Ostrum
ASSET MANAGEMENT

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Sustainable Investments

Definition according to Ostrum Asset Management

Ostrum AM's definition of Sustainable Investments is applied to ensure that investments that are considered as sustainable investments by the firm qualify as per the definition provided by Article 2(17) of the SFDR* Regulation. Ostrum AM's definition of sustainable investments applies to information communicated in pre-contractual documentation, and periodic reports whereby the firm publishes the "sustainable investment" share of financial products.

The definition in section 2(17) of the SFDR Regulation states that a sustainable investment is an investment in an economic activity that:

1. « contributes to an environmental (E) and social (S) objective »
2. « provided that investments do not cause material harm to these objectives » (« Do No Significant Harm » / « DNSH »)
3. « and that investments made apply good governance practices »

Considering that the regulatory definition is quite general, it could evolve overtime. In addition, Ostrum AM is reliant on data provided by external providers, implying that the firm's definition may also evolve over time. In the case of these eventualities, Ostrum AM commits to providing future updates to its definition of sustainable investments.

Based on the 3-pillar definition provided in section 2(17) of the SFDR Regulation, Ostrum AM qualifies the following investments as sustainable investments:

1. Positive contribution to an E/S objective

According to Ostrum AM, the following securities qualify as making a positive contribution to an E/S objective:

A. Sustainable bonds[1] that have been qualified based on internal ratings

- Green bonds
- Social bonds
- Sustainability bonds with proceeds raised to finance projects that that contribute to E/S objectives
- Sustainability-linked bonds with E/S KPIs (key performance indicators)

* Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on the publication of information on sustainability in the financial services sector.

[1] Sustainable bonds have all the characteristics of a debt security. They are issued for the purpose of financing one or more existing projects. Ostrum AM's analysis constitutes the firm's Sustainable Bond rating, which is the result of the evaluation of each instruments intentionality, additionality and measurability levels. This analysis is essential to ensure the impact of the projects on the real economy. The "sustainable" nature of a project is defined by its positive contribution to a sustainable development goal (social or environmental).

To determine if a sustainable bond replies to SFDR criteria as having a positive contribution in relation to an E/S objective, bonds are analyzed and rated. Ostrum AM's proprietary rating scale is 1 to 10 (1 is the highest rating). Ostrum AM considers that only bonds rated 1 to 7 qualify as a sustainable investment. Sustainable bonds rated 8, 9 and 10 are disqualified as sustainable investments. Analysis of sustainable bonds is recorded and hosted in the firm's internal intranet database ImpACT®[2,3]. Ostrum AM's proprietary rating methodology ensures that each sustainable bond respects The International Capital Market Association (ICMA[4]) Principles and that each bond has specific positive attributes in terms of E/S commitments based on proprietary research analysis.

Regarding new sustainable bonds issued in the primary market, all bonds undergo a pre-analysis, relying on a process has been developed to take into account the time constraints related to the primary market. Pre-analysis takes place at the time of issuance of the sustainable bond. The pre-analysis is carried out by the sustainable bond analysts, who issue one of the following 4 opinions: "Go"; Light Go; "Risk of requalification" and "No Go".

Illustration of pre-analysis ratings issued by Ostrum AM's Sustainable Bond Analysts:

	GO	Light GO	Risk of requalification	NO GO
Equiv. to Ostrum AM's sustainable bond rating scale 1 to 10 (1 is the highest rating)	[1 to 4]	[5 to 6]	[7]	[8 to 10]

Primary market - key considerations for pre-analysis: verification of the absence of severe controversy(ies) for the issuer, 1st level analysis of the coherence of the issue with regard to the E/S strategy of the issuer, taking into account any notes from previous issues made by the same issuer in ImpACT®, assessment of the governance of the issue (availability and transparency of ex-ante information), verification of compliance with the ICMA Principles and 1st estimation of expected materiality and additionality levels.

For primary market issues, only instruments with a "Go" or "Light Go" pre-analysis score are considered a Sustainable Investment.

Pre-analysis scoring is preliminary to the sustainable bond rating. Instruments that are pre-scored are subsequently scored in ImpACT®, the Sustainable Bond rating will replace the pre-analysis rating.

