AFG – FIR
TRANSPARENCY
CODE

APRIL 2019

Euroif

transparent
INTRODUCTION

Statement of Commitment

La Financière de l’Echiquier has been actively engaged in Socially Responsible Investment (SRI) since 2007. SRI is a key pillar of the Echiquier Major SRI Growth Europe UCITS fund and Echiquier Positive Impact SICAV’s strategic positioning and investment management. All UCITS funds actively managed by La Financière de l’Echiquier are subject to ESG integration.

We welcomed the adoption of the AFG/FIR Transparency Code which we applied since 2011. This Code is updated at least once a year.

Complete information relating to our application of the AFG/FIR Transparency Code can be consulted below and is freely accessible from our website: https://www.lfde.com/en/the-company/responsible-investment/

Transparency Code Compliance

La Financière de l’Echiquier is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments in those countries where we operate. We also support greater transparency on climate-related financial risks and thus support the TCFD (Task Force on Climate-related Financial Disclosures). All funds actively managed by La Financière de l’Echiquier, according to their status as "SRI UCITS" or "UCITS subject to ESG Integration", comply with all of the Code's recommendations.

UCITS managed according to quantitative, short-term and macro-economic strategies, Africa theme, as well as funds of funds are excluded from the scope. As at 31/12/2018, they account for about 14% of our assets under management.

Updated: April 2019
By: Sonia FASOLO and Coline PAVOT - La Financière de L’Echiquier
CONTENTS

1. UCITS SUBJECT TO THE TRANSPARENCY CODE

2. GENERAL INFORMATION ABOUT THE ASSET MANAGEMENT COMPANY

3. GENERAL INFORMATION ABOUT THE SRI UCITS SUBJECT TO THIS TRANSPARENCY CODE

4. FUND MANAGEMENT PROCESS

5. ESG CONTROLS

6. IMPACT METRICS AND ESG REPORTING
1. UCITS SUBJECT TO THE TRANSPARENCY CODE

<table>
<thead>
<tr>
<th>SRI</th>
<th>Dominant and complementary strategies</th>
<th>Main asset class</th>
<th>Exclusions applied by the UCITS</th>
<th>Assets under management at 31/12/18</th>
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<th>Links to UCITS documents</th>
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Quantitative, short-term and macro-economic strategies, Africa thematic management, as well as funds of funds are excluded from the scope of this code. For that reason, they are not subject to our ESG integration approach for the time being, though the exclusions of controversial weapons, producers of tobacco and thermal coal do apply. As at 31/12/2018, these strategies account for about 14% of our assets under management.
2. GENERAL INFORMATION ABOUT THE ASSET MANAGEMENT COMPANY

2.1. Name of the fund management company for the UCITS covered by this code

La Financière de l’Echiquier
53 avenue d’Iéna
75 116 PARIS
FRANCE
http://int.lfde.com/en/

2.2. The history and principles of the asset management company’s responsible investment approach

History and principles of La Financière de l’Echiquier’s responsible investment approach:

Since its creation in 1991, La Financière de l’Echiquier has attached considerable importance to the analysis of corporate governance. Starting in 2007, La Financière de l’Echiquier’s responsible investment approach was deployed within the framework of its Corporate Social Responsibility (CSR) policy. This approach is based on substantial knowledge about companies acquired over years of meetings and interactions, particularly in the corporate governance area.

A timeline of significant events illustrating La Financière de l’Echiquier’s involvement in the responsible investment field over the last 10 years is presented below.
Principles of La Financière de l’Echiquier’s responsible investment approach:

La Financière de l’Echiquier defines responsible investing as: "Seeking performance through investments in companies where good governance practices and excellent management teams promote social and environmental initiatives that create value for all stakeholders."

La Financière de l’Echiquier intervenes as a responsible investor in two ways:

- **ESG integration: Responsible principles shared by the investment teams**
  
  Our ESG integration policy – which involves taking into consideration Environmental, Social and Governance criteria – is applied to all UCITS managed by La Financière de l’Echiquier. Through this shared core principle of responsibility, our goal is to gradually reconcile the practices of the entire investment team with those applied to SRI UCITS. Analysing non-financial criteria, in particular corporate governance, helps us identify ESG best practices and better assess the risks to which companies are exposed. The major principles of this approach are as follows:

  o **ESG analysis**: ESG rating of 100% of the stocks in the portfolio (90% minimum), with a particular focus on corporate governance and the support of MSCI ESG Research on environmental and social issues.

  o **Dialogue**: Regular meetings with the management of investee companies making it possible to address the areas of progress identified during the ESG analysis of each company.

  o **Exclusions**: Three sectors are excluded from all portfolios: controversial weapons (as defined by the treaties of Oslo and Ottawa) and production of tobacco and thermal coal. Particular attention is also paid to companies guilty of violating the United Nations Global Compact principles.

  o **Voting**: Systematic exercise of voting rights by all fund managers for all stocks in the SRI portfolios.

  o **Controversy**: Specific focus on the existence of controversies. Ethics committee meetings are held to deliberate on the most sensitive cases.

  **Transparency**: Transparency about our ESG Integration approach and our investments through statutory sustainability disclosures (Article 173 of the French Energy Transition Law). A report on the ESG policy and management of climate risks at La Financière de L’Echiquier as well as a specific report for each UCITS with more than €500 million in AuM are available online at: [http://int.lfde.com/en/the-company/responsible-investment/](http://int.lfde.com/en/the-company/responsible-investment/)
- **SRI: Greater engagement within our SRI UCITS**
  
  With an SRI engagement track record over 10 years, La Financière de l’Échiquier has offered a range of SRI UCITS since 2010. In addition to our ESG integration policy, the creation of a dedicated range demonstrates the company’s commitment to the topic. In this case, analysing non-financial criteria has an impact on which companies we select for the portfolio. It contributes to better risk identification and detection of new investment opportunities. The major principles of this approach are as follows:

  - **ESG analysis**: ESG analysis of issuers is fully internalised (no use of MSCI ESG Research research). A minimum ESG rating is required for every company to be included in SRI UCITS. For Echiquier Positive Impact, a minimum Impact Score based on the UN Sustainable Development Goals (SDGs) is also required.
  
  - **Dialogue**: Regular meetings with the management of investee companies, meetings addressing ESG issues systematically held before the investments and suggestions on areas of improvement for the company. Progress made by the companies is monitored over time.
  
  - **Exclusions**: An enhanced exclusion policy for SRI UCITS, in particular with respect to Echiquier Positive Impact.
  
  - **Voting**: Systematic exercise of voting rights by all fund managers for all stocks in the SRI portfolios.
  
  - **Controversy**: Daily alerts on ESG controversies and necessary update of the company’s ESG rating if warranted by the seriousness of the controversy.
  

  Each of these topics will be covered in this transparency code.

### 2.3. How has the asset management company formalised its responsible investment approach?

Over the years, La Financière de l’Échiquier has formalised its responsible investment approach through integration within its Corporate Social Responsibility (CSR) policy, of which it is an essential component. This approach is based on substantial knowledge of companies acquired through years of dialogue and a specific focus on corporate governance issues since its creation.

Milestones of this formalisation are listed below:

- **1991-2007**: Application of a non-formalised SRI approach based on "common sense" principles: a focus on corporate governance and an active role in the voting process of shareholders’ meetings.
- **2007**: Formalisation of our SRI approach and start of dedicated ESG meetings with the companies.
- **2011**: Echiquier Major SRI Growth Europe (La Financière de l’Échiquier’s first SRI fund) is awarded the SRI label by Novethic.
- **2012**: Reduction of the threshold for mandatory voting in general meetings from 2% to 1% of the capital or voting rights of a company.
- 2013: Formalisation of our engagement approach toward companies by defining "improvement areas".
- 2017: Strengthening our approach by introducing Sustainable Development Goals (SDGs) into our ESG methodology for analysing companies, in particular for Echiquier Positive Impact.
- 2018: Formalising and enhancing our ESG Integration approach (see below). In-depth training of the entire fund management team on ESG analysis and of the business development teams on responsible investment.
- 2019: Publication of a study on the ties between SRI and financial performance. Upcoming publication of our first impact and engagement reports.

It is important that La Financière de l'Echiquier formalises this approach and the different steps both internally with staff and externally (visibility on the market and with our customers).

