



EDMOND  
DE ROTHSCHILD

# ARTICLE 10 (SFDR)

Information for financial product as referred to Article 8 of SFDR

*Financial product that promotes environmental or social characteristics*

EDR FUND – EUROPE CONVERTIBLES



**Product name/ Legal Entity Identifier (LEI) :**

EdR FUND – Europe Convertibles: 549300TOG8HTHD7K8O31

#### **A. SUMMARY**

**The sub-fund promotes environmental, social and good governance characteristics (ESG) as per article 8 SFDR regulation (UE) 2019/2088.** Currently, the Sub-fund does not aim to make investments that contribute to the environmental objectives of climate change mitigation and/or adaptation as defined by the European Taxonomy.

**Regarding the investment strategy,** the ESG strategy of the sub-fund aims to identify the investment opportunities with the identification of issuers having a positive environmental or social impact and good non-financial performance.

The proprietary ESG methodology relies on the 3 ESG pillars.

**Environmental or social characteristics promoted by the sub-fund are controlled** all over the sub-fund's lifecycle.

Portfolio managers have access to portfolio monitoring tools, providing climate and ESG indicators, such as the portfolio's CO2 footprint or temperature, exposure to the various United Nations Sustainable Development Goals, as well as the environmental and social ratings of investments. Our tools provide a consolidated view of the portfolio as well as an issuer-by-issuer analysis. Our proprietary and/or externally sourced ESG analysis also assigns a score to each of the environmental and social characteristics promoted by the Sub-fund and available to managers.

The method used to determine the extent to which the social or environmental characteristics promoted by the financial product have been achieved is based on :

- A proprietary ESG rating and/or,
- A rating provided by an external ESG rating agency for issuers that are not covered internally.

The proprietary ESG analysis methodology, EdR BUILD (Bold, Universal, Impact, Long-Term, Differentiation) is based on the detailed and balanced research on the three E, S and G pillars and the expertise of our Responsible Investment team. Moreover, Edmond de Rothschild AM (France) has setup an exclusion policy incorporating controversial weapons, thermal coal, tobacco and non-conventional fossil energies.

<https://www.edmond-de-rothschild.com/SiteCollectionDocuments/Responsible-investment/OUR-ENGAGEMENT/EN/EDRAM-EN-Exclusion-Policy.pdf>

**Limitations to ESG methodology and data could be identified.**

The investment manager cannot ensure the data availability and may use estimated data. The methodologies and the data set perimeters may differ from one data vendor to another, therefore the data comparability may be limited.

**The investment manager has established a process of ESG due diligence.** The portfolio managers integrate ESG analyses in their investment process. The Risk Management Function checks on a daily basis the compliance with the investment restrictions and the pertaining ESG indicators.

**No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics.**

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## **B. NO SUSTAINABLE INVESTMENT OBJECTIVE**

**The financial product promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment.**

Nevertheless, the sub-fund will have a minimum proportion of 20% of sustainable investments. The sustainable investments made by the Sub-fund ensure that they do not cause significant harm to a sustainable investment objective, notably:

- by applying the Edmond de Rothschild Asset Management (France) exclusion policy incorporating controversial weapons, thermal coal, tobacco and non-conventional fossil energies;
- by ensuring that it does not invest in companies that violate the UN Global Compact.

Adverse impact indicators are integrated in the fund's investment process, and are also part of our ESG rating methodology and in our definition of sustainable investment (available on the investment manager website: <https://www.edmond-de-rothschild.com/SiteCollectionDocuments/Responsible-investment/OUR-ENGAGEMENT/EN/EdRAM-EN-Sustainable-Investment-definition.pdf>).

They are integrated into portfolio monitoring tools and monitored by the Investment team and the Risk Department.

The managers select sustainable investments in accordance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights by excluding any company that violates the UN Global Compact principles.

## **C. ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT**

The Sub-Fund promotes Environmental and Social characteristics identified by our ESG framework, such as :

- Environmental : environmental strategy, energy consumption, greenhouse gas emissions, water, waste, pollution, green impact;
- Social: working conditions, human resources management, and social impact, relationship with stakeholders, health and safety.