In line, with sustainable bond ratings, pre-analysis ratings are documented and hosted also in the dedicated sustainable bond ImpACT® tool.

B. <u>Securities issued by issuers (private sector), whose activities are qualified as having a positive E/S contribution</u>

[2] Ostrum AM's proprietary sustainable bond rating
[3] Methodology detailed in the appendix
[4] The International Capital Market Association (ICMA) is an association with over 620 members spread across 68 jurisdictions. The mission of ICMA is to promote the resilience and proper functioning of international debt markets. ICMA's priority topics focus on regulatory issues, market matters, and other relevant issues related to market practices that impact the functioning of debt markets at the international level.

Companies whose products or services contribute to positive social or environmental economic activities through a sustainable impact indicator established according to the methodology of the data provider MSCI[5] also meet the criterion for positive contribution.

The MSCI indicator calculates a company's share of revenues related to one of the following themes:

Climate change				Natural capital		
Alternative energies	Carbon and energy efficiency	Ecological construction	Climate adaptation	Sustainable water	Pollution prevention	Sustainable agriculture
Fundamental needs				**Empowerment**		
Food	Healthcare	Sanitation	Affordable housing	Financing SMEs	Education	Closing the digital divide

According to MSCI methodology, a company is considered to have a positive contribution to a sustainable theme if the proportion of its activities allocated to one or more of these categories exceeds 20% of its revenues.

C. SBTi certified companies

Companies whose greenhouse gas emission reduction targets have been approved by the Science-Based Targets (SBTi)[6] initiative, meeting the criterion of positive contribution to an environmental objective.

D. Securities issued by sovereign issuers (excluding sustainable bonds), whose activities are qualified as having a positive E/S contribution

Securities issued by sovereigns are analyzed according to the 17 UN Sustainable Development Goals (SDGs), which aim to put an end to or mitigate the societal problems over the next century.

https://www.un.org/sustainabledevelopment/

[5] (www.msci.com/)

[6] The Science Based Targets (SBTi) initiative is a climate action organization that enables companies and financial institutions around the world to play their part in addressing the climate crisis. Its partners are the CDP, the United Nations Global Compact, the We Mean Business Coalition, the World Resources Institute (WRI) and the World Wildlife Fund (WWF). Its role is to develop standards, tools and guidelines that enable companies to set greenhouse gas (GHG) emission reduction targets that are consistent with what is required to achieve carbon neutrality by 2050 at the latest.

Methodology for determining E/S contribution: relying on SDG index[7] data, Ostrum AM categorized the underlying indicators used to calculate the SDG Index Score into E, S and G pillars to determine the positive contribution of a sovereign to E/S objectives.

The SDG Index Score represents the average of the 17 SDGs scores, which are each calculated as the average of a certain number of underlying indicators. Ostrum AM's decision regarding the distribution of indicators into E, S, and G pillars is guided by an analysis of the underlying indicators. The choice of distribution is based on cross-comparisons with existing mappings, either conducted by other organizations or derived from research papers.

To meet the criterion of a positive contribution to an E or S objective, a country must be among the top 10% of rated issuers in the E pillar (for positive E contribution) or in the S pillar (for positive S contribution).

2. Respect of DNSH[8]

A. Ostrum AM applies sector and exclusion policies to ensure investments respect DNSH

As requested by the European regulatory authorities, Ostrum AM integrates the set of mandatory EU PAI[9] indicators to ensure that investments do not generate major negative impacts on sustainability factors, thus demonstrating the DNSH factor of investments.

The majority of the PAIs are covered by Ostrum AM's sectoral and exclusion policies, allowing for an automatic exclusion from the investment universe any sector or issuer that does not respect fundamental principles responsibility. In addition, the firm also deploys an engagement policy.

Sectoral policies related to fossil fuels (coal, oil and gas) allow Ostrum AM to respect **PAI 1 to 6** on environmental aspects. For other greenhouse gas emitting sectors, the firm has developed a climate approach that, on the one hand, leads to engagement with high emitting companies and, on the other hand, integrates greenhouse gas aspects into the ESG materiality score.

