The team in charge of designing the reference system is also responsible for its implementation.
- **Universal:** the reference system's criteria are based on universally recognised international texts such as the Global Compact, the Kyoto Protocol, the Millennium Development Goals and the OECD Principles of Corporate Governance, etc.
- **Transparent:** a security rating may be justified at any time using a decision tree based on scores assigned to the security for each of the reference system's criteria.

Each internal rating is based on a consensus of analyses of the extra-financial data providers, both non-specialised and specialised, and rounded out by internal analysis.

In order to assess a company, ESG analysts examine the issuer's contribution to the culture of the communities within which it operates. Our internal reference values are comprised of 36 criteria*, of which 15 generic criteria, common to all companies whatever their business sector, and 21 sector-specific criteria. Criteria are weighted according to the business sector, regional and legislative context. The greater the risk associated to a criterion, the greater the weight attributed to this criterion. Our ratings range from A to G, with A being the highest rating and G the lowest. Ratings are adjusted based on the figures communicated every month by the extra financial providers and fed into the expert software. Issuers are monitored constantly and any news on controversies or alerts is instantly factored in to update the analysis. Furthermore, the analysts regularly fine-tune their methodology, drawing on the conclusions of the ESG Committee and on the observations of Amundi's consultative Committee.

* Data as of end December 2017

ESG: integral part of the investment process implemented for FDC’s sub-fund “FDC SICAV Obligations EUR – Actif 3”

Amundi’s SRI specialists are convinced that companies capable of managing their development in a sustainable way are best prepared to create value over the medium/long term. By extending the scope of traditional financial analysis, extra-financial analysis makes it possible to better apprehend the intangible assets of a company: reputation, management, etc. This intangible asset is an indicator of the company’s sustainability and therefore a measure of the investment’s risk. Socially Responsible Investment is thus a source of value creation over the long term.

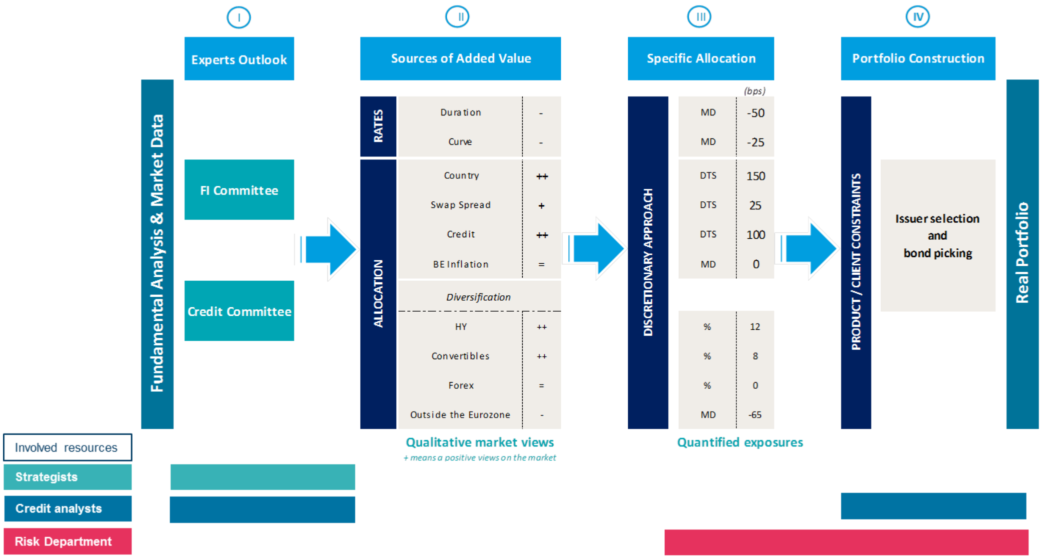
The investment philosophy applied to FDC’s sub-fund is to generate steady returns throughout the cycles with a better ESG footprint.