- **Internal formalisation**: This helps teams gain an understanding of and appropriate the subject. The SRI team is a driver in this area, in particular by devoting time to the business development and collective investment team at the heart of this approach. In 2018, the SRI team worked hard to train both the entire fund management team on ESG analysis and the sales teams on the theme of responsible investing. That same year, a network of SRI ambassadors was also created within La Financière de l'Echiquier. Their role is to become their team’s entry point on SRI matters, to provide information from the field to the SRI team and to show a critical and constructive spirit towards the work of the aforementioned team.

- **External formalisation**: Formalising our approach externally fulfils several objectives:
  - **Market visibility**: This involves participating in market events and initiatives to promote our expertise and responsible investment approach overall. This point is further developed in paragraph 2.7.
  - **Raising customer awareness**: In order to make our customers adhere to our approach of responsible investor, it is essential to inform them and raise their awareness on this subject. The work of business developers, with the support of the SRI team, is fundamental. In addition, the SRI events we organise throughout the year have an educational objective. La Financière de l'Echiquier's SRI team is particularly active in training its clients on SRI subjects. These efforts should be strengthened during 2019.
  - **Providing information to stakeholders**: We attach considerable importance to communicating in a transparent and proactive manner with all stakeholders about our SRI approach. This transparency code is the most comprehensive tool for its formalisation. All documents on this subject are available on our website at this address under the heading "Documents": [http://int.lfde.com/en/the-company/responsible-investment/](http://int.lfde.com/en/the-company/responsible-investment/) (see the SRI policy, exercising voting rights and engagement) as well as the specific pages for each UCITS: [http://int.lfde.com/en/the-funds/](http://int.lfde.com/en/the-funds/). This point is further developed in paragraph 6.3.

In 2018, La Financière de l'Echiquier also decided to strengthen and formalise its ESG Integration approach. For UCITS subject to ESG Integration, the methodology for ESG analysis and assessment of companies differs slightly from that used for SRI UCITS described in paragraph 3.5. The main differences are as follows:
- **Preparatory work:** Fund managers and analysts focus exclusively on the analysis of corporate governance based on the same model used for SRI UCITS.

- **SRI Meetings:** These are not mandatory. Meetings are organised on demand by the managers and analysts covering the stock. However, to increase their knowledge about the companies, they are also encouraged to address the most important ESG topics during the numerous company meetings throughout the year.

Should certain stocks in the investment universe not be covered by MSCI ESG Research, it is common for these SRI meetings to take place. This to compensate for the lack of the communication by some companies on ESG issues. This step is essential because it allows us to obtain additional information and to avoid unfair penalising of companies for their lack of transparency (often linked to the lack of human resources dedicated to these subjects internally, rather than to their lack of commitment on ESG subjects). It also allows us to take a critical look at the information communicated publicly by the company, and to protect ourselves against the risks of "greenwashing".

- **Synthesis and assessment:** At this stage, the factor of differentiation concerns the assessment of social and environmental issues. As part of our ESG integration approach and in order to expand ESG coverage to companies for all our portfolios, we use the ESG research platform of MSCI ESG Research, not only to monitor controversies but also to rate companies according to environmental and social criteria. This data is used only for companies that are not included in the SRI portfolios and/or those that have not been rated by the SRI team in the last two years. Instead of performing the analysis of these two pillars themselves, the fund managers and analysts integrate the MSCI ESG Research ratings (if available) into our proprietary ESG matrix for assessing companies. This platform also helps analyse corporate governance controversies. Excluding this exception, the rating model remains strictly identical to that used for SRI UCITS (weightings, criteria, etc.). If on some issuers, mainly small and medium-sized companies, MSCI ESG Research data is not available, the ESG rating is then fully internalised.

- **Engagement:** Managers and analysts maintain dialogue with companies in which they are invested throughout the year. ESG subjects are regularly addressed by managers and analysts during company meetings through a less formal approach.

- **Voting:** In the case of UCITS subject to ESG integration only, La Financière de l’Echiquier has set an objective from 2018 onwards of voting on all securities included within the voting perimeter defined in our voting policy. This change took place as part of the strengthening of our ESG Integration approach. We are doing our best to achieve this 100% objective annually. Previously, voting rights were necessarily exercised as soon as the management company, through the UCITS it manages, held more than 1% of the capital or voting rights of a company. This threshold, originally 2%, was lowered to 1% as of May 1, 2012. This development reflects La Financière de l’Echiquier’s desire to go ever further in its voting policy.
2.4. How is the issue of ESG risks/opportunities linked to climate change factored in by the asset management company?

Managing ESG risks and opportunities (including those linked to climate change) is central to La Financière de l'Echiquier's SRI approach. These concepts are at the heart of the construction of our ESG rating.

- **Identifying risks**: Taking ESG criteria into account allows us to increase our understanding of companies, to better assess their risks, in order to minimize our investment risks. In addition, companies are encouraged to better manage their own non-financial risk via areas of improvement that we have shared with them.

- **Detecting investment opportunities**: Beyond identifying risks, ESG criteria help identify those companies which have integrated sustainable development into their strategy as a driver for growth and business development. This analysis thus allows us to identify and select, as in the case of Echiquier Positive Impact, companies selling products and services providing concrete solutions to sustainable development challenges. Investing in the most virtuous companies enables us to highlight the best ESG practices, setting an example to incite others to pursue improvements.

These risks and opportunities are assessed according to the SRI UCITS or "ESG Integration" profile in several manners:

- Through the ESG rating, and in particular the Environment rating for climate change-related risks and opportunities. These issues are analysed for each company through their environmental policy and actions aimed at reducing their impact on climate change. The Environmental rating represents approximately 20% of the ESG rating of an "Industrial" issuer and approximately 15% of a "Services" company’s rating. Within the framework of UCITS SRI only, this ESG rating constitutes a restrictive filter within the management process.

- Through the "Impact Score ": in the specific case of Echiquier Positive Impact, climate change-related criteria are taken into account when building the portfolio. This is done through a positive selection process based on the "Solutions Score" of companies which have a minimum 10% of their sales contributing to the SDGs including the following two:
  - SDG 7: Affordable and clean energy
  - SDG 11: Sustainable cities and communities

- Through the analysis of portfolios’ carbon footprints, in connection with statutory sustainability reporting requirements (Article 173 of the French Energy Transition for Green Growth Law). At this stage investee companies are however not selected on the grounds of their carbon footprint. Nevertheless, this information is useful to inform and raise managers' awareness of the implications of their investment choices in terms of carbon footprint.
2.5. What teams are involved in the asset management company’s SRI activity?

As part of our ESG Integration process, all members of the investment management team composed of 34 people as at 31/12/2018 - with the exception of the four members of the asset allocation team not currently involved in ESG integration - are involved in La Financière de l’Echiquier’s responsible investment activity. Among them, the SRI team (see section 2.6) is in charge of supporting fund managers and analysts in this process, ensuring a qualitative follow-up of their ESG research work and carrying out quality controls on the analyses completed. To carry out this approach successfully, the entire management team of La Financière de l’Echiquier has received training dedicated to ESG analysis to help them identify the ESG risks and opportunities of their investment cases.

Sharing ESG research among the investment team is a central feature of our ESG Integration approach. This is achieved on a regular basis through weekly meetings, e-mail transmission of all meeting reports and the associated ESG ratings as well as the filing of all ESG research in our proprietary database. A specific feature of this database is that all financial and extra-financial issuer information is held in one location. Our capacity to generate a discussion with companies and forge an opinion about their state of progress in these areas is based on the development of an extra-financial culture shared by La Financière de l’Echiquier’s entire research team. In 2019, this database will be upgraded and SRI functionalities enhanced, giving greater visibility to all ESG data available to the management team.

We first and foremost resort to an internalised approach for our research and ESG analysis of companies. Rating agencies are used only to assist us in more closely monitoring controversies impacting our investment universe and supporting our investment team in the ESG Integration process.

2.6. How many SRI analysts and SRI fund managers are employed by the management company?

La Financière de l’Echiquier has an SRI team of six people:

1. Three SRI fund managers dedicated to the management of Echiquier Major SRI Growth Europe and Echiquier Positive Impact UCITS and to ESG analysis of companies
2. Three SRI analysts responsible for company ESG analysis and who support portfolio managers on ESG Integration matters. One of them is both a financial and non-financial analyst.
2.7. In what RI initiatives is the management company a stakeholder?