## **D. INVESTMENT STRATEGY**

The ESG strategy of the sub-fund aims to identify the investment opportunities with the identification of issuers having a positive environmental or social impact and good non-financial performance.

Furthermore, the security selection process relies on ESG ratings. This will be either a proprietary ESG rating or a rating provided by an external non-financial rating agency. It also includes a negative filter to exclude companies that contribute to the production of controversial weapons in compliance with international conventions in this area as well as companies that are exposed to activities related to thermal coal, tobacco or non-conventional fossil energies in accordance with the exclusion policy of Edmond de Rothschild Group, which is available on its website.

Good governance practices are assessed through a comprehensive analysis of the governance pillar in the issuer's ESG analysis as well as through the consideration of controversies affecting the issuer. A minimum governance score, provided by our internal

ESG analysis or by an external provider, is applied to the Sub-fund's sustainable investments.

The governance pillar analysis integrates notably, the respect for human rights and fundamental labor rights (incl. child labor), the fight against corruption and anticompetitive practices, fiscal transparency, the board and its committees structure, the remuneration policy and treatment of shareholders.

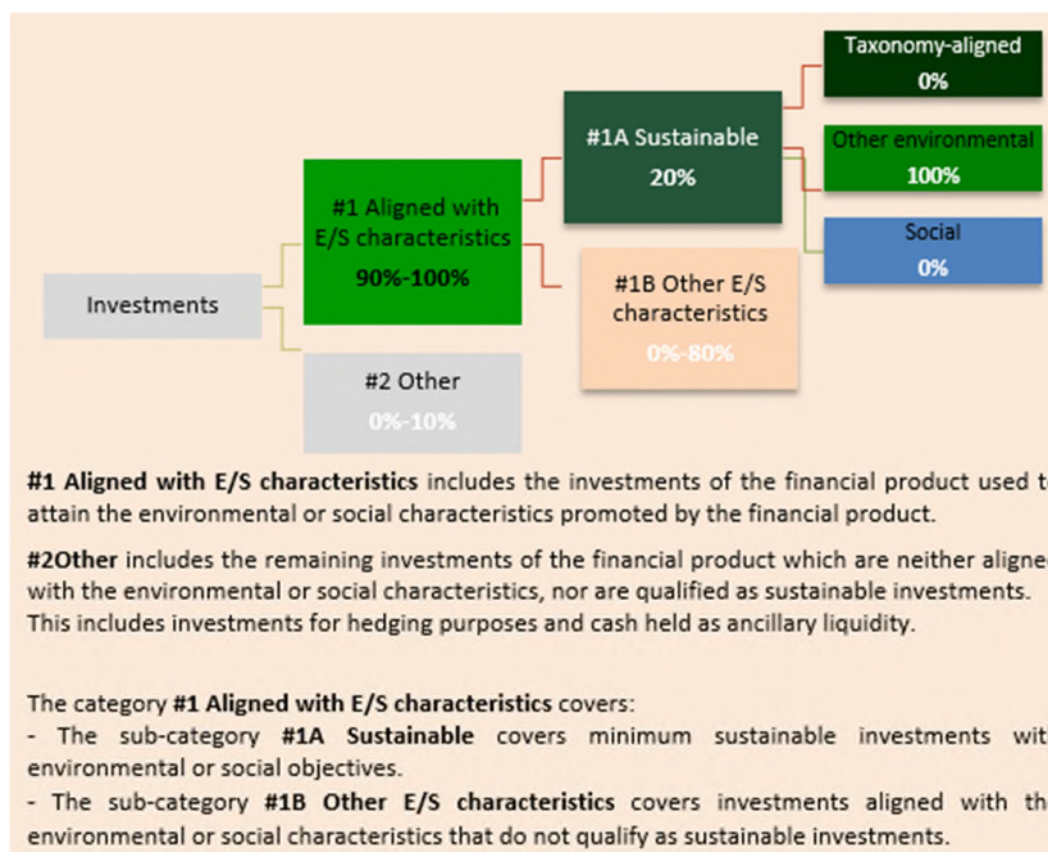
Controversies are subject to a proprietary notation with a rank from 0 to 10 and are integrated in the computation of the ESG notation of an issuer. The responsible investment team checks RepRisk, Sustainalytics or MSCI publications regarding controversies.

