Confidence must be earned

Amundi ASSET MANAGEMENT

Fonds de Compensation

FDC SICAV Obligations EUR – Actif 3

September 2020

Amundi ASSET MANAGEMENT

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.

Furthermore, in 2018, Amundi expanded its commitment to responsible investment and announced a three-year action plan with the ambition of mainstreaming ESG-investing, fostering innovation and accompanying and advising investors.

ESG dedicated resources

Amundi has set up an independent business unit dedicated to Responsible Investment. Significant resources are allocated in order to implement ESG and SRI strategy.

26 people are involved in ESG analysis, ESG scoring/rating methodology, Engagement & Voting.

5 people (including head) are in charge of rating methodology and providers' selection and handle the following missions:

- Select external date providers to generate internal ESG scores/ratings, ESG controversies analysis, and processed data to serve clients' specific exclusion or impact report requirements.
- Configurate the ESG rating system
- Assign and maintain companies' ESG ratings

16 people (including head) are in charge of ESG research and analyse, dialogue with companies, and engagement. They handle the following missions:

- Monitoring trends (macro-economic, regulatory, etc.) of each business sector and establishing weighting based on performance-driver methodology
- Maintain dialogue with issuers, as part of the engagement policy, in particular with the most controversial businesses
- Stay abreast of new and developing ESG topics, as well as regulation that may arise and assess possible impact on their covered industries and issuers
- Monitor controversies and proactively assess their impact on issuers

5 people (including head) are in charge of voting and pre-meeting dialogue and handle the following missions:

- Analyze and exercise of voting rights
- Define the voting policy
- Engage in dialogue with companies before the annual general meetings

In order to rate more than 9**000 issuers worldwide**[1]**,** ESG analysts leverage on the data provided by 11 external providers. The information received covers ESG scores, ESG controversies, and other ESG-related information. The ESG Analysis draws on this data to generate internal ESG scores/ratings, ESG controversies analysis, and processed data to serve clients' specific exclusion requirements.

The use of multiple data providers has several benefits:

- Allows for a greater coverage of issuers by combining multiple coverages with some providers better at covering some regions / sectors / asset classes
- Allows Amundi to have multiple perspectives on the analysis of an issuer on a specific criterion. As data providers may take on a different approach to analysing one criterion, the use of multiple data providers' information lets the ESG analysis team have a 360° view on critical ESG topics and behaviour of issuers on these topics

[1] Data as of end June 2020.

– Amundi has access to more frequent analysis updates, as each data provider updates their analyses for a given sector, but on their own schedules.

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 assessment 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 and rounded out by internal analysis.

The proprietary ESG rating methodology combines a quantitative approach with a qualitative analysis. Our assessment is relative and sector-based: the aim is to compare practices in a given sector (Best in Class approach).

Amundi has defined a framework and listed 37 analysis criteria that cover the E, S and G dimensions, of which 16 are generic and 21 specific to certain sectors of activity. For each sector of activity and for each criterion concerned, analysts establish weights according to a ‘vector of performance’ method, which together with an issuer's ESG scores will give rise to an issuer's ESG rating. The more the criterion is a potential source of risk or opportunity for stocks in the sector, the more heavily weighted it is.

The team of analysts draws on data provided by a wide range of ESG data providers. Information received covers ESG scores, ESG controversies and other information related to ESG criteria.

A tool for calculating, validating and disseminating ESG ratings, known as the Stock Rating Integrator (SRI) module, was developed in 2009. The latter:

– Ensures the collection, quality control and processing of ESG scores from suppliers.
– Calculates ESG ratings using the methodology specific to Amundi, with a mechanism that distributes the rating of an issuer to all of its majority owned companies.
– Establishes ESG ratings in a transparent and user friendly manner: Disclosure of the issuer's ESG rating as well as the criteria and weight of each 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.

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

Amundi’s RI 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, ESG analysis makes it possible to better apprehend the intangible assets of a company: reputation, management, etc.

