
Confidence
must be earned

Amundi
ASSET MANAGEMENT

ESG Integration

Governance, Policy & Strategy
2017

An asset manager's responsibility extends beyond the purely financial aspect. Amundi has therefore built into its investment policies not only financial, but also general interest criteria, namely environmental, social and governance (ESG) criteria.

We firmly believe that this approach, which provides an all-round vision of companies, consolidates value creation. It has led us to take account of ESG criteria across our management activities*, and to implement an engagement policy.

Underlying ESG integration is the conviction that a strong sustainable development policy enables issuers to better manage regulatory and reputational risks and also contributes to improving their operational efficiency.

This enables investors to take into account long-term risks (financial, operational, reputational, etc.) and to fully exercise their responsibility.

ESG rating, based on our robust internal reference values and methodology, also encourages companies to adopt better practices. This incentive approach is complemented by a formalised engagement policy which takes three forms: engagement for influence, data collection for rating purposes, voting at general shareholders' meetings and pre-meeting dialogue.

Amundi is determined to be a driver of progress and change in its industry. Building ESG criteria into our investment management is vital to our development and one of the four founding pillars of our strategy.

As a result, less well-rated companies and countries according to our ESG reference are excluded from all Amundi's portfolio management*.

In terms of Socially Responsible Investment (SRI), Amundi is positioned among the global leaders with €172 billion in SRI AUM, representing close to 15 % of our total assets under management¹.

1. Amundi figures as of 31 March 2017.

* Excluding Index-linked UCITS and ETFs - Exchange Traded Funds-, which are constrained by their benchmark indices.

1. Dedicated governance

In order to support our responsible investment approach, we have put dedicated governance bodies in place, together with two special committees, subject to regular monitoring by Amundi's CEO:

■ ESG Committee

Chaired by a member of General Management, this committee meets eight times a year to validate ESG ratings and provide opinions on the issuers whose ratings put them at risk of being excluded from Amundi's active management portfolios.

■ Advisory Committee

Comprised mainly of external experts, the advisory committee's role is to monitor developments in social issues and emerging themes and to inform Amundi on points of policy and potential areas of controversy.

[see appendix, pages 10 to 11]

2. Significant resources

We have implemented significant resources in order to implement our ESG and SRI strategy:

- **17 analysts dedicated** to ESG issues (extra-financial analysis, quantitative research, corporate governance). Based in Paris and Tokyo, the analysts meet with companies, contribute to defining Amundi's voting policy at General Meetings, maintain ongoing dialogue with companies and draft research protocols to assess the impact of ESG criteria on fund performance;
- The analysts use the expertise of **8 ESG European and North American partner** rating agencies with a global reach;
- **5,000 issuers** are rated on ESG criteria;
- **A distribution interface**, available in real time in the fund managers' tools, giving them access to corporate and government issuers' extra-financial ratings alongside financial ratings;
- **35 SRI fund managers**.

3. Engagement policy

Amundi's engagement policy focuses on three main aspects: engagement for influence, collecting information for rating purposes, voting at general meetings and pre-meeting dialogue. These aspects are central to Amundi's fiduciary responsibility and role as a responsible investor.

3.1 Engagement for influence

Since 2013, the ESG analysts team has been particularly active on 6 themes:

- Respect for Human Rights in the mining and petroleum industries;
- Combatting food waste in the agrifoods and retail sectors;
- Minerals from conflict zones;
- Responsible lobbying by pharmaceutical companies and the automotive industry;
- The environmental impact associated with coal in the Utilities sector;
- Child labour in the cocoa and tobacco industries.

This work is covered in an engagement report available at www.amundi.com.

In addition to sector reviews, our analysts produce extensive studies on themes linked to major sustainable development issues, for instance: water, unconventional hydrocarbons, endocrine disruptors, palm oil, etc. These studies enable us to adopt positions on controversial activities. Some of these become the subject of ESG Discussion Papers and are available on the Amundi website dedicated to its research publications (Research center).

Over and above these actions, **we support international shareholder collective initiatives***. The goal is to induce public authorities to adopt incentive measures and encourage companies to improve their practices. The areas concerned include climate change, water, deforestation and healthcare problems in developing countries.

