

# Publication of sustainability information

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## Ofi Invest US Equity Active UCITS ETF

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### ■ Summary

Ofi Invest US Equity Active UCITS ETF (the "Sub-Fund") promotes environmental or social characteristics within the meaning of Article 8 paragraph 1 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on the publication of sustainability information in the financial services sector (the "SFDR Regulation"), as defined within the Fund's investment strategy, but does not aim for sustainable investment within the meaning of Article 9 of the SFDR Regulation.

In order to assess issuers' environmental, social and governance practices, the Management Company uses its internal ESG rating methodology. The proportion of stocks undergoing an ESG analysis in the portfolio must be higher than 90% of the Sub-Fund's net assets (excluding cash, UCIs and derivatives).

The promotion of social and environmental characteristics depends on the Fund's strategy and its own investment processes. The Sub-Fund adopts an ESG 'rating improvement' approach, which consists of achieving an average ESG score of the portfolio higher than the average ESG score of the comparable SRI universe: the MSCI USA (Net Total Return) index, after eliminating 20% of the index weighting.

These characteristics are monitored by the Restrictions Monitoring team on an ongoing basis, while the Internal Control department carries out annual checks.

The ESG analysis of issuers is carried out using a dedicated proprietary tool that automates the quantitative processing of ESG data, combined with a qualitative analysis by the ESG team. Examples of ESG criteria analysed include carbon emissions, information security policies and the independence of the board of directors.

The proprietary methodology is based on basic data from recognised data providers such as MSCI (our main provider). This data may be supplemented by analyses carried out internally by the management company. Once the data has been reprocessed according to proprietary methodologies, it is disseminated in our systems and made available to users for the management of the Fund.

The main methodological limitations of the Fund's extra-financial strategy are those faced by Ofi Invest Asset Management in developing its ESG rating model (problem of missing or incomplete disclosures by certain companies, problem linked to the quantity and quality of ESG data to be processed).

The Fund encourages the ESG efforts of portfolio companies, through dialogue with certain companies, not only to obtain additional information on their CSR strategy, but also to encourage them to improve their practices, particularly in terms of governance.

### ■ No sustainable investment objective

This product promotes environmental and social characteristics, but does not aim to be a sustainable investment.

To qualify as a sustainable investment, it must meet the following criteria:

- Make a positive contribution or provide a benefit for the environment and/or society;
- Do not cause significant harm;
- Good governance.

Our definition of sustainable investment is set out in detail in our responsible investment policy, which is available on our website at <https://www.ofi-invest-am.com/pdf/principes-et-politiques/politique-investissement-responsable.pdf>.

In order to ensure that the issuers under review do not cause significant harm (DNSH) in terms of sustainability, Ofi Invest AM analyses issuers with regard to :

- Indicators of negative impact on sustainability within the meaning of the SFDR regulations (known as "Principal Adverse Impacts" or PAI in English)
- Activities that are controversial or considered sensitive in terms of sustainability

- The presence of controversies considered to be very serious

#### ***How have the negative impact indicators been taken into account?***

Issuers exposed to the following negative impact indicators are considered unsustainable investments:

- Exposure to fossil fuels (PAI 4),
- Exposure to activities related to controversial types of weapons, such as cluster bombs or anti-personnel mines, biological weapons, chemical weapons, etc. (PAI 14);
- Violations of the principles of the United Nations Global Compact and the OECD Guidelines (PAI 10).

In addition, activities that are controversial or deemed sensitive in terms of sustainability are considered to be unsustainable. Negative impacts are analysed via Ofi Invest AM's sector policies (tobacco, oil and gas, coal, palm oil, biocides and dangerous chemicals) and normative policies (Global Compact, controversial weapons), published on our website. Companies that do not pass these exclusion filters are therefore not investable.

Controversies deemed to be very serious ("level 4" environmental and societal controversies and "level 3" social and governance controversies) cannot be considered sustainable, according to our definition.

#### ***To what extent do sustainable investments comply with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?***

The exposure of issuers to controversies linked to breaches of fundamental human rights as described in the UN Global Compact and the OECD Guidelines for Multinational Enterprises (PAI 10) is a reason for exclusion (see above).