In the responsible investing field, la Financière de l’Échiquier is a stakeholder in the following initiatives:

- **Generalist initiatives:**
  - AFG - Technical Committee for Responsible Investing (2013)
    ⇒ Participation in 2019 in the SDG working group
  - SIFs - Social Investment Forum
    - Forum per la Finanza Sostenibile – Italy (2017)
    ⇒ Participation in 2019 in the "SRI Label" working group

- **Environment/Climate initiatives:**
  - Carbon Disclosure Project (CDP) (2013)

- **Social initiatives:**

In 2019, La Financière de l’Échiquier strengthened its participation in local initiatives, in line with the UN Sustainable Development Goals and the SRI label. Its involvement in collaborative engagement initiatives with other investors may also be strengthened in the future.

2.8. What is the amount of the management company’s total SRI assets under management?

As of 31/12/2018 La Financière de l’Échiquier’s SRI assets under management totalled €719 million.

2.9. What is the percentage of SRI assets of the management company in relation to its total assets under management?

As of 31/12/2018 SRI assets represented about 8% of La Financière de l’Échiquier’s total assets under management.
2.10. List the SRI UCITS funds open to the public that are managed by the management company:

La Financière de l’Echiquier manages two SRI UCITS funds open to the public: Echiquier Major SRI Growth Europe and Echiquier Positive Impact, both with the French government SRI label.

**UCITS name:** Echiquier Major SRI Growth Europe  
**Net assets of 31/12/2018:** € 611 million  
**Inception date:** 11/03/2005  
**Currency:** Euros (€)  
**SRI strategies:** Best-in-Universe | Best Efforts | Exclusion  
**Benchmark:** MSCI Europe Net Return  

Echiquier Major SRI Growth Europe is a UCITS stock-picking fund investing in European Union large caps with a focus on long-term returns. This fund is positioned in growth stocks with leadership positions in their industry and displaying strong growth. The fund selects companies distinguished by the quality of their governance and their social and environmental policy.

Sectors excluded are controversial weapons, weapons (broad definition), tobacco and fossil fuel production (including nuclear energy). In addition, on a normative basis, companies guilty of violating one or more of the 10 United Nations Global Compact principles are also excluded from the fund.

Since October 2016, Echiquier Major SRI Growth Europe carries the French government SRI label. Previously it held the SRI label granted by Novethic, obtained for the first time in 2011.

**UCITS name:** Echiquier Positive Impact  
**Net assets of 31/12/2018:** € 68 million  
**Inception date:** 19/03/2010  
**Currency:** Euros (€)  
**SRI strategies:** SRI thematic | Best-in-Universe | Exclusion  
**Benchmark:** MSCI Europe Net Return  

Echiquier Positive Impact is a UCITS stock-picking fund. Its investment universe covers European stocks of all sizes and styles with a focus on long-term performance. Selected stocks stand out through their ESG features and contribute positively to the UN Sustainable Development Goals. For the purpose of their definition, La Financière de l’Echiquier adopted as a framework the 17 Sustainable Development Goals defined by the UN.
It excludes sectors that negatively contribute to the achievement of the UN SDGs, namely: controversial weapons, weapons (broad definition), tobacco, gambling, pornography, alcohol, life ethics controversial practices and production of fossil fuel production (including nuclear energy) and GMOs. In addition, on a normative basis, companies guilty of violating one or more of the 10 United Nations Global Compact principles are also excluded from the fund. The exclusion policy of Echiquier Positive Impact is, in our view, compliant with the social doctrine of the Catholic Church.

Since October 2016, Echiquier Positive Impact carries the French government SRI label.

A fee sharing mechanism was introduced for the Echiquier Positive Impact SICAV in 2017, whereby a third of the management fees (up to a limit of 0.6%) are donated to La Financière de l’Echiquier Foundation.

The choice to transform Echiquier Positive Impact into a SICAV in 2017 highlights La Financière de l’Echiquier’s will to organise largely independent governance for this product. The SICAV’s board of directors is made up of experienced professionals in the sectors of SRI, sustainable development or social entrepreneurship sectors. Their role mainly consists in advising and challenging the investment team with respect to its methodology, the quality of its reporting and its impact measurement approach.
3. GENERAL INFORMATION ABOUT THE SRI UCITS SUBJECT TO THIS TRANSPARENCY CODE

The following paragraphs - 3.1 to 3.6 – only apply to the SRI UCITS managed by Financière de l’Echiquier. The UCITS subject to the ESG Integration process only do not have the same restrictions and are subject to a different management process.

3.1. What objectives are sought by taking into account ESG criteria within UCITS?

La Financière de l’Echiquier applies a conviction-driven stock-picking management approach based on an in-depth knowledge of the companies selected in its UCITS. Analysis of ESG criteria contributes significantly to a better understanding of the companies and a better assessment of the risks.

In addition, regarding this ESG integration approach, the SRI team seeks to raise the investment team’s awareness about all opportunities created by taking into account the ESG criteria outlined below. Training is an integral part of this awareness effort. Thus, all members of La Financière de l’Echiquier’s fund management team received training in ESG analysis – to help them identify ESG risks and opportunities in their investment cases – as well as strong support throughout the year by the SRI team.

The use of ESG criteria by La Financière de l’Echiquier’s investment team has multiple objectives:

- **Using available information that is insufficiently exploited:** ESG information about companies is often insufficiently exploited by investors. This offers a competitive advantage to those who use this information to acquire a better understanding of the company and, on that basis, ultimately make better informed investment decisions. Within the framework of its ESG Integration approach, La Financière de l’Echiquier seeks to leverage its internal and external ESG research to enhance its stock-picking management approach to create greater differentiation. We are convinced that this approach offers genuine added value to our management.

- **Identifying risks:** Use of ESG criteria increases our understanding of companies and helps us better assess their risks. This in turn helps minimize our investment risks. In addition, our dialogue with companies on the areas of improvement we have defined, encourages them to better manage their own main non-financial risks.

- **Detecting investment opportunities:** Beyond identifying risks, ESG criteria help identify those companies which have integrated sustainable development into their strategy as a driver for growth and business development. This analysis thus allows us to identify and select, as for Echiquier Positive Impact, companies selling products and services providing concrete solutions to sustainable development challenges. Investing in the more virtuous companies enables us to highlight the best ESG practices that we present as models to encourage improvements by other companies.

- **Finance and support the transition to a more sustainable economy:** Taking into account ESG criteria allows us to select and support players participating in the transition to a more sustainable economy. This allows us to support major societal trends: energy transition, responsible consumption, gender equality…
- **Having a positive social and environmental impact**: In the specific case of SRI UCITS, ESG criteria help identify players with a positive social and/or environmental impact, and to support them in order to strengthen their impact and make it sustainable. In 2019, we will publish our first impact report for the Echiquier Positive Impact fund. This exercise will allow us to objectify this point.

- **Providing customers with new investment solutions**: Taking into account ESG criteria in our UCITS allows us to offer new investment solutions to increasingly demanding clients who seek investments aligned with their values. We are also able to offer them in this manner greater transparency in their investments.

These multiple objectives support the notion that the use of ESG criteria is a potential performance driver, a strong conviction shared by the executive committee and all La Financière de l’Echiquier staff.

### 3.2. What internal and external resources are used to perform the ESG assessment of those companies making up the UCITS investment universe?

Within the framework of our SRI approach, our ESG evaluation process for companies is performed entirely in-house. Our analysis is based largely on systematic meetings with the management of companies and long-term support through follow-up meetings every two years. We also resort to non-financial rating agencies for development monitoring on controversial matters.

Our ESG analysis of companies is also based on information derived from multiple sources, including:

- Reviewing the company’s public documents prior to each meeting (annual reports, sustainable development reports, etc.)
- Consulting broker or NGO reports on specific ESG topics
- Consulting press articles
- Onsite visits and meetings with various field managers (HR, quality, environmental managers, chief legal officer, etc.)
- Membership of expert networks to enhance our knowledge about specific issues (Gerson Lehrman Group and Third Bridge)
- Our subscription to OFG Recherche on the subject of governance, which provides us with additional insight about the quality of boards of directors of the French companies.
- Our subscription to Capital IQ to provide access, inter alia, to information about corporate governance
- The UN Global Compact database
- The environmental data platform of the Carbon Disclosure Project (CDP)
- The subscription to Trucost’s Eboard platform for carbon footprint assessment
- The subscription to the ESG research service of MSCI ESG Research for the monitoring of controversies
3.3. What ESG criteria does the UCITS account for?