Ostrum AM considers that the respect of **PAI 10 and 11** are covered by its Worst offender policy that is based on the fundamental standards of responsibility: the United Nations Global Compact or the OECD Guidelines. This policy implies that Ostrum AM excludes from investments all companies, listed or not, for which are proven severe controversies to the principles defended by these international standards seriously affecting human rights, labour rights, environmental preservation and business ethics.

For Ostrum AM, **PAI 12 and 13** (gender pay gap and balance in governance bodies) are amongst the key themes in the firm's Engagement Policy and are therefore axes of dialogue with issuers.

Similarly, Ostrum AM considers that the application of its controversial weapons policy ensures the respect of **PAI 14**. The firm's policy is consistent with the Ottawa Convention, the Oslo Treaty, the Convention on the Prohibition of Chemical Weapons, the Convention on the Prohibition of Biological Weapons, the Treaty on the Prohibition of nuclear weapons. This policy allows the firm to exclude

[7] https://dashboards.sdgindex.org/downloads
[8] Do No Significant Harm
[9] Please refer to the PAI list in the Appendix

from all portfolios the actors involved in the use, development, production, marketing, distribution, storage or transport of the following categories of weapons:

- Anti-personnel mines
- Cluster bombs
- Chemical weapons
- biological weapons
- Nuclear weapons (outside the Non-proliferation Treaty)
- And depleted uranium weapons

Regarding Sustainable Bonds, Ostrum AM considers that proprietary assessments, taking into account the environmental and social externalities of projects, which provides the assurance that these externalities do not undermine the E/S objectives of the instrument.

B. Ostrum AM adds MSCI methodology to strengthen compliance with DNSH

In addition to applying Ostrum AM's methodology, Ostrum AM adds that of MSCI, applying an additional MSCI filter to exclude companies that have a positive contribution, yet:

- violate global standards such as UNGC or OECD or
- have an orange or red controversy note or
- are involved in activities related to significant damage or
- are involved in one of the following sectors: tobacco producer, controversial weapons and thermal coal

C. Sovereign issuers

Ostrum AM takes into consideration the 2 mandatory PAI that appy to sovereigns:

- **PAI 15** – GHG Intensity
- **PAI 16** – countries of investment experiencing violations of social norms

In order to ensure a country is compliant with the DNSH principle when a country is identified as positively contributing to a E/S objective, Ostrum AM ensures that the country is among the top 30% of rated issuers for PAI 15 (carbon intensity scopes 1+2+3[10]) and that it is not subject to violations in accordance with international conventions and treaties, the principles of the United Nations, and, where applicable, national legislation for PAI 16.

[10] Scope 1: direct emissions/ Scope 2: indirect emissions related to energy consumption/ Scope 3: other indirect emissions

3. Good governance practices

Ostrum AM ensures that companies and/or sovereigns in which investments are made apply good governance practices by combining several methodologies:

A. <u>Ostrum AM's approach to good governance practices</u>

- **Analysis of issuers**: Ostrum AM's credit research teams pay particular attention to subjects related to governance
- **Worst offenders**: Exclusion of all companies for which severe controversies to the principles defended by the commonly established international standards are found (United Nations, OECD); in particular on governance elements such as labour rights, and/or business ethics (corruption, etc.)
- **GREaT* rating**: For private sector issuers, specific pillar dedicated to Responsible Governance with 3 criteria: Balance of powers/ Fair remuneration/ Business ethics 1 pillar dedicated to the sustainable management of Resources with 1 criterion relating to working conditions
- **ImpACT® rating**: For sustainable bonds, in project analysis: consideration of governance characteristics via the "sustainable project management" KPI (consideration of ESG aspects in project selection)

B. <u>Ostrum AM adds MSCI methodology to strengthen its analysis of good governance for companies</u>

In addition to Ostrum AM's proprietary methodology, Ostrum AM adds a MSCI filter that excludes companies that are unable to effectively manage resources, mitigate key ESG risks and opportunities, and ensure good corporate governance.