A minimal governance score provided by our internal ESG analysis or by a data vendor is applied to the sustainable investment holdings of the sub-fund.

## E. PROPORTION OF INVESTMENTS

### What is the asset allocation planned for this financial product?

Compliance with environmental or social characteristics promoted by the sub-fund is ensured with the direct investment of the portfolio.



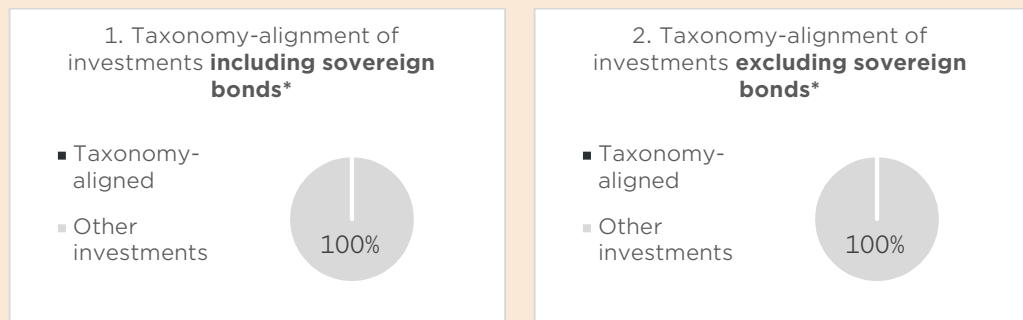
### How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

Single-name derivatives with long exposure only (including options, futures, CDS, CFDs, etc.) are included in the scope of eligible instruments for the purposes of proprietary ESG analysis methodologies and the calculation of the fund's sustainable investment portion according to the SFDR regulation.

The effects of exposure and hedging to the same underlying from single-name derivatives will be offset so that they are included in both the ESG rating and the coverage ratio of the portfolio.

- **To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

*The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



*\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures*

- **What is the minimum share of investments in transitional and enabling activities?**  
0%
- **What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**  
The minimum threshold for the share of sustainable investments with an environmental objective that are not aligned with the EU taxonomy is 20%
- **What is the minimum share of socially sustainable investments ?**  
Not applicable.

## F. MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

Environmental or social characteristics promoted by the sub-fund are controlled all over the sub-fund's lifecycle. The Risk Management Function checks on a daily basis the compliance with the investment restrictions and the pertaining ESG indicators at pre and post trade levels.

Moreover, the sustainability indicators are monitored by the portfolio managers. Detailed ESG and climate dashboard are made available and are updated on a daily in the portfolio management system. The dashboards provide an overview at both issuer and

portfolio level and also a comparison with the reference benchmark or the investment universe. The following information are notably available:

- ESG ratings internal and or external;
- Controversy level ;
- CIA (carbon impact analysis) ;
- Climate change alignment trajectory aligned with the Paris Agreement;
- CIR (carbon impact ratio) ;
- CO2 emission intensity (scope 1, 2, 3) ;
- Total emissions savings intensity.

The ESG dashboards provide also the ESG coverage ratios of the portfolios versus their reference benchmark or investment universe if any.

The Internal Control and Compliance team reviews on a yearly basis the control framework in place.

## **G. MÉTHODOLOGIES**

The method used to determine the extent to which the social or environmental characteristics promoted by the financial product have been achieved is based on :

- A proprietary ESG rating and/or,
- A rating provided by an external ESG rating agency for issuers that are not covered internally.

The proprietary ESG analysis methodology, EdR BUILD (Bold, Universal, Impact, Long-Term, Differentiation) is based on the detailed and balanced research on the three E, S and G pillars and the expertise of our Responsible Investment team.

For issuer notation, the ESG analysis considers specific characteristics (sector, market capitalization and capital structure) based on an exhaustive panel of ESG criteria.