Main ESG criteria accounted for by the UCITS as part of our ESG analysis are listed below:

- **Governance:**
  - Management team quality:
    - For the chief executive officer: industry legitimacy, track-record, managerial capacity, leadership and structure of the compensation scheme.
    - For the executive committee: composition, diversity, relevance of the functions represented and CSR engagement.
  - Checks & balances: presence of checks and balances within the board of directors, succession planning for the chief executive officer, alignment of the directors' profiles with the company's needs, gender diversity on the board of directors, geographic diversity, availability and engagement of directors.
  - Respect of minority shareholders: benefits for the company to be listed, anti-takeover mechanisms and financial reporting transparency.
  - Non-financial risk assessment: identification and management of non-financial risks, business ethics, quality of CSR reporting and positive momentum for ESG improvements.

- **Environment:**
  - Policies and actions: existence of an environmental roadmap (precise and time-dated objectives making it possible to identify trends), choice of roadmap indicators, level of company ambitions with respect to meeting its environmental objectives, existence of an environmental management system and significant environmental initiatives (e.g. internal carbon pricing).
  - Results: communication by the company on the results of its action plan (results presented over the long term and development trends), evolution of the main environmental ratios (water, CO2, energy, waste, use of chemical products, etc.) and investments to reduce its environmental impact.
  - Suppliers: exposure of suppliers to environmental risks, complexity of the supply chain, supplier dependency, assisting suppliers in adopting best practices and supplier auditing.
  - Product environmental impact: positive or negative environmental impact of products, eco-design approach, product lifecycle analysis, circular economy, percentage of "green" sales and end-of-life product management.

- **Social:**
  - Employee loyalty & development: attractiveness of the employer brand, recruitment capacity, employee satisfaction, career management policy, training policy and employee retention potential.
  - Employee protection: combating discrimination, employee health and safety protection, quality of social dialogue and assisting employees in the case of restructuring measures.
o **Suppliers:** exposure of suppliers to social risks, supply chain complexity, supplier dependency, and assistance to suppliers in adopting best practices as well as supplier auditing.

o **Product social impact:** social impact of products for the customer and the company (cf. avoided costs) and product accessibility.

o **Relationship with civil society:** the company’s philanthropic approach (of which skill-based sponsorships), relations with local communities, customer satisfaction and participation in market CSR initiatives.

These ESG criteria are used to determine each issuer’s ESG score out of 10, with the following breakdown:

- **Governance:** The Governance score accounts for approximately 60% of the total ESG score; this reflects La Financière de l’Echiquier’s historic focus on this aspect since its creation.

- **Environmental and Social aspects:** Criteria relating to environmental and social issues are combined in a Responsibility score which is calculated as follows:
  - For Manufacturing companies: the social and environmental criteria are equally weighted within the Responsibility score.
  - For Services companies: the social score represents 2/3 of the total Responsibility score whereas the Environmental score represents 1/3.

In addition, an ESG controversy criterion is taken into account in the ESG rating calculation in the form of a controversy penalty of up to 2 points. Details on this penalty are presented in point 3.6 of this Transparency Code.

### 3.4. What principles and criteria linked to climate change are taken into account by the UCITS?

The principles and criteria relating to climate change are taken into account by the UCITS through the Environmental score. These areas are analysed for each company in detail by means of the following criteria:

- **Policies and actions:** adoption of an environmental roadmap (precise and time-dated objectives making it possible to identify trends) choice of roadmap indicators, the level of the company’s ambitions with respect to meeting its environmental objectives, adoption of an environmental management system and significant environmental initiatives (e.g. internal carbon pricing).

- **Results:** communication by the company of the results of its action plan (results presented over the long term and development trends), evolution of the main environmental ratios (water, CO₂, energy, waste, use of chemical products, etc.) and investments made to reduce its environmental impact.

- **Suppliers:** exposure of suppliers to environmental risks, complexity of the supply chain, supplier dependency, assisting suppliers in adopting best practices and supplier auditing.

- **Product environmental impact:** positive or negative environmental impact of products, sustainable approach, product lifecycle analysis, circular economy, percentage of “green” sales and end-of-life product management.
The Environmental rating impacts approximately 20% of the ESG rating for a Manufacturing company and approximately 15% for a Services company. Within the framework of SRI UCITS only, this ESG rating constitutes a restrictive filter within the management process.

In the specific case of Echiquier Positive Impact, climate change related criteria are taken into account in the portfolio construction through a positive selection process using a "Solutions Score" for companies with a minimum 10% of their sales contributing to the SDGs including the following two:
- SDG 7: Affordable and clean energy
- SDG 11: Sustainable cities and communities

The statutory sustainability reports (Article 173 of the French Energy Transition for Green Growth Law) describe how principles and criteria relating to climate change are taken into account. These reports are available at the La Financière de l’Echiquier website: [http://int.lfde.com/en/the-company/responsible-investment/](http://int.lfde.com/en/the-company/responsible-investment/)

A report is published on La Financière de l’Echiquier’s global policy, which covers all UCITS implementing the AFG-FIR transparency code and includes the following data relating to the adoption of ESG criteria and climate:

- **Taking all ESG criteria into account**: The average ESG score, the weighted-average ESG score and the percentage of investee companies covered by the ESG analysis.

- **Portfolio carbon footprints**: "in tons of CO2 equivalent per million euro revenue" and "in tons of CO2 equivalent per million euros invested" as compared with their benchmarks.

In addition, a report is published for each of our UCITS with over €500 million in AuM at 31/12/2018, containing the following data relating to the implementation of ESG criteria and climate:

- **Taking all ESG criteria into account**: The average ESG score, the weighted-average ESG score and the percentage of investee companies covered by the ESG analysis.

- **Carbon footprints**: 
  - Portfolio carbon footprint in tons of CO2 equivalent per million euro revenue, in comparison with its benchmark
  - Portfolio carbon footprint in tons of CO2 equivalent per million euro invested, in comparison with its benchmark
  - Analysis of the contribution of the different sectors to the carbon footprint of each portfolio
  - Analysis of sector contribution of the investee companies to the carbon footprint of each portfolio
  - Analysis of a set of indicators of the contribution to energy transition at the portfolio level

Within these reports, the values of some indicators are compared with those of the previous year. This allows us to measure these indicators’ trends from one year to the next.
3.5. What is your ESG analysis and evaluation methodology for companies (how the investment universe is built, rating system...)?

With regard to the SRI UCITS, the methodology for the ESG analysis and assessment of companies includes the following steps:

- **Preparatory work**: The first step of ESG analysis of companies is a document review based on all internal and external resources described in paragraph 3.2. This analysis prior to the meeting is guided by our proprietary assessment matrix covering all ESG areas described in paragraph 3.3.

- **SRI Meeting**: As part of our process, an SRI meeting is systematically carried out before investing. It is decisive in the process of defining the ESG score of a company. This meeting supplements knowledge obtained during the document review phase and allows us to challenge the companies with regard to their key priorities. This step is fundamental, particularly in the case of small companies. This permits us to obtain additional information while not unduly penalizing them for their lack of transparency (frequently linked to limited human resources devoted to the subjects internally rather than their lack of CSR involvement). It also allows us to take a critical look at the information communicated publicly by the company and to protect ourselves against the risks of "greenwashing".

- **Synthesis and Assessment**: At the end of this SRI meeting, a synthesis is produced from all information obtained. On this basis, we produce a qualitative report of our analysis, monitor the company over time and produce a quantitative assessment to define the ESG rating of the company in question. Since 2007, this latter assessment has been produced using a proprietary matrix for evaluating companies based on three established pillars: Environment, Social and Governance.