Issuers exposed to such controversies, which are deemed to be very severe or severe, on all social, societal and environmental issues cannot be considered sustainable according to our definition.

More specifically, issuers exposed to "level 4" (very high) environmental and societal controversies and "level 3" (high) social and governance controversies, the highest on our proprietary rating scale, are not investable.

These E, S, G issues overlap with all the themes covered by the OECD guidelines and the Global Compact.

These exclusions apply to issuers considered 'sustainable', according to our definition, in addition to the normative exclusion policy on Non-Compliance with the Principles of the Global Compact and the Fundamental Conventions of the ILO.

### **■ Environmental or social characteristics of the financial product**

The Sub-Fund promotes environmental and social characteristics. In order to assess issuers' environmental, social and governance practices, the Management Company relies on the internal ESG score methodology.

- The themes taken into account in reviewing good ESG practices are:
- Environmental: Climate change – Natural resources – Project financing – Toxic waste – Green products.
- Social: Human capital – Societal – Products and services – Communities and human rights
- Governance: Governance structure – Market behavior

The MSCI USA (Net Total Return) index is used as a comparison SRI universe and is consistent with the Sub-Fund's reference benchmark. However, no reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-Fund.

### **■ Investment strategy**

The investment strategy of the Sub-Fund aims to construct a portfolio by investing primarily in a portfolio of US companies. The investment policy of the fund is to invest primarily in a portfolio of large capitalization equity securities that mostly consist of the component securities of the MSCI USA Index (Net Total Return) and to generate return in excess of the benchmark. In order to achieve its investment objective, the Sub-Fund will base its investments on fundamental financial and extra-financial research in the selection of individual securities.

The Sub-Fund adopts an ESG 'rating improvement' approach, which consists of achieving an average ESG score of the portfolio higher than the average ESG score of the comparable SRI universe: the MSCI USA (Net Total

Return) index, after eliminating 20% of the index weighting. The proportion of stocks undergoing an ESG analysis in the portfolio must be higher than 90% of the Sub-Fund's net assets (excluding cash, UCIs and derivatives).

In assessing issuers' ESG practices, the Sub-Fund considers the following pillars and themes:

- Environment: climate change, natural resources, project financing, toxic waste, green products.
- Social: employees, customers, suppliers and civil society, with reference to universal values (in particular: human rights, international labour standards, environmental impact, prevention of corruption, etc.), human capital, supply chain, products and services.
- Governance: governance structure, market behaviour.

The ESG analysis team defines a sector-based reference for key issues (ESG issues listed above), by selecting the most important issues for each sector of activity. Based on this reference, an ESG score is calculated out of 10 for each issuer, which includes, first, the key issue scores for E and S and, second, scores for G issues, along with any bonuses/penalties.

Indicators used to establish this ESG score include, for example:

- Scope 1 carbon emissions in tonnes of CO<sub>2</sub>, water consumption in cubic metres, nitrogen oxide emissions in tonnes for the environmental pillar;
- the information security policies in place and the frequency of system audits, the number of fatal accidents, the percentage of the total workforce represented by collective labour agreements for the social pillar;
- the total number of directors, the percentage of independent members of the board of directors, the total remuneration as a % of fixed salary for the governance pillar.

Issuers' ESG scores are calculated quarterly, while underlying data are updated at least every 18 months. Ratings can also be adjusted by analysis of controversies or as a result of engagement initiatives. This analysis is carried out using a dedicated proprietary tool for automating the quantitative processing of ESG data (mainly provided by ESG score agencies, but also by specialised agencies), combined with an analysis by the ESG analysis team.

However, one could face certain methodological limitations such as:

- a problem associated with non-disclosure or incomplete disclosure by certain companies of information that is used as input for the rating model;
- a problem associated with the quantity and quality of ESG data to be processed.

Details of the issuers' ESG score methodology are provided in the document entitled "Responsible Investment Policy". This document is available at: <https://www.ofi-invest-am.com/pdf/principes-et-politiques/politique-investissement-responsable.pdf>.

Ofi Invest AM has also identified risk areas for its investments in relation to certain business sectors and international benchmarks. Therefore, the Management Company has introduced exclusionary policies to minimise these risks and manage its reputational risk.