3.2 Collecting information for rating purposes

To refine the ratings given by the ESG analysis, the extra-financial analysts meet with companies throughout the year. With the partnership of suppliers of extra-financial data, **Amundi awards ESG ratings to 5,000 issuers. Furthermore, in order to fine-tune these ratings, the ESG analysts stage meetings with more than 250 companies annually.** These companies are selected according to Amundi's stake in their capital and to the weight of the stocks in the portfolios or in the benchmark indices. Measuring the quality of ESG policies is a prerequisite to measure the progress made by companies within the scope of engagement for influence.

3.3 Voting at general meetings and pre-meeting dialogue

■ Voting

The corporate governance team systematically votes at the general shareholders' meetings of French companies or of companies in which Amundi holds more than 0.05% of the capital, i.e. more than 2,600 general meetings a year.

■ Pre-meeting dialogue

Amundi has implemented a formalised dialogue system to inform the companies in which it holds its largest positions of its voting intentions, to initiate a dialogue and contribute to the improvement of their practices. As well as this proactive approach, Amundi is open to all meetings requested by issuers to discuss general meeting or, more generally, governance topics. This second element is tending to increase in importance as it enables upstream and more constructive dialogue. In 2016, the Corporate Governance team met and interacted with 240 issuers, resulting in substantial improvements (justifying a change in our voting intentions) in nearly 50 companies.

4. A strict exclusion policy

Amundi applies strict rules for taking account of ESG criteria across its management activities*:

- No direct investments in companies involved in the production or sale of anti-personnel mines and cluster bombs, prohibited by the Ottawa and Oslo treaties;
- Exclusion of companies involved in the production or sale of chemical, biological and depleted uranium weapons;
- Exclusion of companies that violate, repeatedly and seriously, one or more of the ten principles of the Global Compact;
- Exclusion of countries that systematically and wilfully violate human rights and make themselves guilty of the worst crimes: war crimes and crimes against humanity;
- Exclusion of issuers that derive over 50% of their revenue from coal extraction.
These issuers are rated G according to Amundi's internal ESG rating (from A to G, A being the highest rating and G being the lowest rating). In 2016, 199 companies and 4 countries were excluded.

Number of cases and issuers affected by the exclusions decided by Amundi.

	Controversial weapons	Companies violating one or several of the global compact principles**	Countries systematically violating one or several of the global compact principles**	Companies that generate more than 50% of their revenue in coal extraction	TOTAL
Nombre de cas identifiés	78	13	4	34	129
Nombre d'émetteurs concernés	98	42	4	59	203

Détail of companies excluded for having violated one or several principles of the Global Compact

Cases identified	Number of companies excluded	Sector	Global compact principles** involved
Case 1	4	Real estate	1, 2
Case 2	1	Energy	7, 8, 9
Case 3	2	Energy	1, 7, 10
Case 4	3	Automobiles & components	1
Case 5	3	Capital goods	1, 2
Case 6	7	Technology Hardware & Equipment	4
Case 7	3	Materials	1, 7
Case 8	10	Materials	1, 2, 7, 8, 9, 10
Case 9	2	Materials	1, 7, 8, 9
Case 10	4	Technology Hardware & Equipment	1, 2
Case 11	1	Utilities	7, 8
Case 12	1	Capital goods	1, 2, 5, 7, 8
Case 13	1	Materials	1, 2, 7

Figures taken from the 2016 engagement report.

* Excluding index-linked UCITS and ETFs, which are constrained by their benchmark indices

** United Nations Global Compact (UN Global Compact) : "The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour and environmental standards, and the fight against corruption." (unglobalcompact.org)..

5. Rigorous Socially Responsible Investment policy (SRI)

To qualify as SRI, all investments must respect the following criteria:

- **Systematic inclusion of a rating based on Environmental, Social and Governance criteria when selecting issuers for the portfolio**, while respecting the following minimum conditions:
 - Guaranteed minimum threshold for taking ESG criteria into account: the average portfolio's ESG rating must be greater than or equal to a predefined level, in this case a C-rating;
 - Selection of the best issuers in an investment universe: the average ESG rating of an SRI portfolio must be greater than or equal to the ESG rating of the investment universe or benchmark index, as calculated by our team of extra-financial analysts;
 - At least 90% of the securities in the portfolio must have an ESG rating.
- **Exclusion of issuers with the most questionable ESG practices.** Portfolio managers cannot purchase issuers with the lowest industry ratings (issuers rated E, F or G on a scale from A to G); this enables us to protect our clients from financial and reputational risks.