The characteristics of our assessment methodology are as follows:

- It covers the Environment, Social and Governance pillars as described in paragraph 3.3.
- Considerable weight is given to governance within the ESG rating (approximately 60%) and, in particular, the assessment of the management team quality.
- The Environment and Social scores within the ESG rating are weighted differently for Manufacturing or Services companies (see table below).
- We do not standardize our ESG ratings (by market cap, by sector ...)
- The weighting given to each sub-category of the pillars has been determined by La Financière de l’Echiquier’s SRI team.
- The scoring scale ranges from 0 to 10.
- A controversy penalty is included in the ESG rating calculation. This penalty of up to 2 points is applied directly to the ESG rating (granularity of the penalty of 0.5) and reduces the score of controversial companies with respect to ESG aspects.
### ESG Rating

<table>
<thead>
<tr>
<th>ESG Rating</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance Score</strong></td>
<td>62.5%</td>
<td>62.5%</td>
</tr>
<tr>
<td>Management team quality</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Check and balances</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Respect of minority shareholders</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Non-financial risk assessment</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Responsibility Score</strong></td>
<td>37.5%</td>
<td>37.5%</td>
</tr>
<tr>
<td><strong>Environment Score</strong></td>
<td>50%</td>
<td>34%</td>
</tr>
<tr>
<td>Policies and actions</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Results</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Supply chain monitoring</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Product environmental impact</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Social Score</strong></td>
<td>50%</td>
<td>66%</td>
</tr>
<tr>
<td>Employee loyalty and development</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Employee protection</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Supply chain monitoring</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Product social impact</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Relationship with civil society</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Controversy Score</strong></td>
<td>max. - 20%</td>
<td>max. - 20%</td>
</tr>
</tbody>
</table>

- **Engagement:** In 2013, we formalised our engagement approach based on monitoring ESG progress with all the companies in which we are invested. Through a formalised process of engagement, we track progress achieved by all investee companies. This allows us to value in priority those companies focused on achieving progress (the best efforts approach), in particular in the Echiquier Major SRI Growth Europe fund. This approach is organised around three key lines of action:

1. Our initial SRI meeting with the companies is critical for obtaining a good understanding of the non-financial issues they face;
2. At the end of this meeting, we define with company management two or three priority areas where progress is expected. These targets are referred to as "progress objectives". Our goal is that the targets shared with the company are realistic, measurable and auditable. These progress areas are formalised in writing and transmitted to the company;
3. At the follow-up meeting held approximately every two years, we jointly assess the progress achieved based on objectives previously formalised. We then redefine the next progress objectives together.
- **Voting**: Voting is an integral part of La Financière de l’Echiquier’s responsible investment approach, and in particular, our goal to be a responsible shareholder. In this context, we have undertaken to vote on a systematic basis regardless of the percentage of capital or voting rights we hold.

When the UCITS managers of La Financière de l’Echiquier invest in listed companies, they assert their total confidence in the management and agree with the strategy set by the latter. There are thus in principle no fundamental reasons to be in disagreement with management regarding the resolutions the latter submits to shareholders’ general meetings for approval. These resolutions concern among others the following aspects: decisions entailing a change in bylaws, approval of financial statements and the appropriation of earnings, appointment and removal of corporate bodies, appointment of statutory auditors, appointment of directors and remuneration of directors.

However, La Financière de l’Échiquier examines any resolution that might be contrary to the interests of the company or its minority shareholders. With this objective, we pay close attention to seven specific points:

- The compensation policy of the management team which must be consistent with shareholders’ interests
- Appointment of directors
- Share issuances without pre-emptive rights for existing shareholders
- Capital increases in the event of a takeover bid and any other anti-takeover measures
- Issuances of share securities granting access to the capital, reserved exclusively for a specific shareholder category (e.g. employees) resulting in dilution for the other shareholders
- Approval of regulated agreements if their content is incompatible with the rules of good governance or not easily accessible
- Environmental and social resolutions

Accordingly, in these specific cases of defending minority shareholders who are indirectly unitholders of La Financière de l’Echiquier’s investment funds, the management company reserves the right to vote against such resolution or to abstain.

3.6. How frequently is the ESG evaluation of companies revised? How are controversial topics managed?

Investee companies are subject to an ESG evaluation every two years. Sustainable development is by nature long-term. This means that the concrete changes at a company's scale with respect to ESG issues generally manifest later in time and their impact in the short term might be marginally visible, if at all. Their effects are instead visible over a longer time frame. This is why we review progress in ESG practices of our investee companies every two years. These follow-up review meetings also provide an opportunity to verify improvements made by the company in the areas of social relations, environment and governance, and in particular in achieving the progress objectives we jointly defined two years prior. The executive team's competency rating, which is a central element of our governance rating, can be updated more regularly in the event of a Chief Executive Officer change. This principle applies to all ESG-rated companies whether the rating is derived from the conventional SRI process or from ESG integration.

At La Financière de l’Echiquier, the management of controversial ESG topics for companies is managed by our teams by means of the ESG research platform of MSCI ESG Research as follows:

- **For the initial ESG analysis of companies:** Since 2017, our methodology for analysing ESG incorporates a controversy penalty included in the ESG rating calculation. This penalty of up to 2 points is applied directly to the ESG rating (granularity of the penalty of 0.5). This allows us to apply a penalty more directly to those companies whose ESG score in our view should be reduced to reflect one or more significant controversies. In addition, the history of the company’s ESG controversies will impact our vision of the company for the three ESG pillars.

- **For subsequent monitoring of investee companies:** ESG controversies for our investee companies are monitored daily with the support of the research platform of MSCI ESG Research. After establishing a dialogue with the company for the purpose of assessing its level of severity, a significant controversy involving a company will have a direct impact on its ESG rating.
  - Within the framework of the SRI UCITS: If the controversy arises when the issuer is already in our portfolio, its ESG rating will be revised downward. If the SRI score of a company falls below the threshold for eligibility, i.e. 6.0/10 for Echiquier Major SRI Growth Europe or 6.5/10 for Echiquier Positive Impact, it will be removed from the portfolio at the earliest opportunity.
  - Within the framework of the SRI UCITS subject to ESG integration: In this case there is no automatic requirement to divest an investee company subject to a significant controversy. However, each occurrence of a serious controversy must be reviewed by our internal ethics committee who will issue a decision for or against selling the security. The committee’s decisions will be rendered in the interest of our fund unitholders and in order to maintain La Financière de l’Echiquier’s reputation. More details on this committee in the following paragraph.

- **By the ethics committee:** The ethics committee is an internal device at the heart of our ESG integration process. Launched in 2018, its main objective is to approach controversy matters (on a company and sector level) which are presented to us both by colleagues and clients. The committee can rule on a matter but must especially demonstrate to the different counterparties...
of La Financière de l’Echiquier (clients, employees...) that we act consciously on all the subjects. This committee is not a court room but a place for exchange. The debates and conclusions are shared within our community, allowing us to progress collectively towards better risk management and to safeguard our reputation.

There are 6 permanent members seating at this committee: Chairman, CEO, CIO, Head of Compliance and Internal Control, Head of Wealth Management and Head of Communication. Depending on the topics, the fund manager concerned as well as a member of the SRI team will also be present to demonstrate and debate the topics on extra-financial aspects.

The ethics committee will meet at least once a year to take stock on the list of excluded securities and sectors at La Financière de l’Echiquier as well as on a case by case basis depending on the raised needs. The ethics committee may be convened at the request of any stakeholder of the company whose request has been deemed legitimate by the SRI team.

The traditional cases for holding the ethics committee are the following: defining the exclusion lists, client questionings, and emergence of a serious controversy for a company held in a portfolio (for example, guilty of the violation of one or more of the 10 principles of the United Nations Global Compact).

Should the decision of the ethics committee be averse to the detention of a position in a portfolio, the fund manager has two months to liquidate the position in the best interest of our holders.

The aim of raising awareness and training management teams around SRI matters is to raise awareness on the added value of ESG analysis in studying the risks and opportunities of investment cases. The permanent attention of the SRI team in this regard is essential, to increase everyone’s awareness of these subjects and thus to limit the use of the ethics committee as much as possible.

In 2018, this committee met three times. It allowed the extension of La Financière de l’Echiquier’s exclusion policy to Thermal Coal producers as well as dealing with three cases guilty of violating one or more of the ten principles of the United Nations Global Compact. One of them was excluded from overall investment management, and the other two were placed under surveillance
4. FUND MANAGEMENT PROCESS

4.1 How does the portfolio construction process account for ESG research results?

- With respect to the UCITS subject to ESG Integration

ESG research relating to sector exclusions has an impact on how these UCITS portfolios are constructed. La Financière de l’Echiquier systematically excludes of its investment solutions range any company deriving more than 10% of its sales from tobacco production. In addition, in line with the Ottawa (1997) and Oslo (2008) conventions, any direct investment in companies that manufacture, store and transfer cluster bombs and anti-personnel landmines is excluded (with no minimum level of sales). On a normative basis, a particular attention is also paid to companies guilty of violating one or more of the 10 United Nations Global Compact principles. If a fund manager wants to invest in one of the companies on this list, he will have to call the ethics committee, which will carefully study each request. Only the ethics committee will be able to decide if the company, despite its controversial profile, can be invested.

