

**PROMOTED ESG CHARACTERISTICS**

- This product is invested in companies that stand out for their good governance and promote environmental and social characteristics.
- This product applies a sectoral and normative exclusion filter and monitors ESG controversies on a monthly basis.
- This product does not have a sustainable investment objective.
- The coverage rate of ESG ratings and SRI methodology within the sub-fund aims to be always above 90%.
- The share of investments promoting ESG characteristics is at least 80% and this indicator is available in the semi-annual extra-financial reports.
- The presence of other investments that do not promote ESG characteristics is explained by the often incomplete and fragmented extra-financial data of certain issuers, in particular small and very small capitalizations, which do not yet allow for a refined and absolute ESG rating. Furthermore, the sub-fund cannot use derivative financial instruments.
- **The environmental criterion** takes into account the reduction of greenhouse gas emissions, the prevention of environmental and diversity-related risks, the existence of policies to manage these risks, the management of resources used and the company's energy policy and consumption.
- **The social criterion** takes into account human indicators such as the turnover rate and well-being at work, employee health and safety, accident prevention, staff training, respect for employee rights, the supply chain and social dialogue.
- **The governance criterion** verifies, in particular, the consistency of executive compensation, the constitution of the board, alignment with minority shareholders and the management structure.
- We also take into account the **societal criterion**, which corresponds to the overall impact of the company on society in the broadest sense. We look at the company's *raison d'être*, potential controversies, public reputation, the existence of sponsorship or donations.

**INVESTMENT STRATEGY**

- Quantitative filtering of the investment universe:
  - Two defensive criteria, Low Volatility and Low Beta,
  - One performance criterion, Momentum,
  - A sector and normative exclusion filter.
- Selection of 3 to 4 major structural and/or cyclical themes by a quarterly Macroeconomic Committee composed of economists, strategists, fund managers and financial analysts.
- Definition of the investable universe by selecting stocks in line with the selected themes and validated by the fundamental and extra-financial analysis of the companies.
- Construction and monitoring of the portfolio in terms of risk budget and monitoring of ESG ratings and controversies.

**ESG methodology**

**SECTORAL AND NORMATIVE EXCLUSION FILTER**

**Strict exclusion:**

- Production and marketing of chemical weapons, biological weapons and depleted uranium weapons ;
- Manufacturing, stockpiling and servicing of anti-personnel mines and cluster bombs, in compliance with the Ottawa and Oslo Conventions ;
- Companies that violate the 10 principles of the UN Global Compact ;
- Companies that violate international standards.

**Exclusion up to 5% (inclusive) of turnover:**

- Production of recreational cannabis ;
- Production, exploitation, transport and storage of thermal coal ;
- Activities related to pornography ;
- Activities related to gambling ;
- Production and exploitation of non-conventional fossil fuels.

**Exclusion up to 10% (inclusive) of turnover:**

- Tobacco production.

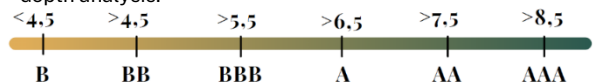
**Exclusion up to and including 30% of turnover:**

- Production and exploitation of conventional fossil fuels.



**INCLUSION OF ESG CRITERIA**

- The extra-financial analysis is based on a Best In Universe approach to ESG criteria.
- The ESG Best In Universe approach involves taking into account extra-financial criteria (Environmental, Social and Governance) according to the ESG Rating methodology of MSCI ESG Research, the leading provider of extra-financial data.
- When a company's ESG analysis is not covered by MSCI, we rate it according to our internal ESG+ methodology<sup>2</sup>, based on the consideration of extra-financial criteria advised by the AFG (Association Française de Gestion Financière), and inspired by MSCI's rating methodology, which is based on the weighting of criteria in a consistent manner by sector (according to each sub-sector GICS - Global Industry Classification Standard).
- The societal criterion is taken into account by applying a bonus or malus of 1 point to the ESG rating of the issuing company, after an overall analysis of the impact of these criteria on the sustainability risks of the compartment. The extra-financial ratings of issuers are then weighted according to the allocation of each position in the portfolio, in order to calculate an overall rating for the sub-fund.
- An alert threshold is set for securities with a rating below 5,5/10, i.e. a BB or B grade. This alert may lead to the sale of the security, after in-depth analysis.