Our management style reflects a dynamic approach broken-down in 4 stages as described below. More specifically, the issuer selection is based on a twofold **approach combining financial and extra-financial credit fundamentals** which is an integral part of the investment process as described below at stage 4. This leads us towards an active management of SRI factors leading to a better ESG footprint. An in-depth knowledge of issuers offers an enhanced visibility, particularly crucial in a medium to long-term management horizon. This is therefore a source of value creation over the long term.

Our tool “Stock Rating Integrator” is linked to management, risk control and reporting tools providing ESG ratings. This tool guarantees the consistency of information at all times and allows total transparency. Major ESG risks are excluded from FDC’s portfolio as the **portfolio manager is not allowed to invest in issuers rated E, F and G.**

The process focuses on the analysis of the relative behaviours of the major asset classes of its universe in the economic cycle and on the fundamental analysis related to them, on their valuation and on their technical elements. It relies heavily on the skills of our experts on the “interest rate” and “credit” expertise on one hand, and on our skills on allocation on the other hand.

The process can be divided into **4 main stages**, illustrated by the diagram below and described in detail thereafter:



Source: Amundi

Step 1 – Experts Output

The aim of this first step is to take into account the output delivered by our experts at the end of their Interest Rates and Credit committees. Their analysis of the markets is based on fundamentals, valuations and technicals and then contributes to the construction of our market views on each of the main investment axis in our investment universe.

Step 2 – Broad Allocation

According to our experts’ conclusions made in the first step of the process, qualitative market views are built on each axe of added value within each asset class according to the specific Interest Rates and Credit committees:

The aggregate committee sums up these views and leads to the first stage of the global allocation by adjusting the weight of each asset class in the global risk budget. At this stage, specificity of portfolios are not taken into accounts. What matters at step 2 is to define our view in the Fixed Income universe, and thus being able to determine what will, in our view, drive the market for the next month.

Step 3 – Specific Allocation

This stage results in the quantification of the market views from the second step of the process by adjusting the expected performance in accordance with the risk budget and with our degree of convictions on each asset class.

Again, at this stage, we do not take into account the different portfolios. Quantified markets views are meant to :

- Rank our bets from the one we are more confident in to the least.
- Choose the best way of implementing a market view rather than putting all ideas in a portfolio.

Step 4 – Portfolio construction

This step is the responsibility of each individual portfolio manager. The filter of portfolio constraints is integrated at this stage and the precise quantification of the main decided investment ideas are conducted by each manager based on the benchmark and the investment universe.

Within each axe of added value, the bond selection is made in close relationship with the different management teams on each expertise which ensures an excellent specific risk monitoring by the dedicated managers.

During the selection phase, an ESG filter is applied to exclude issuers with the most questionable ESG practices:

- **Portfolio managers cannot purchase issuers with the lowest industry ratings (issuers rated E, F or G);** thus, we protect FDC from financial and reputational risk.
- **In case of downgrading below D, G-rated issuers must be excluded from FDC's portfolio. For E and F ratings,** the managers have three months to sell any positions.

In order to optimise the choice of bonds and to implement trade-offs, the manager benefits from historical databases, daily market information provided by the trading desk and valuation tools.

This step is achieved thanks to:

- The **application of a best-in-class ESG selection** that is to say the selection of issuers within each business sector that are the most advanced in their sustainable development programmes. The average ESG rating of FDC's portfolio **must be greater than or equal to the ESG rating** of the benchmark associated to FDC's sub-fund (based on the internal ESG rating of each issuer performed by Amundi's ESG analysis team). The portfolio also must comply with the following minimum conditions:
  - Guaranteed minimum threshold for taking ESG criteria into account: FDC's portfolio ESG rating must be greater than or equal to a pre-set level; **in this case a C-rating on a scale from A to G**, with A being the top score.
  - **At least 90% of the portfolio** must be rated.
- Our Credit research team which provides its own internal forward ratings based upon a fundamental analysis while credit portfolio managers provide implied rating from market data for each issuer.

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