ESG integration means that environmental, social and governance criteria are taken into account in the traditional investment process without systematically impacting the portfolio’s stock-picking process. In consequence, with regard to UCITS subject to ESG integration only, the manager is not restricted in the portfolio construction by company ESG ratings. Information derived from ESG research may however assist fund managers in their investment choices and increase their knowledge of the companies in the same way financial research can. The SRI team assists managers and financial analysts and raises their awareness so they can derive maximum benefit from ESG research.

In addition, decisions made by the ethics committee involving companies considered controversial with respect to ESG criteria may have an impact on the management of UCITS subject to ESG integration. For example, the ethics committee may issue a decision to divest selected controversial companies.

- With respect to the Echiquier Major SRI Growth Europe SRI UCITS:

Two filters based on internal ESG research are applied in the portfolio construction process of Echiquier Major SRI Growth Europe. The following steps result in the application of filters within the investment process restricting the fund’s investment universe:

1. **Exclusion filter**: Echiquier Major SRI Growth Europe excludes any investment in company deriving more than 10% of its sales from the following sectors: weapons (broad definition), tobacco and production of fossil fuel (including nuclear energy). It also excludes, in line with the Ottawa (1997) and Oslo (2008) conventions, any direct investment in companies that manufacture, store or transfer cluster bombs and anti-personnel landmines (with no minimum level of sales). In addition, on a normative basis, companies guilty of violating one or more of the 10 United Nations Global Compact principles are also excluded from the fund.
2. **Conviction filter**: The fund uses an ESG filter in the stock-picking process. On this basis, companies must have a minimum ESG score greater or equal to 6.0/10. The average ESG score for the portfolio (simple average) was 7.3/10 at 31/12/2018. For information, we have a 5% tolerance when it comes to including companies that display an ESG rating comprised between 5.0/10 and 6.0/10. To date, no issuer is concerned and use of this component is intentionally extremely limited. Such use moreover requires an exemption at system level for order placing.

ESG research also enables issuer controversy analysis. This research as well as the ethics committee’s decisions on these issues can also impact the portfolio’s construction.

- **With respect to the Echiquier Positive Impact SRI UCITS:**

  Three filters based on internal ESG research are applied throughout Echiquier Positive Impact’s portfolio construction process. The investment process includes the application of the following filters in order to narrow down the SICAV’s investment universe:

1. **Exclusion Filter**: Echiquier Positive Impact excludes investments in any company that we believe contributes negatively to the UN Sustainable Development Goals. This applies to companies which derive over 10% of their sales from the sectors of tobacco, alcohol, pornography, weapons, gambling, life ethics controversial practices and production of fossil fuels (including nuclear energy) and GMOs. The SICAV also excludes, in line with the Ottawa (1997) and Oslo (2008) conventions, any direct investment in companies that manufacture, store or transfer cluster bombs and anti-personnel landmines (with no minimum level of sales). In addition, on a normative basis, companies guilty of violating one or more of the 10 United Nations Global Compact principles are also excluded from the fund. The exclusion policy of the Echiquier Positive Impact is, according to us, compliant with the social doctrine of the Catholic Church.

2. **Conviction filter**: The SICAV applies a non-financial filter to the stock-picking process. On this basis, companies must have a minimum ESG score greater or equal to 6.5/10. The average ESG score (simple average) for the portfolio was 7.4/10 at 31/12/2018. For information, with respect to Echiquier Positive Impact, we have no tolerance including companies with a score of less than 6.5/10.

3. **Solutions filter**: The SICAV only invests in companies positively contributing to the UN Sustainable Development Goals (SDGs). We accordingly adopted a filter to limit our potential investment universe solely to companies positively contributing to these objectives. In order to identify these companies, we implemented an "Impact Score" based on 100 points. This score is broken down as follows:

   a. "Solutions Score" out of 50 points: this score measures the percentage of sales derived by the company in response to one or more of nine SDGs selected by the SRI team. These SDGs were selected from the UN’s 17 SDGs in light of their strong business focus, namely:

      1. **SDG 3**: Good health and well-being. We measure the percentage of sales derived from the healthcare or road safety sectors.
2. SDG 4: Quality education. We measure the percentage of sales derived from the education sector.

3. SDG 6: Clean water and sanitation. We measure the percentage of sales derived from solutions for conserving, the treatment of and providing access to water.

4. SDG 7: Affordable and clean energy. We measure the percentage of sales derived from clean energy and energy efficiency sectors.

5. SDG 8: Decent work and economic growth. We measure the percentage of sales derived from the sectors of sustainable tourism, supply chain audits and productivity tools.

6. SDG 9: Industry, innovation and infrastructure. We measure the percentage of sales derived from new production techniques, information technology and digitization.

7. SDG 11: Sustainable cities and communities. We measure the percentage of sales derived from solutions for intelligent cities (buildings, mobility, urbanism, etc.), security, sustainable mobility, CO2 reduction, air quality or waste management.

8. SDG 12: Responsible consumption and production. We measure the percentage of sales linked to products having a positive environmental impact and/or eco designed, for dematerialization, sustainable food choices or recycling.

9. SDG 16: Peace, justice and strong institutions. We measure the percentage of sales from solutions for improving public sector efficiencies, eradicating the underground economy, combating corruption and cybersecurity.

This matrix is a product of our own interpretation and internal work based on the UN guidelines (goals and targets) as well as discussions with our stakeholders and the SDG ecosystem. To be included in the portfolio, a minimum 10% share of company sales must contribute to one or more of the above nine SDGs. The "Solutions Score" calculation is based on the following equivalence: 10% of sales = 5 points.

b. "Initiative Score" of 50 points: this score measures the contribution of a given company to the seventeen UN SDGs, linked to the diverse significant actions and initiatives it might implement in environmental, social or societal areas. The SRI team has identified one or more significant initiatives that could be implemented by the company in order to contribute to each of the seventeen SDGs. The amount of points assigned for each of these initiatives depends on the company’s level of engagement and impact. The "Initiative Score" is based on the total number of points earned through the initiatives carried out by the company.

The combined total sum of these scores is then used to determine each issuer’s "Impact Score".

The results of the ESG research also make it possible to analyse issuer controversies. This research as well as the ethics committee's decisions on these issues can also impact the portfolio's construction.
4.2 How are climate change-related criteria taken into account into the portfolio building process?

In building the portfolio, climate change criteria are taken into account within the Environmental rating. These issues are analysed for each company through their environmental policy and actions adopted to reduce their climate change impacts. The Environmental rating impacts approximately 20% of the ESG rating for a Manufacturing Company issuer and approximately 15% for a Services issuer.

Within the framework of SRI UCITS only, this ESG rating constitutes a restrictive filter within the investment process.

Within the "Impact Score ", in the specific case of Echiquier Positive Impact, climate change related criteria are also taken into account in building the portfolio. This is done through a positive selection process using the "Solutions Score" of companies contributing at least 10% of their sales to the UN Sustainable Development Goals (SDGs) including the following two:

- SDG 7: Affordable and clean energy
- SDG 11: Sustainable cities and communities

At this stage, the portfolio’s construction and the selection process does not take into account investee companies’ carbon footprints.

4.3 How do we account for the UCITS portfolio issuers that are not rated under ESG criteria?

Within the framework of SRI UCITS, no issuer may be added without prior ESG analysis.

For other UCITS subject to ESG integration only, systematic ESG rating of an issuer prior to investment is not required but has to be completed within a limited time after. Our objective is to have at least 90% of issuers in the portfolio with an ESG rating throughout the year (these ratings must be updated every two years). However, the management process of these UCITS is not formally constrained by the ESG analysis.
4.4 Has the ESG evaluation and/or investment processes changed in the last 12 months?

Our ESG evaluation process is updated annually. This allows us to adapt to changes in company ESG practices and SRI market practices.