 <b>Environment (E)</b>	 <b>Social (S)</b>	 <b>Governance (G)</b>
<b>Environmental risk management</b>	<b>Human resources management</b>	<b>Business ethics and fundamental rights</b>
<ul style="list-style-type: none"> <li>• Deployment of environmental management system</li> <li>• Integration of climate change risks</li> <li>• Respect for biodiversity</li> </ul>	<ul style="list-style-type: none"> <li>• Job quality</li> <li>• Career and further training management</li> <li>• Further training and diversity</li> <li>• Attractiveness</li> <li>• Health &amp; safety</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with human rights and child labour</li> <li>• Fight against corruption and anti-competition practices</li> <li>• Fiscal transparency</li> <li>• Responsible lobbying</li> </ul>
<b>Green innovation and product impact</b>	<b>Social impact</b>	<b>Board</b>
<ul style="list-style-type: none"> <li>• Added environmental value from products and services, innovation</li> <li>• Eco-designed products</li> </ul>	<ul style="list-style-type: none"> <li>• Job and restructuring management</li> <li>• Relations with suppliers</li> <li>• Social added value from products or services</li> <li>• Licence to operate</li> </ul>	<ul style="list-style-type: none"> <li>• Independence of board of directors from audit, remuneration committees, etc.</li> <li>• Separation of powers</li> <li>• Board diversity</li> </ul>
<b>Environmental footprint</b>	<b>Client relations</b>	<b>CEO and executive committee</b>
<ul style="list-style-type: none"> <li>• Greenhouse gas emissions</li> <li>• Energy consumption</li> <li>• Water consumption</li> <li>• Waste management</li> <li>• Discharges</li> </ul>	<ul style="list-style-type: none"> <li>• Product/service information and safety</li> <li>• Client satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Executive committee: composition and procedures</li> <li>• CEO profile and succession</li> <li>• Remuneration transparency and appropriateness</li> </ul>
		<b>Shareholders</b>
		<ul style="list-style-type: none"> <li>• Audit and Internal Control</li> <li>• Recognition of minority interests</li> </ul>

The final rating, ranging from 0 to 20, results in a differentiated weighting for each sector and even the deactivation of some criteria that would not be relevant for the sector or the company. It comprises 7 levels, ranging from CCC to AAA, with the highest ratings (AAA) reflecting our strongest extra-financial convictions. The final rating is the aggregation of the results obtained on the different E, S, G criteria of the rating grid determined by the analysts.

Below is an example of the weighting of the ESG pillars according to 3 different sectors of activity, in application of our ESG sector rating matrix:



**EXAMPLE: EDRAM FRAMEWORK FOR ESG SECTOR RATING MATRIX**

SECTEURS GICS LEVEL 2	ENVIRONMENT	SOCIAL	GOVERNANCE
Energy	34%	34%	32%
Transport	29%	33%	38%
Media	15%	42%	43%

Although the weighting of the extra-financial criteria in our rating grid differs according to the company's sector of activity, the rating is expressed in absolute terms and is not relative to the performance of the sector.

Controversies are also integrated into our rating model and are an element of issuer ratings. Controversies can lead to a downgrade of up to 20% in our internal methodology. Our portfolio managers select controversies that could have a direct impact on the company's development and financial statements. The internal monitoring of controversies allows us to be proactive compared to external rating agencies, whose responsiveness is slower.

We have also integrated the latest elements of the green taxonomy into our model, which allows us to identify the sectors and companies that concentrate climate risks, as well as the main negative impact indicators (PAIs) relating to climate and energy transition, biodiversity, pollution reduction, safety and security, human development, gender equality, business ethics, responsible governance practices, etc.

Considering the medium to long term nature of most ESG criteria, including climate, as well as the frequent time lag of climate indicators (from 1 to 2 years), we update our ratings every 24 months at the most, in order to identify significant changes. An ad hoc update will be carried out if there are significant positive or negative catalysts (e.g. major controversies, mergers, etc.).