A company is considered to have good governance if its ESG rating ≥ BB.

C. <u>Sovereign issuers</u>

For sovereign issuers, Ostrum AM considers good governance is qualified when the country is among the top 10% of rated issuers in the G pillar.

* GREaT rating methodology of La Banque Postale Asset Management analyzes companies with regard to sustainable development issues.

4. Ostrum AM’s process in the case of non-compliance

If an investment no longer meets one of the criteria required to qualify as a sustainable investment (examples: a company whose contribution rate falls below 20%, a sovereign that is no longer among the top 10% rated issuers in the E or S pillar, a green bond whose rating deteriorates to 8/10, or failure to meet the DNSH criteria during the periodic update of the analysis...), the investment loses its qualifications and is treated as a passive breach.

Ostrum AM has established a framework for the breach to be corrected in the interest of its investors.

The breach is first given a specific period of time to be resolved. If the breach is not corrected within the time allowed, it will pass from being considered a passive breach to an active breach.

- As an indication, 5 working days is allowed to resolve the breach in a reasonably liquid market.
- In the case of a delay anticipated differently by the investment teams, and in particular greater than 5 days, a derogation is possible, upon justification, and with an action plan formalized by the investment team including an expected resolution period.

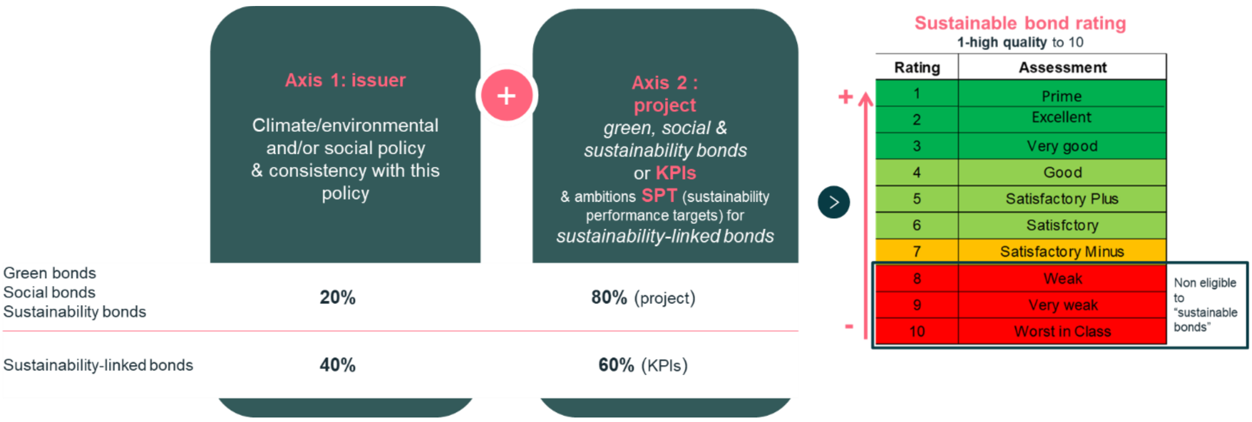
APPENDIX

1. Processus for rating sustainable le bonds

Ostrum AM’s sustainable bond rating process takes into consideration indicators related to the issuer and the instrument.

All sustainable bonds are rated according to the firm’s proprietary Sustainable Bond Analysis (ImpACT®) methodology.

The evaluation and rating process is based on two axes (issuer and issue (project)):



<u>Indicators analyzed in the sustainable bond rating process</u>

Methodology is based on grids specific to each type of sustainable bond that includes scoring indicators with specific weightings.

