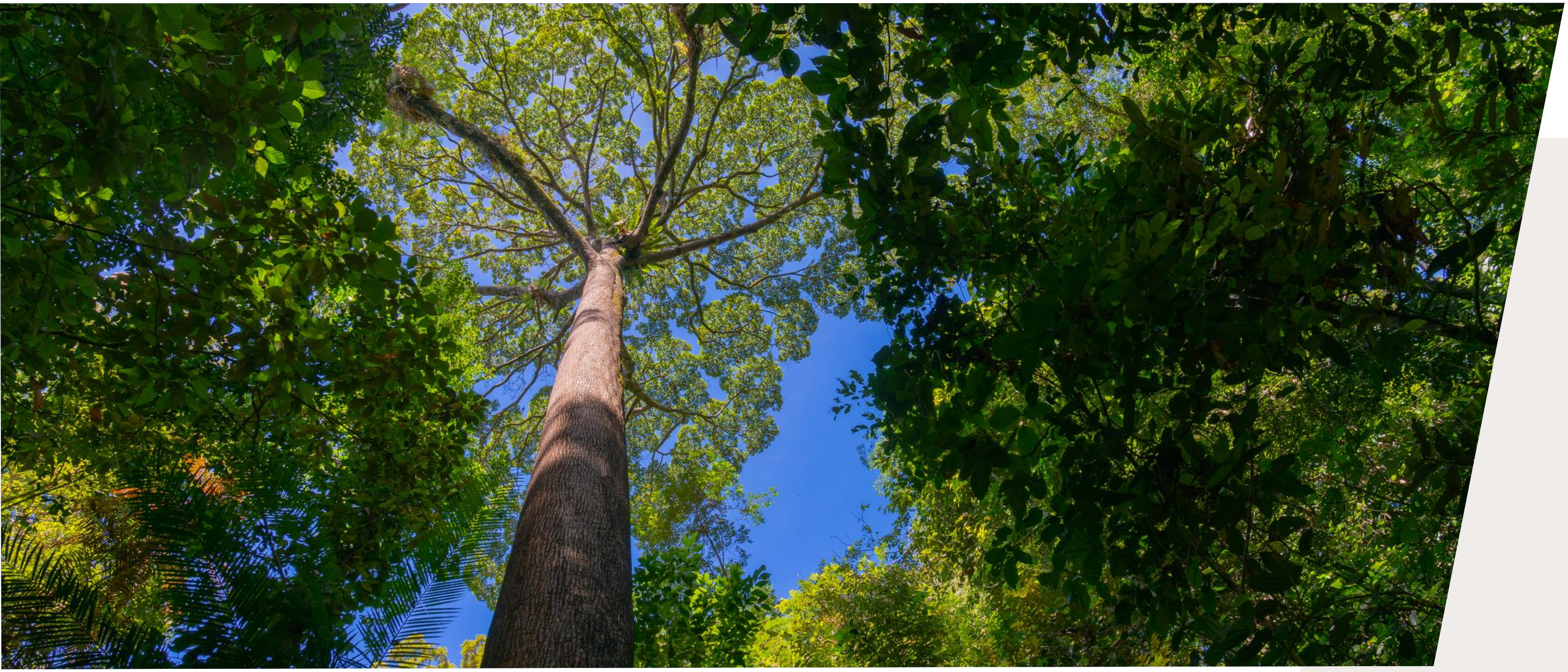
Rothschild & Co
Asset Management



Sustainable investment

SFDR regulations

Rothschild & Co Asset Management

May 2023

Definition of sustainable investments - **Private issuers**

European Commission definition (application at issuer level)

"An investment in an economic activity that contributes to an environmental or social objective, provided that it does not cause significant harm to either of these objectives and that the companies in which the financial product has invested follow good governance practices.“

Article 2 paragraphe 17 du règlement SFDR « Disclosure »

Rothschild & Co Asset Management definition for private issuers (the issuer must validate the 3 pillars)

1 Contribution to an environmental or social objective (*"or" multiple identification)*

- **Overall positive contribution:** “Contributing" revenues (>= 20%) linked to activities with a positive impact on the environment or society (clean energy, energy efficiency, access to healthcare, etc.)
- **Or Positive environmental contribution:** Greenhouse gas emission reduction targets aligned with the Paris Agreement or Water reduction targets
- **Or Positive social contribution:** Alignment with one of the 3 SDGs on gender equality (SDG 5), decent work & economic growth (SDG 8) and reducing inequalities (SDG 10)

2 Do no significant harm (DNSH) (*combination of the 2 conditions*)

- **Mandatory consideration of the 14 principal adverse impacts of investments on sustainability factors:**

  - Sectoral and normative exclusions, including compliance with minimum safeguards, via two exclusionary PAIs:
    - ➢ **PAI 10*- Violations of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises**
    - ➢ **PAI 14 - Exposure to controversial weapons**

  - Proprietary scoring model, incorporating mandatory PAIs. The scoring model is presented on page 4 of this document.
- **Overall sustainable performance through ESG scoring (>= 3)**

3 Good gouvernance

- Performance on the governance pillar (>= 3)

This definition is based on data provided by our ESG provider MSCI ESG Research. Sustainable debt issuances (Green, Social, Sustainable Bonds that comply with the principles of the International Capital Market Association (ICMA)) are considered to be sustainable investments.