Moreover, **Edmond de Rothschild Asset Management (France) has established a formal exclusion policy** that includes controversial weapons, thermal coal and tobacco.  
<https://www.edmond-de-rothschild.com/SiteCollectionDocuments/Responsible-investment/OUR-ENGAGEMENT/EN/EDRAM-EN-Exclusion-Policy.pdf>

It is accompanied by a strategy of engagement and active dialogue. It covers all our portfolios, all asset classes and geographical areas, and is implemented in the management mandates of institutional clients unless the client expressly refuses. Exclusions are set as pre-trade and post-trade blocking limits in the management tool to ensure compliance. The exclusion lists are updated at least annually.

**Controversial weapons**



This exclusion policy concerns securities involved in the production or sale of weapons prohibited by international conventions (cluster bombs and antipersonnel mines, biological and chemical weapons) in the World zone for all funds under management.

The exclusion zone is as follows:

- Anti-personnel mines (APMs), the use of which has been prohibited by the Ottawa Convention since 1999;
- Cluster munitions, the use, stockpiling, production and transfer of which is prohibited by the 2008 Oslo Convention;
- Chemical and biological weapons, the use of which is prohibited by the 1972 Biological and Toxin Weapons Convention (entered into force in 1975) and the 1993 Chemical Weapons Convention (entered into force in April 1997).

Using the exclusion bases provided by the Sustainalytics rating agency, as well as public lists regularly updated by some twenty institutional investors in France and around the world (e.g. Norwegian Pension Fund, New Zealand Super Fund, etc.), the Responsible Investment team establishes a proprietary exclusion list that EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE) 2/7 targets companies producing/selling banned weapons, as well as suppliers of essential components required for their production.

### **Thermal coal**

Edmond de Rothschild Asset Management's (France) policy of excluding thermal coal is in line with our Responsible Investment strategy and more specifically with our Climate Roadmap which aims to "decarbonise" our portfolios by 2050.

The burning of coal is the most important source of global warming, while electricity generation is the main user of coal. Reducing coal-related emissions is therefore one of the most effective ways to ensure an energy transition in line with the Paris Agreement. According to the IEA (International Energy Agency) Sustainable Development Scenario (SDS), almost all of the greenhouse gas emission reductions for the energy sector - 2.8 gigatonnes out of a total of 3 gigatonnes - will come from reducing the use of coal in power generation.

Exclusion criteria:

To this end, in managing its portfolios, Edmond de Rothschild Asset Management (France) excludes:

- All companies developing new coal projects involving the use of thermal coal (due to plans to build new mines/power stations/coal infrastructure; expansion of existing assets; purchase of existing coal assets without a clear commitment to close them),
- All power generators with an energy mix that is overly exposed to coal (in capacity, production or revenue) where coal's share of energy production and/or turnover is greater than 20%,
- All mining companies with a high exposure to coal in terms of production, capacity or revenue where coal's share of energy production and/or turnover is above 20%,
- Companies with a production of more than 5 GW and absolute emissions of more than 10 Mt of CO<sub>2</sub>,
- All financial subsidiaries identified as specifically financing excluded companies.

We believe it is important to encourage companies to reduce their reliance on thermal coal. In this spirit, we are mindful of the carbon trajectory of companies, and do not wish to exclude fuel-intensive thermal coal producers and power generators that make credible and measurable commitments to reduce their exposure to coal in order to meet the Paris Agreement.

Thus companies are not excluded as long as a clear exit strategy from coal-related activities is made public by 2022 at the latest or the group has a decarbonisation strategy in line with a trajectory consistent with a 2°C / below 2°C scenario validated by the Science Based Target (SBT) Initiative.

By way of derogation and for the emerging zone only, Edmond de Rothschild Asset Management (France) is likely to consider a subscription in green bonds issued by excluded issuers, provided that the green bonds are based on one of the two standard green bond guidelines

Main source :

Edmond de Rothschild Asset Management's (France) thermal coal exclusion list currently covers over 2,300 issuers worldwide. Exclusions are based on the Global Coal Exit List of the NGO Urgewald, a reference in the field, after an internal analysis of the implications of coal and the possible presence of a credible exit from coal, validated by the SBT initiative.