6. Greater cooperation between teams

Since its creation, Amundi has chosen to place ESG at the core of its investment processes. This has led to greater cooperation between the extra-financial and financial analysis teams, as well as between the SRI and “traditional” management teams, with the ratings being circulated to all the fund managers.

- Upstream from the extra-financial analysis process, the analysts work together on changing the weight of ESG criteria in Amundi's SRI principles.
- Downstream, monthly sector committees are attended by the two Amundi teams concerned. The extra-financial analysts outline a given sector's financial and extra-financial issues to the management teams, analysis teams and other Amundi employees. These studies pinpoint a sector's sustainable development issues and good and bad corporate practices, and explain the analysts' recommendations. This contributes to anchoring ESG firmly within Amundi.
- As well as organising company meetings dedicated to both ESG and financial issues, Amundi's extra-financial and financial analysts and SRI and non-SRI fund managers take part in financial road shows organised by companies. This approach has a dual purpose:
 - to enhance the teams' financial and extra-financial insight;
 - to heighten corporate leaders' awareness of the importance of ESG criteria in Amundi's stock selection policy and therefore encourage them to take these criteria on board.
- SRI committees are attended by the extra-financial analysts and the fund managers. These committees analyse the SRI news flow, changes in the extra-financial analysis coverage, biases, performances, and trends in recommendations made by the team. They also perform specific reviews of stocks whose ESG ratings have been sharply upgraded or downgraded.

7. A proprietary expert software-tool

Amundi Expertise SRI's extra-financial analysts have developed a data and rating collection platform called SRI, for Sustainable Rating Integrator. SRI is used to circulate ESG ratings to the management and financial analysis teams. **At any time, fund managers can consult the financial and extra-financial ratings of the stocks in their portfolios and benchmark indices. Companies' ESG footprints are also available.** All of the tools developed in-house, notably the risk control tools, are connected to SRI.

8. Quantitative research and performance analysis of ESG signals

Quantitative research analyses the performance of ESG signals upstream and downstream from portfolio construction so as to better integrate them in investment processes. In cooperation with the extra-financial analysts, Quantitative research involves analysing the methods used to leverage external ESG data, performing historical simulations on ESG criteria to assess sector issues and measuring the performance of securities ex-post depending on their ESG rating.

Liaising with the fund managers, Quantitative research provides important input when setting up SRI investment processes, helps construct SRI model portfolios and ensures risk and performance monitoring from the SRI/ESG viewpoint.

9. Solutions tailored to all client types

Amundi develops a range of open-ended SRI funds and tailor-made ESG products in all asset classes, based on different approaches.

In employee savings, Amundi also manages a complete range of SRI employee mutual funds (FCPE).

The customised range for institutional clients involves:

- Drafting an SRI charter complying with clients' values or those of their industry;
- Creating a database of ESG criteria by identifying and selecting the criteria corresponding to the SRI charter and weighting them according to the different business sectors;
- Applying the ESG rating to the portfolio, notably when creating or modifying funds and highlighting the constraints, risks and opportunities resulting from the application of the selected criteria.

Amundi can exercise voting rights at General Meetings on behalf of its clients, either in accordance with Amundi's own voting and dialogue policy or based on clients' instructions.

10. Transparent and constantly up-dated information

Amundi regularly publishes information on its extra-financial analysis, its SRI approach, the research team's work, products and investment management, etc.

Extra-financial reports on the open-ended funds are published every month. These reports include a comparison of the portfolio's ESG rating with that of its benchmark index or investment universe, as well as comments on the ESG performance of issuers held in the portfolio.

Institutional clients are sent full reports and comments on a regular basis. Financial committee meetings are also held regularly and on request.

We also stage training sessions on responsible finance for our employees and the financial advisers of our partner distribution networks and, more generally, provide information on various points for our clients.

11. Advancing the Asset Management industry

Active participation in market bodies

Amundi takes an active part in the many working groups conducted by market bodies so as to move responsible finance, sustainable development and corporate governance forward. Amundi is notably a member of the French Asset Management Association (AFG), EFAMA (European Fund and Asset Management Association), the French Institute of Administrators (IFA), the Observatory for Societal Responsibility (ORSE), the French Association of Financial Analysts (SFAF), the European Sustainable Investment Forums - SIF- (France, Spain, Italy, Sweden), the Canadian, Japanese and Australian SIFs, and the French association Companies for the Environment. Amundi is also a member and director of Finansol.