* *The PAI 10 takes into account the "minimum safeguards" based on the following normative frameworks: the United Nations Global Compact (UNGC), the United Nations Guiding Principles (UNGP) on Business and Human Rights, the Conventions of the International Labour Organisation (ILO) and the OECD Guidelines for Multinational Enterprises* 2

Definition of sustainable investments – **Public issuers**

European Commission definition (application at issuer level)

"An investment in an economic activity that **contributes to an environmental or social objective**, provided that it **does not cause significant harm** to either of these objectives and that the companies in which the financial product has invested follow **good governance** practices."

Article 2 paragraph 17 of the SFDR "Disclosure" regulation

Rothschild & Co Asset Management definition for public issuers (The issuer must validate the 3 pillars)

1 Contribution to an environmental or social objective (*combination of the 2 conditions*)

- **Positive environmental contribution:** Signatory to the Paris Agreement and to the United Nations Convention on Biological Diversity
- **And Positive social contribution:** Performance in terms of equality (GINI index < 50) and freedom of the press (Freedom House)

2 Do no significant harm (DNSH) (*combination of the 3 conditions*)

- **Mandatory consideration of the 2 principal adverse impacts of investments on sustainability factors:**

  - Normative exclusions, via an exclusionary PAI:

  - PAI 16 – Countries with violations of social standards

  - Proprietary scoring model, incorporating compulsory PAIs. The scoring model is presented on page 4 of this document.
- Performance in terms of corruption (Transparency International Corruption Perception Index >= 40)
- Overall sustainable performance through **ESG scoring** (> 4)

3 Good governance (*combination of the 3 conditions*)

- Performance in terms of the **Rule of Law** (> 0)
- Performance in terms of **tax cooperation**
- Performance in terms of **Human Rights** (> 0.50)

This definition is based on data provided by our ESG provider MSCI ESG Research. Sustainable debt issuances (Green, Social, Sustainable Bonds that comply with the principles of the International Capital Market Association (ICMA) are considered to be sustainable investments.

Definition of sustainable investments – **PAI scoring model - DNSH**

Basic principles of the PAI scoring model

- **Quantitative model** taking into account **mandatory,** non-exclusionary **PAIs,** "contributing PAIs".
- **Best-in-class approach:** Issuers are compared within the same sector (according to ICB classification).
- **Universe:** Application to a **" macro-universe",** the sum of Rothschild & Co Asset Management's investment universes, providing a **single score for each issuer at the level of the management company.**
- **Equal weighting** of all contributing PAIs within the model.
- **Low coverage of PAI 8 and 12 and the "reporter bonus":** In order to avoid penalising the few private issuers who report a value thus benefiting those who report none, the former benefit from a bonus in the scoring model.

Practical application of the PAI scoring model for an issuer

1 Calculating an issuer's total score

- An issuer's total score ranges from 0 (best score) to 10 (worst score).
- The scores for each contributing PAI (bonus and penalty from step 1) are added together, then rebased out of 10 to give the **total score** for the issuer.

2 Determining a score for each contributing PAI for an issuer

- The PAI score for an issuer can be equal to -1 (bonus), 0 (neutral) or +1 (penalty).
- **Binary PAI (yes/no):** Have the best possible option (0), or receive a penalty (+1).
- **Numerical PAI:** Be among the top deciles according to a best-in-class approach (0), or receive a penalty (+1).

3 Application of an elimination threshold

- An issuer whose total score is higher than the elimination threshold defined internally does not meet the definition of a sustainable investment.

About the Asset Management division of Rothschild & Co

As a specialized asset management division of the Rothschild & Co group, we offer personalized management services to a wide range of institutional investors, financial intermediaries and distributors.

Our development is based on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, benefiting from our long-term expertise in active and conviction management as well as in open architecture.

Headquartered in Paris and with offices in 9 European countries, we manage more than €27 billion and employ nearly 160 people.

More information on : am.eu.rothschildandco.com

Follow us on LinkedIn

Find all the information on

am.eu.rothschildandco.com