In the case of La Financière de l’Echiquier as a whole:

During the second quarter of 2018 and following a decision by our Ethics Committee, our sector exclusion policy was enhanced with the exclusion, for all UCITS managed by La Financière de l’Echiquier, of producers of Thermal Coal. In addition, on a normative basis, particular attention is now being paid to companies guilty of violating one or more of the ten principles of the United Nations Global Compact.

Thus, if a fund manager wishes to invest in one of the companies on this list, he or she must convene the ethics committee, which will carefully examine each request. Only the ethics committee will be able to decide whether the company, despite its controversial profile, can be invested in.

In the particular case of the management process for SRI UCITS:

1. Echiquier Major SRI Growth Europe:
   - **Exclusions:** Over the 2nd Quarter 2018, the production of fossil fuel (including nuclear energy) has been added to the excluded sectors list of Echiquier Major SRI Growth Europe (controversial weapons, weapons (broad definition) and tobacco). A normative exclusion filter has also been added excluding all companies guilty of violating one or more of the 10 principles of the United Nations Global Compact.
   - **Name change:** In September 2018, Echiquier Major's name was changed to Echiquier Major SRI Growth Europe. This new name was adopted to reflect the aim of better describing the investment strategy of the funds and to improve the consistency of our range of funds.
   - **Portfolio weighting management:** During the third quarter of 2018, the investment process of Echiquier Major SRI Growth Europe has evolved toward stronger ESG positioning. For companies with an ESG rating above the average ESG rating of the fund, the fund managers can on a discretionary basis assign a bonus to the weighting within the portfolio. This can be up to 0.5% from the initial pure financial weighting.

2. Echiquier Positive Impact:
   - **Exclusions:** During the second quarter of 2018, a normative exclusion filter was introduced across the fund, excluding all companies guilty of violating one or more of the ten principles of the United Nations Global Compact.
With respect to the other **UCITS subject to ESG integration only**, our ESG integration approach was strengthened in 2018. This approach leads to several points that can impact the investment management process, such as:

- The ESG rating target of 100% of issuers in the portfolio (minimum 90%) may have an impact on security selection within the portfolios. Although the ESG rating of issuers is not a formal filter, the managers' investment decisions may be influenced by the ESG ratings they have assigned to the investee companies.
- The establishment of an ethics committee to decide on cases of companies that are controversial from an ESG point of view. The Committee's decisions to exclude certain securities could have an impact on the UCITS management process.

### 4.5 Is a portion of UCITS assets invested in solidarity-based entities?

No UCITS has invested a percentage of its assets in solidarity-based entities.

However, a fee sharing mechanism was introduced for the Echiquier Positive Impact SICAV in 2017. A third of the management fees (up to a limit of 0.6%) are donated to La Financière de l’Echiquier Foundation. Funds collected through this mechanism are aimed at financing the foundation's initiatives which contribute to the following Sustainable Development Goals:

- SDG 4: Quality education
- SDG 5: Gender equality
- SDG 10: Reduced inequalities

The SRI team participates in the Foundation’s project selection via a permanent seat on the Foundation Education committee.

### 4.6 Do the UCITS engage in securities lending activities?

No, La Financière de l’Echiquier does not engage in security lending activities.

### 4.7 Do the UCITS use derivative instruments?

La Financière de l’Echiquier does not use derivative products in the SRI UCITS portfolio.

- Echiquier Major SRI Growth Europe does not use derivative instruments even though these instruments are authorised under the fund rules.
- Echiquier Positive Impact: The SICAV prospectus does not allow the use of derivative instruments.

In the case of other UCITS subject to ESG integration only, use of derivative instruments is authorised under the fund's rules and within the following framework:
- **Equity UCITS**: While authorised by the prospectus, as a general rule derivative products are rarely used by the investment team.

- **Bonds UCITS**: The UCITS reserves the right to purchase or sell financial futures traded on regulated European and international markets. The UCITS may therefore acquire positions to hedge the portfolio against interest rate risk and potential foreign exchange risk, and may in consequence be exposed to financial futures with regard to interest rate risk management. An exposure exceeding 100% of the assets may be allowed by certain funds on an occasional basis. However, under no circumstances shall it exceed 110% of the UCITS net asset value.

Instruments authorised by the bond UCITS prospectuses include index futures, share options and index options, foreign exchange options and futures and asset swaps.

Listed instruments are used in priority. These transactions are carried out within the limit of one time the amount of UCITS assets. Financial contracts are obtained through financial intermediaries selected by the investment company and who do not have any power with respect to the composition or management of the UCITS.

- **Convertible bond UCITS**: Derivatives instruments may be used by some of our convertible funds, with respect to different types of portfolio risks. Mutual funds (FCP) in priority intervene in organised futures markets (entailing the existence of a clearing house), but reserve the right to directly enter into over-the-counter contracts when the latter are better adapted to the management objectives or available at lower trading costs. The UCITS may use any type of financial future or option.

The main types of instruments that might be used and their applications depending on the risks involved are as follows:

- **Equity risk**: for the purpose of hedging or replicating the risk profile of a convertible bond. The financial instruments used mainly include options and futures.

- **Interest rate risk**: primarily in order to reduce or adjust the portfolio’s sensitivity. The financial instruments mainly include futures or swaps.

- **Credit risk**: purchased solely for hedging purposes by means of single-name CDS or CDS indexes. We do not make use of this possibility within our Convertible bond UCITS.

- **Foreign exchange risk**: the UCITS’ policy is to neutralize to the extent possible the foreign exchange risk linked to investments denominated in currencies other than the euro. The percentage of currencies other than euros is maintained at less than 10% of net assets. The instruments used are swaps and forwards.
- **Diversified UCITS**: The investment team may use derivative hedging instruments in order to adjust the fund exposure and actively manage duration. The exposure to foreign exchange risk remains incidental. The following instruments are authorised by the prospectus:
  
  o In regulated markets covering indices, equities and interest rate futures and options.
  o In over-the-counter markets, solely foreign exchange options and futures with counterparties with ratings equal or greater than A (Standard & Poor’s or equivalent).

Listed instruments are used in priority. These transactions are carried out within the limit of one time the amount of UCITS assets. The UCITS prohibit any swap transactions. Financial instruments are obtained with financial intermediaries selected by the Investment Company which do not have any power with respect to the composition or management of the UCITS.

In conclusion, and in light of the very rare use in practice of derivative products within our UCITS, the impact on the SRI quality of the portfolios is considered negligible.

### 4.8 Do the UCITS invest in other funds?

No more than 10% of UCITS assets may be invested in securities of other French and/or European UCITS and “fonds d’investissement à vocation générale”. These represent funds of any AMF classification. The UCITS may invest in UCITS of the investment company or of affiliated companies.

Particular attention is paid to the choice of CIS funds within the framework of La Financière de l’Echiquier’s SRI UCITS in order to ensure – to the extent possible – they are consistent with the latter’s SRI investment policy. This possibility is mainly used to address needs linked to cash investments through an investment in the Echiquier Court Terme fund.
5 ESG CONTROLS

5.1 What internal/external control procedures exist to ensure the portfolio's compliance with the ESG rules defined for the UCITS’ management?

For UCITS managed by La Financière de l’Echiquier, a pre-trade control is performed to ensure that portfolios comply with the sectorial and normative exclusion policies. A list of companies to be excluded is provided to us by an external service provider. This list is integrated in our order management system, automatically blocking the purchase of any security included in this list. The content of these lists is updated quarterly by the internal control team.

For the SRI UCITS managed by La Financière de l’Echiquier, additional audits are performed to ensure that Echiquier Major SRI Growth Europe and Echiquier Positive Impact comply with their respective ESG investment rules.