### **Tobacco**

Tobacco is considered by the World Health Organisation to be the greatest threat to public health worldwide. Beyond ethics, Edmond de Rothschild Asset Management (France) analyses the risks associated with this industry: reputation, taxes, regulations, etc.

Our exclusion policy targets companies that produce tobacco or have tobacco distribution as a core business. The thresholds for exclusion are 5% of turnover from production and 50% of turnover from distribution, based on data from Sustainalytics. Approximately 75 companies are affected to date, in the production or distribution sector.

### **Fossil fuel**

Edmond de Rothschild Asset Management (France) has decided to adopt a climate policy of gradually reducing its investments in oil and gas extraction companies, initially targeting non-conventional oil and gas, i.e. those requiring non-traditional extraction techniques or more difficult or costly extraction conditions. Edmond de Rothschild Asset Management (France) supports a gradual divestment from fossil fuels and a redeployment of energy capacities towards other technologies to ensure a fair transition that takes into account energy needs but also supports employment and the regions.

**The sustainable investment definition established by** Edmond de Rothschild Asset Management (France) is available on its website : <https://www.edmond-de-rothschild.com/SiteCollectionDocuments/Responsible-investment/OUR-ENGAGEMENT/EN/EdRAM-EN-Sustainable-Investment-definition.pdf>

## **H. DATA SOURCES AND PROCESSING**

### **▪ Data sources used to attain each of the environmental or social characteristics promoted by the financial product**

The data used are received from the issuers or from third party data vendors such as but not limited to MSCI and Carbon4 Finance. The third party data vendors were selected after a deep analysis respectively of the quality and the reliability of the provided data. They are providers recognized in both ESG and climate fields.

### **▪ Measures taken to ensure data quality**

The Responsible Investment team assesses regularly the quality of the ESG data set.

### **▪ How data are processed**

The data provided by the external data vendors (notably MSCI and Carbon4 Finance) or the issuers are verified by the Data Management team before their incorporation into the operational systems.

▪ **Proportion of data that are estimated**

The data provided may be collected or estimated data (by the issuer or the data provider), their respective proportions may evolve over time. As far as possible, Edmond de Rothschild Asset Management (France) emphasizes collected data.

## **I. LIMITATIONS TO METHODOLOGIES AND DATA**

Limitations on methodologies may arise from:

- data availability;
- the need to rely partially on estimated data;
- the underlying hypothesis of the methodologies and the preferred analytical perspective,
- Evolution of the methodologies over time that may impact comparability of data.

The internal ESG methodology is setup to handle the future evolutions that are anticipated by the Responsible Investment team, notably from a regulatory perspective, availability and quality of the data set, client requests, market practice and the adoption of the ESG approach within the organisation. The Responsible Investment team reviews the methodology on a yearly basis and amends it respectively.

These limitations do not have any impact on the attainment of each of the environmental or social characteristics promoted by this financial product.

## **J. DUE DILIGENCE**

▪ **Due diligence carried out on the underlying assets of the financial product, including the internal and external controls on that due diligence**

As part of the investment process and a "best in universe" approach, depending on the ESG investment limits applicable to the funds concerned, managers may apply an ESG filter to their initial investment universe using internal and/or external ratings.

For specific cases, the portfolio managers integrate systematically a "SWOT" ESG analysis for each investment cases and this analysis is part of their risk/return evaluation.

ESG notation are integrated in the portfolio management system and controlled by the risk management function on a daily basis.

## **K. ENGAGEMENT POLICIES**

The investment manager has an engagement policy available on its website :

[https://www.edmond-de-rothschild.com/SiteCollectionDocuments/Responsible-investment/OUR-ENGAGEMENT/EN/Voting%20&%20Engagement\\_Report%202021%20ENG.pdf](https://www.edmond-de-rothschild.com/SiteCollectionDocuments/Responsible-investment/OUR-ENGAGEMENT/EN/Voting%20&%20Engagement_Report%202021%20ENG.pdf)

#### **L. DESIGNATED REFERENCE BENCHMARK**

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics.

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