SRI AND ESG:

TURNING CONSTRAINTS INTO A COMPETITIVE ADVANTAGE

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This material is solely for the attention of "professional" investors (see more details and definitions at the back).
A growing interest in the current context

1. Seven of the top 10 most concerning global risks are ESG-related according to professional investors.

2. ESG criteria are related to the fiduciary responsibility of asset owners and asset managers. CSR policies lie at the core of companies’ business models.

3. A rapidly changing world and a greater focus on the concept of the common good.

4. Initiatives led by worldwide and local public authorities (Climate Change conference/ COP 21, SRI label…)

5. Private investors are looking for more meaningful investments.

1 Source : World Economic Forum 2014
2 Sources: Etude BETC « Nouvelle donne, nouveaux rapport à l’argent » Novembre 2012 ; Enquête Ipsos – Logica – Business Consulting pour Finansol et «La Croix», Mars 2012 ; Pour une économie positive Fin 2013
SRI: $21,400 Bn AUM worldwide

A growth of 61% between 2012 and 2014

SRI Market breakdown

Source: GSIA; Global Sustainable Investment Review, 2014
SRI strategies: the example of Europe

SRI strategies are growing faster than total European AUM

Average growth of SRI strategies: 78%
Average growth of EU industry: 21%

Source: Eurosif European SRI study 2014
Amundi is a Member of the multiparty initiative launched by the United Nations and large institutional investors to decarbonise portfolios: the Portfolio Decarbonisation Coalition.

Amundi has launched initiatives to address climate change:

- **SRI Solutions**
  - Tailor-made solutions
  - Thematic funds

- **Low Carbon**
  - ETF
  - Index funds

- **Partnership with EDF**
  - Renewable energies
  - Energy savings
ESG issues: turning constraints into a competitive advantage

1. Strengthen long-term **financial performance**

2. Comply with **fiduciary and regulatory requirements**

3. **Control risks**: reputational, operational and financial risks
A 360° view of companies

Better appreciation of risks and opportunities

Financial Analysis

Solvency  Liquidity  Profitability  ESG Analysis

Governance  Environment  Social

Reputational  Operational Efficiency  Regulation

Independence of the board…

Selection of suppliers with the best ESG practices …

Employers  Suppliers  Clients

Working conditions, career management

Respect of clients needs

Financial Health
Amundi, one of the biggest SRI asset manager worldwide

- **€ 74 bn** in SRI assets under management
- Signatory to the PRI since 2006
- Demanding and transparent SRI investment principles
- SRI process officially certified (AFNOR)
- A dedicated governance (4 committees)

- Significant resources:
  - 20 analysts specialised in SRI and ESG
  - 1 proprietary expert software-tool
  - 35 SRI fund managers

- More than 4,500 issuers rated in respect of ESG criteria
- Dialogue with more than 300 companies

Data: Amundi Group as of 30 June 2015
Complementary policies

1. ESG scoring and « Best-in-Class » approach
2. Norm-based screening
3. Engagement
Amundi ESG analysis: a standardized and pragmatic approach

- Amundi rates more than 4,500 issuers in respect of ESG criteria

- Our internal reference values are comprised of 37 criteria, of which 15 are generic-criteria and 22 are sector-specific criteria.

<table>
<thead>
<tr>
<th>ENVIRONMENT</th>
<th>SOCIAL</th>
<th>GOVERNANCE</th>
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<tbody>
<tr>
<td>Examples among 15 generic criteria</td>
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<tr>
<td>- Emissions</td>
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<td>- Energy consumption</td>
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<td>- Biodiversity and pollution</td>
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<td>Examples among 22 specific criteria</td>
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<td>- Green cars (Automobile)</td>
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<td>- Green financing (Banks)</td>
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<td>- Employment conditions</td>
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<td>- Health &amp; security</td>
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<td>- Local communities and human rights</td>
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<td>- Board independance</td>
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<td>- Audit and control</td>
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<td>- Remuneration</td>
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<td>- Shareholders’ rights</td>
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<td>- Access to medicine</td>
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<td>- Digital device</td>
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<td>- Responsible marketing (banking, pharmaceutical industry)</td>
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Performance oriented: ESG criteria Weights and Value Drivers