Support to academic research

Amundi actively supports these two chairs in order to advance academic research on responsible finance.

- **The Sustainable Finance and Responsible Investment academic chair**, created in 2007, sponsored by the French Asset Management Association (AFG) and steered by Ecole Polytechnique and the Toulouse Institut d'Economie Industrielle (IDEI);
- **The Climate Economy chair**, a joint initiative CDC Climat and the Paris-Dauphine University, under the aegis of Fondation Institut Europlace de Finance. We support its research initiative on Carbon Prices and Market.

A think tank: The Medici Committee

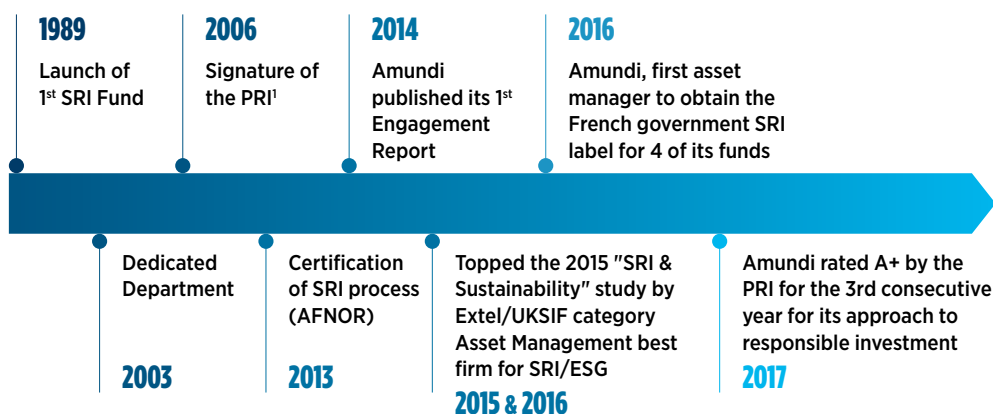
We steer the Medici Committee, a think tank dedicated to responsible finance, which aims to address major societal issues under the angle of finance, with a dual objective:

- to help Amundi define its investment policy;
- more broadly, to contribute to social debate by enabling Amundi to fully play its societal role.

Chaired by Amundi's Chief Executive Officer, the Medici Committee is comprised of high-profile professionals of many different nationalities: scientists, economists, sociologists, philosophers, chief executives, representatives from the charity sector, etc.

Appendix

A. Amundi, a pioneer of responsible finance



SRI management started in **1989** with the launch of one of the first ethical funds, the Hymnos Fonds commun de placement, under the French law.

As early as **2000**, Amundi set up a dedicated team of extra-financial analysts and placed the management of SRI funds under the responsibility of a specialised fund manager.

In **April 2002**, the offering of socially responsible employee mutual funds (FCPE) (Amundi LABEL) was one of the first three product ranges out of 33 to be accredited by the Inter-Union Committee on Employee Savings (CIES)².

2003 saw the creation of IDEAM (Integral Development Asset Management), an Amundi company entirely dedicated to Socially Responsible Investment. From a historical perspective, IDEAM was the first French management company dedicated to this type of investment.

In **May 2006**, Amundi signed the Principles for Responsible Investment (PRI), an initiative launched by the United Nations, thus undertaking to develop and promote ESG (Environmental, Social and Governance) issues in its investment approaches.

2008 was a turning point in the organisation and dissemination of sustainable analysis and research within Amundi. Investment processes, which until then had been based on internal analyses from Amundi or from IDEAM, were now based on a single source centralised at IDEAM, where technical and human means were combined.

This positioning set Amundi apart from its rivals in that sustainable analysis and research and SRI promotion, considered as areas of expertise in their own right, were grouped together for the purpose of serving all the group's asset management divisions.

In **2010**, Amundi chose commitment to social responsibility as one of its strategic pillars, meaning that we take increasing account of sustainable development and socially responsible criteria as well as financial criteria in our investment policies.