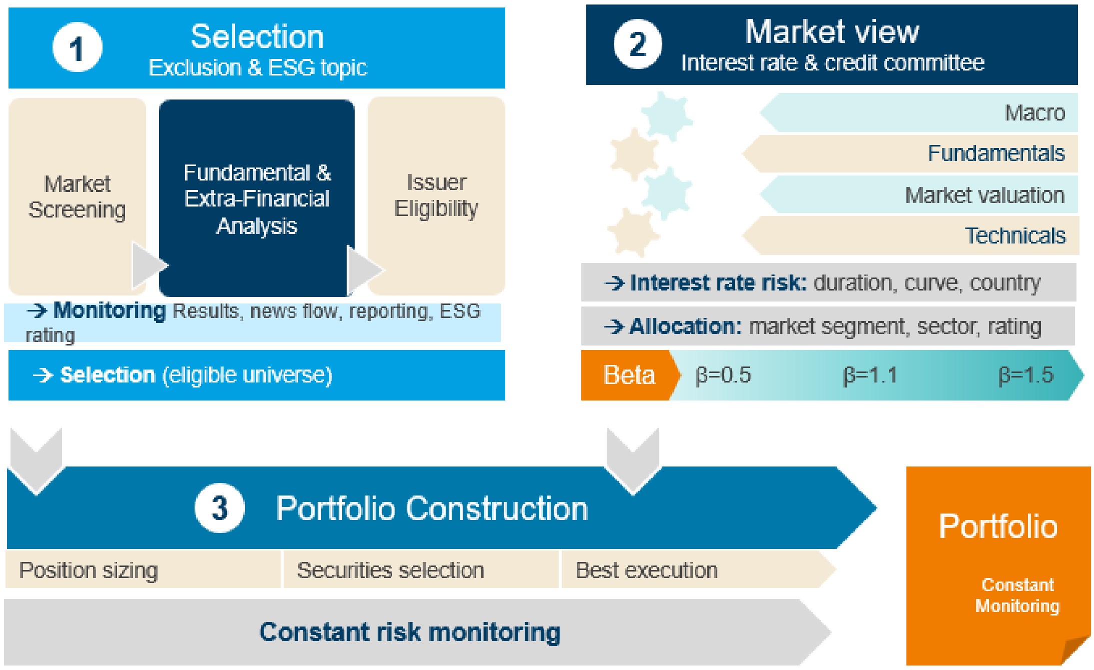
The investment philosophy applied to FDC’s sub-fund is to generate steady returns throughout the cycles with a better ESG footprint.

Our management style reflects a dynamic approach broken-down in 3 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 3. 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.

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 **3 main stages**, illustrated by the diagram below and described in detail thereafter:



Source: Amundi

Stage 1: ESG Topic

This first stage of the investment process aims to determine the eligible universe from an ESG perspective.

At this step, the issuers in the universe are subject to an ESG rating on a scale from A to G (A being the best, G the worst). This assessment allows:

- To apply the exclusion filter in accordance with Amundi's exclusion policy.
- To integrate the exclusion list provided by the FDC.

Stage 2 : Market view

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 technical and then contributes to the construction of our market views on each of the main investment axis in our investment universe.

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:

- Views on duration, curve, country allocation (between peripheral and non-peripheral euro zone countries) and diversification on inflation-linked bonds.
- Views on swap spreads (Covered Bonds, Agencies and Proxy).
- Views on credit spreads and sector allocation.

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 in this second step 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.

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.

Stage 3 – Portfolio construction

Portfolio construction is the responsibility of each 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. The manager will take into consideration financial and extra-financial analyses for an adequate selection of the securities in the portfolio.

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 index 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 preset 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 analysis team provides its own internal ratings, based on fundamental analysis, including the critical ESG criteria for each sector provided by our ESG analysts, while credit management provides an implicit rating based on market data for each issuer.

The integration by our financial analysts of non-financial criteria specific to each sector allows us to take into account the difference in horizon between our investments and the materialization of the ESG quality of the issuer under review.

Once the ESG criteria have been integrated and the portfolio constructed, the management of the indicators required to monitor exposure is carried out on an ongoing basis using our proprietary portfolio management tool ALTO.

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