- These extra-financial ratings are available in the monthly financial reports and in the half-yearly non-financial reports.

<sup>1</sup>SFDR refers to the Regulation (UE) 2019/2088 also known as the Disclosure Regulation.

<sup>2</sup>For more information, we invite you to consult our **ESG Policy**, disponible sur <https://www.gaylussacgestion.com/>; in the Responsible Investment section.

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## MONITORING OF CONTROVERSIES

An ESG controversy can be defined as an incident or existing situation that a company faces as a result of allegations of negative behavior towards various parties through poor practices related to several ESG indicators.

We have set a threshold for alerting companies that have had a "very severe" and recent controversy, according to the [MSCI ESG Controversy Tracking methodology](#).

Gay-Lussac Gestion follows in particular companies identified as being involved in :

The non-respect of Human Rights

Bribery, fraud and corruption

The decline of environmental performance

Forced and child labor

## MONITORING OF ESG CHARACTERISTICS

- Gay-Lussac Gestion performs an internal monthly monitoring of ESG ratings and ESG controversies of the companies invested in the fund.
- Gay-Lussac Gestion has set up an alert threshold for :
  - Securities with an ESG rating of grade < BB and having had a controversy deemed "very serious" and/or recent ;
  - A sudden and recent downgrading of the ESG rating of a position.
- In the event that the alert threshold is exceeded, the following elements may be considered:
  - Structural or one-off nature of the controversy ;
  - Measures implemented by the company to remedy the controversy ;
  - Further monitoring of the company and its public statements regarding the controversy.
- The measures taken may go as far as the disposal of all or part of the line concerned, depending on market conditions, or may lead to a strict exclusion of the stock during the in-depth analysis phase.
- The analysis is updated as soon as issuers publish new documentation (annual reports, DPEF, etc.). The objective is to have a consistent and most recent analysis.

## Shareholder engagement policy

Gay-Lussac Gestion practices shareholder engagement through several practices:

- Monitoring strategy, financial and non-financial performance, risks, capital structure, social and environmental impact and corporate governance ;
- Dialogue with investee companies ;
- The exercise of voting rights and other rights attached to shares ;
- Cooperation with other shareholders ;
- Communication with relevant stakeholders ;
- Prevention and management of actual or potential conflicts of interest in relation to their involvement.

Gay-Lussac Gestion's shareholder engagement policy is available on the [Responsible Investment page](#) of our [website](#).

## BENCHMARK INDEX USED

No existing market index reflects the management objective of the sub-fund.

The sub-fund has not designated a benchmark for the E and S characteristics it promotes.

## DATA SOURCES AND PROCESSING

To date, the promotion of the ESG characteristics of the sub-fund is based on extra-financial analysis carried out by Gay-Lussac Gestion's in-house teams, using the MSCI ESG Research database, information emanating directly from companies through regulated publications, capital market day or direct exchange, the use of open source databases and information obtained during exchanges with our peers, partners or brokers

## LIMITS TO THE PROMOTION OF ESG CHARACTERISTICS

- There are methodological limitations to the development of a consistent SRI methodology. Indeed, there is currently no universally accepted framework or list of factors that should be taken into account to ensure that investments are sustainable, and the legal and regulatory framework governing sustainable finance is still under development.
- Available ESG information, whether from third-party data providers or the issuers themselves, may be incomplete, inaccurate, piecemeal, or unavailable, which can negatively impact a portfolio that relies on such data to assess the appropriate inclusion or exclusion of a security. The sustainable finance approach will evolve and develop over time, both as a result of the refinement of investment decision-making processes to take ESG factors and risks into account, but also as a result of legal and regulatory developments.

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