	Issuer Score 20%	**Instrument Score 80%**
Green bonds	**Assessment of the issuer’s environmental strategy** 1. Weight of the issuers activity in connection with projects financed by sustainable bond 2. Issuer energy transition quality 3. Issuer overall climate strategy	**Assessment of the bond’s contribution to the energy transition and environmental protection** 4. Transparency on use of proceeds 5. Materiality of financed or refinanced projects 6. Additionality 7. Adequacy between size of identified project pool and nominal amount of green bond 8. Sustainable project management 9. Management of proceeds 10. Reporting: climate and environmental impact measures (**Green bonds**), social impact measures/ preservation of local economies (**Social Bonds**)
Social bonds	**Assessment of social strategy** 1. Weight of issuer activity related to projects funded by the bond 2. Quality of development of the issuer's territories 3. Social strategy/development of the issuer's overall territories	
Sustainability Bonds	Weight of ratings obtained via the Green Bonds scoring grid and the Social Bonds scoring grid, prorated according to the percentage of Use of Proceeds (UoP) targeted to green or social projects	
	Issuer Score 40%	**Instrument Score 60%**
Sustainability -linked bonds (SLB)	1. Global issuer climate/environmental and/or social strategy 2. Issuer quantitative scoring Transition / Regional development 3. Rationale for SLB issuance & consistency with the issuer’s overall sustainability and business strategy	4. Issue Governance 5. Transparency of KPIs 6. Calibration of Sustainability Performance Targets (SPTs) 7. Bond structuring commensurability 8. Reporting transparency and quality 9. Verification practices

Source Ostrum AM, 2025

Each KPI[11] is scored from 1 to 4 based on pre-defined criteria in the ImpACT® tool, 1 being the highest score. When the issuer or project obtains a score of 4 on one of the indicators, this leads to a drop in its final score and a potential classification as an unsustainable instrument, that is to say, rated between 8 and 10.

Depending on the nature of the sustainable bond, some indicators may correspond to the PAIs, allowing the analysts to look either at the issuer level or at the funded project level or at both levels to ensure the DNSH condition is met.

2. Ostrum AM's dual approach to analyzing sustainable bonds takes into consideration PAIs (corporates / sovereigns)

Mandatory PAIs	Issuer level	Issue / Project level
CORPORATES		
1. Greenhouse Gas Emissions	X Sectorial policies and engagement campaigns + KPI 3 rating in ImpACT®*	X KPI 10 (UoP)/KPI 9 (SLB) ratings in ImpACT®*
2. Carbon footprint	X Sectorial policies and engagement campaigns + KPI 3 rating in ImpACT®*	X KPI 10 (UoP)/KPI 9 (SLB) ratings in ImpACT®*
3. Greenhouse Gas intensity of companies receiving investment	X Sectorial policies and engagement campaigns + KPI 3 rating in ImpACT®*	X KPI 10 (UoP)/KPI 9 (SLB) ratings in ImpACT®*
4. Exposure to companies operating in the fossil fuel sector	X Sectorial policies and engagement campaigns + KPI 3 rating in ImpACT®*	
5. Share of non-renewable energy consumption and production	X Sectorial policies and engagement campaigns +	

[11] Key performance indicators (KPIs) – are those analyzed in the sustainable bond rating process

* Subject to availability of data

	KPI 3 rating in ImpACT®*	
6. Energy intensity by sector with high climate impact	X Sectorial policies and engagement campaigns	
7. Activities negatively affecting biodiversity sensitive areas	X WO	X KPI 8 rating in ImpACT®*
8. Water discharges	X WO	
9. Ratio of hazardous and radioactive wastes	X WO	
10. Violations of the principles of the United Nations Global Compact and OECD Guidelines for Multinational Enterprises	X WO	
11. Lack of compliance processes and mechanisms to monitor compliance with UN Global Compact and OECD Guidelines for Multinational Enterprises	X WO	
12. Uncorrected gender pay gap	X Engagement policy	
13. Gender balance in governance bodies	X Engagement policy + KPI 3 rating in ImpACT®*	
14. Exposure to controversial weapons (anti personnel mines, cluster munitions, chemical weapons or biological weapons)	X Sector policy Controversial weapons + KPI 8 rating in ImpACT®*	
SOVEREIGNS		
15. GHG intensity	X KPI 3 in ImpACT®* + SDG index	X KPI 10 (UoP)/KPI 9 (SLB) rating in ImpACT®*
16. Countries of investment experiencing violations of social norms	X Exclusion policy Blacklisted states + KPI 3 rating in ImpACT®* + SDG index	

* Subject to availability of data