1. PRI : Principles for Responsible Investment

2. <http://ci-es.org/>

As a leading asset manager³ Amundi is also determined to be closely involved in the development and progress of its environment. We have set ourselves the ambitious target of growing our SRI assets very significantly and extending our range of thematic funds with a strong commitment to social responsibility.

In 2011, this commitment translated in the affirmation of the principles governing our SRI management.

On **30 September 2011**, Amundi incorporated its subsidiary IDEAM in its Institutional Investments division in order to streamline its organisation and better serve its growth ambitions in the field of SRI.

Amundi was the first asset management company to obtain Afnor certification for its SRI approach **in 2013**. This certification, delivered by a recognised independent organisation, proves our commitment to our clients (governance method, guaranteed expertise, data traceability, information, responsiveness, etc.) while ensuring that our operations are controlled by an internal steering process.

In 2014, Amundi published its first **Engagement Report** in an improvement approach.

In 2015, Amundi ranked first in the SRI & Sustainability study published by WeConvene Extel and the UKSIF (UK Sustainable Investment and Finance Association), in the category Asset Management best firms for SRI/ESG⁴.

In 2015, Amundi was very active in financing the energy and environment transition. Beyond its participation in the main Green Bonds Initiative and its signature of the Paris Green Bonds Statement, Amundi has launched its own fund dedicated to green bonds.

In 2016, Amundi became the first asset management company to obtain the SRI label created by the Ministry of Finance and Public Accounts for its four presented funds. Created with the support of Asset Management professionals, the SRI label aims to provide better visibility of SRI fund offerings to investors, particularly individual customers who are showing a growing interest in SRI.

The year 2016 was also marked by the launch of an Impact Green Bond fund, which enriches the already existing offer in terms of financing the energy and ecological transition.

In the same year, Amundi was again ranked N°1 in SRI & Sustainability study published by Extel and UKSIF in the category Asset Management best firms for SRI/ESG⁴.

In 2017, the PRI⁵ has awarded Amundi an A+ score for the 3rd consecutive year. This score reflects the quality of Amundi's ESG analysis and its ability to integrate ESG criteria into its various investment strategies.

3. No.1 European asset manager based on global assets under management (AUM) and the main headquarters being based in continental Europe - Source IPE "Top 400 asset managers" published in June 2017 and based on AUM as at December 2016.

4. www.extelsurveys.com

5. The "Transparency report" survey is available on www.amundi.com

B. Governance

ESG Committee

Assignments

The ESG Committee's principal assignments are to:

- approve ratings on all issuers;
- issue opinions on issuers flagged for exclusion from SRI portfolios (E and F ratings);
- issue opinions on proposed exclusions of issuers from all portfolios managed by Amundi (G rating) and present its recommendations to the Executive Management of the Amundi.

The ratings are ascribed by our Sustainability analysis team.

Jurisdiction

The ratings thus approved apply to all funds managed by Amundi* (all entities worldwide).

With respect to changes in ratings that may result in an issuer being excluded from portfolio purchases:

- E and F ratings: rating changes are taken into account immediately for SRI portfolios;
- G rating: rating changes are taken into account for all portfolios managed by Amundi once the new rating has been approved by the Executive Management.

■ Membership

Permanent members include:

- A member of the Amundi's Executive Board which chairs the Committee;
- Amundi's Head of Strategy, Analysis and Research which is Deputy chairman of the Committee;
- Amundi's Head of SRI Expertise;
- Amundi's Head of ESG Analysis;
- Amundi's Head of Corporate Governance;
- Amundi's Heads of Equity management, Fixed income management and Diversified management;
- The Company Secretary of Steering & Control Department;
- Amundi's Head of SRI External relations.

In addition, all persons invited by the President may also be invited to the ESG Committee, on an ad hoc basis.

Advisory committee

Comprised mainly of external experts, the Advisory Committee's role is to monitor developments in social issues and emerging themes and check that Amundi's ESG methodology is up-to-date. This Committee's work also helps enlighten Amundi on points of policy and anticipate possible controversy. The Committee issues opinions which are then communicated to the rating Committee for final decision. The Committee can also refer to outside experts, for instance NGOs, on subjects like child labour or reasons for excluding countries. These bodies are consulted upstream of the control functions, whose responsibility is to ensure compliance with the constraints imposed on SRI portfolios..

* Excluding Index-linked UCITS and ETFs, which are constrained by their benchmark indices.

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