Internal Controls

- First level controls:
  - **SRI team**: The SRI team is on the front line for controls to ensure SRI UCITS managers properly comply with ESG rules. Its role is to raise awareness of the team members about the importance of complying with these requirements. In addition, the team’s wariness in assigning ESG ratings to companies contributes to preventing any non-conformity incidents.
  - **Pre-trade controls**: The Order Management System (OMS) automatically blocks any purchase of securities whose ESG rating is too low to be included in the SRI UCITS or which doesn’t have an ESG rating. This purchase blocking mechanism is made possible by the formalisation and rigorous integration of all ESG ratings produced by the SRI team and included in our database.
  - **Post-trade controls**: The Portfolio Management System (PMS) checks daily that there are no ESG ratings below the threshold defined for the SRI UCITS portfolios. In the case of non-compliance, the Middle Office team is immediately alerted. This level of control helps identify any dysfunctions of previous controls. In the case of non-compliance, an alert is directly sent to the UCITS manager in charge (with a copy sent to the internal control team). Selected alerts may also arise when companies’ ESG rating falls below the required minimum after being updated by the SRI team. In this specific case, managers will have already been informed of the situation by the SRI team. When the issuer’s ESG rating is updated, the fund manager will have – in the best interest of the clients – from 6 to 12 months to divest the holding. These downgraded ESG ratings don’t fall into the 5% tolerance for companies rated between 5.0/10 and 6.0/10 that have a positive momentum on ESG aspects.
• **Second level control**: Until the end of 2018, exhaustive quarterly controls were performed by La Financière de l’Echiquier’s internal control team to verify the conformity of portfolios with respect to the ESG rules established for the UCITS management: existence of an ESG rating for all companies, respecting the minimum ESG rating, etc. These controls were removed because the internal control team considered that they have become useless since the set up of the pre-trade controls.

**External Controls**

As for UCITS that hold the French government SRI label (Echiquier Major SRI Growth Europe and Echiquier Positive Impact), external controls are performed by the certifying organisation. As far as we are concerned, this is done by the independent audit firm EY. The SRI label is awarded for a period of three years. Checks are carried out every year "on documents" and every three years "on site". Their objective is to verify the compliance of our UCITS with the practices and rules highlighted in the transparency code and the semi-annual SRI reports.

In June 2018, all the activities of La Financière de l’Echiquier relating to responsible investment (internal processes, reporting and external communications) were subject to a control done by KPMG, within the framework of the outsourcing of the control of periodic tasks of the asset management company. At the end of these checks, no significant anomaly was detected, and the areas of improvement identified were considered by the team.
6 IMPACT METRICS AND ESG REPORTING

6.1 How is the ESG quality of UCITS assessed?

The ESG quality of all La Financière de l’Echiquier’s UCITS is evaluated in reference to the average ESG rating of the portfolio calculated from the ESG ratings of each of the investee companies. These ratings are based on the proprietary methodology for analysing ESG as described in paragraphs 3.3 to 3.5. Specific importance is given to governance in this methodology, as it represents approximately 60% of the ESG rating. The average rating of each of the Environment, Social and Governance pillars as well as the weighted average ESG rating of the portfolio allow us to assess the ESG quality of our UCITS at length.

In the case of SRI UCITS investee companies, a distinctive feature of the ESG rating is that it is produced entirely in-house and is systematically preceded by meetings with the company which aim at addressing ESG issues.

6.2 Which ESG impact indicators are used by the UCITS?

With respect to UCITS subject to ESG integration, two main ESG impact indicators are used in marketing and communication reports:

- **ESG ratings**: For the UCITS, we communicate on the share of investee companies covered by an ESG analysis, the average portfolio ESG rating and the average environmental, social and governance scores for the portfolio (with a focus on management team quality).
  ⇝ These indicators allow us to measure the impact and performance of our UCITS in terms of environmental criteria, social practices and good governance.

- **Carbon footprints**: In compliance with French statutory sustainability reporting requirements (Article 173 (§ VI) of the French Energy Transition for Green Growth Law, we report on the carbon footprint of our UCITS (in comparison with their benchmarks) in two manners:
  o In tons of CO2 equivalent per million euro sales
  o In tons of CO2 equivalent per million euro invested
  ⇝ This indicator allows us to measure the positive impact and performance of our UCITS in terms of environmental criteria.

With respect to SRI UCITS, ESG impact indicators are added to the two indicators presented above.

- **United Nations Global Compact**: We analyse the percentage of investee companies included in our SRI portfolios who are signatories of the United Nations Global Compact. Signatory companies are committed to adopting sustainable and socially responsible policies, by respecting and promoting principles relating to human rights, labour, environment and fighting corruption. In addition, they are committed to a process of continuous improvement of their CSR policies and commit annually to publicly reporting on their improvements.
This indicator allows us to assess the positive impact and performance of our SRI UCITS in terms of human rights respect.

- **Workforce growth**: We analyse the growth in the workforce of companies in our SRI portfolios. Through this indicator we aim at measuring the job creation dynamics of investee companies against that of the investment universe of each fund. These figures reflect both net job creations and changes in the scope of consolidation of companies linked, for example, to acquisitions or disposals. We are aware of the limits to this indicator, which does not currently take into account changes in the scope of consolidation.

  This indicator measures the impact and performance of our SRI funds in terms of job creations.

- **Feminisation of consulting**: We analyse the feminisation rate of the boards of companies in our SRI portfolios. Thus, we aim at measuring whether our investee companies are better than those in the investment universe of each of the funds in terms of the presence of women on the board. These figures reflect, of course, the differences in legislation between countries, but also the level of voluntarism and proactivity of companies on the subject.

  This indicator allows us to measure the impact and performance of our SRI funds in terms of the feminisation of board of directors.

In the specific case of Echiquier Positive Impact, we use an additional impact indicator:

- **UN Sustainable Development Goals**: We measure the intensity of the contribution and engagement in favour of the UN Sustainable Development Goals from our investee companies. This is assessed through the "Solutions Score", "Initiative Score" and the average "Impact Score" as well as the share of investee company sales that contributes to one or more SDGs.

  This indicator allows us to measure the positive impact and the performance of our UCITS in terms of their contribution to the SDGs covering social and environmental aspects as well as the respect of human rights.

All these impact indicators are published in various reports (details of the documents are listed below in paragraph 6.3).

In addition, the first impact report of the Echiquier Positive Impact Fund will be published in 2019. This report, closely linked to the UN Sustainable Development Goals, will contain many indicators to highlight the positive impact generated by investments within the Echiquier Positive Impact Fund. It will cover the positive impact linked to the companies invested, the shareholder engagement actions carried out, and the sharing of the SICAV's management costs with the Financière de l'Echiquier Foundation.
6.3 What documents exist to inform investors about the SRI management of UCITS?

At the investment company level, the following documents provide to our clients information relating to our SRI approach.

- AFG-FIR transparency code
- UN PRI transparency report
- UN PRI assessment report
- Voting and engagement policy
- Report on the exercise of voting rights and engagement (in French only)
- "Article 173" sustainability report on the management company (in French only)
- "Responsible Investing by LFDE" brochure
- « SRI & Performance by LFDE » study
- Quarterly articles on SRI in the monthly newsletter

On SRI UCITS Echiquier Major SRI Growth Europe and Echiquier Positive Impact, other documents are available:

- Half-yearly SRI reporting
- Comprehensive portfolio inventory (subject to a six-month time lag)
- Monthly report containing management commentaries and ESG & carbon quantitative data
- "Article 173" Sustainability Report (for Echiquier Major SRI Growth Europe only because it is a fund of more than €500 million as at 31/12/2018)

Regarding other UCITS subject to ESG Integration only, the following documents are available:

- Monthly report containing ESG & carbon quantitative data
- "Article 173" Sustainability Report (only for UCITS with over €500 million as at 31/12/2018)

All UCITS documents can be found by consulting the specific pages for each fund at La Financière de l’Echiquier’s website at the following address: http://int.lfde.com/en/the-funds/.

In addition, we organise client events year-round to raise awareness on SRI issues and inform them about changes in our approach. One of these events, organised for our clients and prospects, is held yearly at the Responsible Finance Week.

In 2018, we also created an SRI training module for our clients, which was used several times during the year. This module will be used again in 2019 to train all our types of clients (wealth management advisors, individuals, institutional investors, etc.) on the subject. In this way, we hope to contribute to increasing the general public's knowledge of responsible investing.

La Financière de l’Echiquier also participates regularly in SRI events and workshops addressing these issues. By way of example, we regularly participate in SRI roundtable events.
6.4 Does the investment company publish the results of its voting policy and engagement policy?


This year, for the first time, this report will cover both the results of our voting policy and our engagement policy. This new format will be an opportunity to highlight all of La Financière de l’Echiquier's engagement actions with companies throughout the life cycle of its investments, and to monitor their evolution over time. The report is expected to be released in 2019.