- **Criteria are weighted according to sector**

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<th>E</th>
<th>S</th>
<th>G</th>
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<tbody>
<tr>
<td>Automobile</td>
<td>38%</td>
<td>34%</td>
<td>28%</td>
</tr>
<tr>
<td>Bank</td>
<td>26%</td>
<td>33%</td>
<td>41%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>28%</td>
<td>42%</td>
<td>30%</td>
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- **Each analyst must define for a given criteria and a given value driver:**
  - The probability that an event linked to the criteria has an impact on a value driver (on a 1 to 5 scale)
  - The impact of this value driver on the value of the firm (on a 1 to 5 scale)

- **This methodology allows to define:**
  - The weight of a criteria in a given dimension
  - The weight of E, S & G dimension in the ESG note in a given sector
  - The ESG intensity of a given sector
Example of analysis of the Water criteria in the « Utilities » sector

- The sector is divided into homogeneous subsectors
- The “water” criteria is divided into risk KPIs and risk management KPIs
  - Link between financial and extra-financial performance
    - Reduction of operational losses
    - Mitigation of environmental risks
Example: the water issue in the Utilities sector

Source: Amundi SRI Analysis
Strict and transparent rules

- **Amundi’s four SRI principles**

1. **90% minimum of issuers in portfolio are ESG marked**

2. **Exclusion of E, F, G scores**

3. **ESG score of SRI portfolio ≥ C**

4. **Average ESG score of SRI portfolio ≥ ESG score of benchmark**

**Norms-based screening**: G-rated companies are excluded from Amundi’s active portfolio management processes.
# The « Best-in-Class » approach

**SRI Best-in-Class**

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<th><strong>All industries</strong></th>
<th><strong>Sector exclusions</strong></th>
<th><strong>Sustainability themed</strong></th>
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| Select in each industry, the companies best dealing with their ESG risks and opportunities | Exclude some industries for moral, ethic or religious reasons. For instance:  
- armament,  
- gambling,  
- tobacco,  
- alcohol | Invest in companies active in sustainable development:  
- renewable energies,  
- water,  
- health,  
- or population aging. |
A formalized engagement policy

Amundi’s engagement with companies on 3 axis

- **Engagement for influence**

- **Data collection for rating purposes**

- **Voting at General Shareholders’ meetings and pre-meeting dialogue**

| Dialogue with more than 300 companies | 100 management teams met every year | 170 pre-alerts sent ahead of General Meetings | Votes at General Meetings concerning more than 2,500 companies worldwide |

Data Amundi as of 31/12/2014, annual basis
Voting policy

A voting policy, defined in collaboration with portfolio management teams, financial and extra-financial teams, and corporate governance teams.

- Voting policy and engagement aims at sensitizing companies to sustainable development and good practices.

- Since 1996, Amundi has developed its own voting policy, which is updated annually in order to integrate best practises. Since 2003, Amundi’s voting policy has taken into account environmental and social criteria as well as governance issues.

- Amundi also engages in constructive “pre-AGM” discussions with companies and alerts them to any agenda items that it may vote against.
Amundi’s engagement reporting

Themes initiated in 2014
- Responsible and compliant sourcing from conflict zones Minerals
- Responsible lobbying Pharmaceuticals companies and Automotive industry

Themes initiated in 2013
- Respect for Human Rights Oil & Mining Extractive Industries
- Fight against malnutrition and food waste Food & Food Retail Sectors
Exemple: Respect for Human Rights in Oil & Mining

OIL & MINING EXTRANCTION INDUSTRIES

RESPECT FOR HUMAN RIGHTS

SUPPLY CHAIN

TRAINING

SECURITY & HUMAN RIGHTS

KPI & EXTERNAL AUDITS

GRIEVANCE

CONTROVERSY

POLICY & DUE DILIGENCE
- In terms of outperformance, in our historical backtests, we do not find any significant added value to ESG criteria filter, neither positive nor negative.

- Being SRI has no significant cost in terms of risk.

- For Europe or the world, the tracking error that results from the constraints that are used to SRI-ize a portfolio remains very limited compared to that of active management.

- Furthermore, some SRI factors are likely to become more important in the future, with differences in corporate practices having considerable impacts on profitability.

**SRI management can therefore be a relatively cost-free way to benefit from this evolution.**

Choosing to invest in SRI products also involves non-monetary considerations in terms of reputation and investors’ responsibilities to future generations.

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