Therefore, the Sub-Fund complies with the policies summarised in the document entitled "Investment Policy - Sector-based and Norm-based Exclusions". This document is available at: [https://www.ofi-invest-am.com/pdf/principes-et-politiques/politique-exclusions-sectorielles-et-normatives\\_ofi-invest-AM.pdf](https://www.ofi-invest-am.com/pdf/principes-et-politiques/politique-exclusions-sectorielles-et-normatives_ofi-invest-AM.pdf).

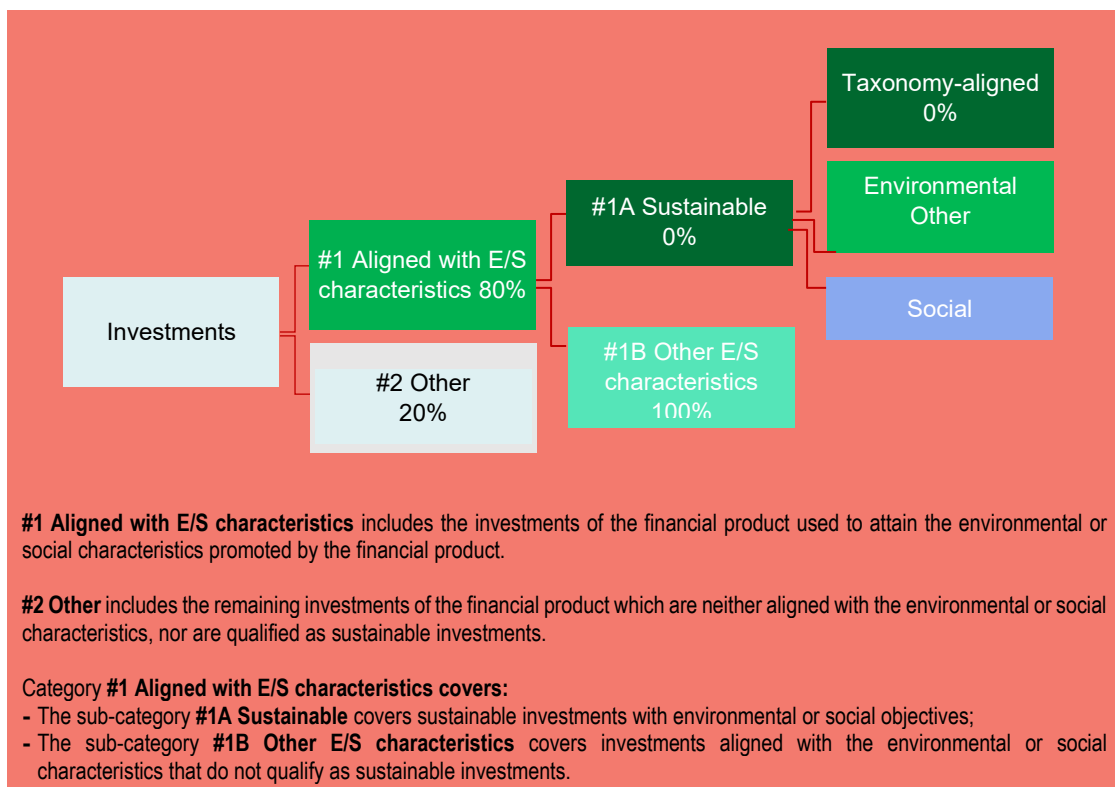
The exclusion policies are available in full at: <https://www.ofi-invest-am.com>

## ■ Proportion d'investissement

The Sub-Fund has at least 80% of its investments used to attain the environmental and social characteristics promoted (#1 Aligned with E/S characteristics).

Within the (#2 Other) component of 20% of the Sub-Fund's net assets:

- The proportion of all portfolio securities that do not have an ESG score may not exceed 10% of the Sub-Fund's assets.
- A maximum of 10% of the Sub-Fund's investments will consist of cash/cash equivalents and derivatives.



## ■ Control of environmental or social characteristics

Environmental and social characteristics are checked at several levels. A first-level control ensures compliance with the constraints relating to these characteristics. Second-level controls are carried out as follows: the Compliance Department carries out ongoing controls and the Internal Control Department carries out annual checks.

## ■ Methodologies

The promotion of social and environmental characteristics depends on the Fund's strategy and the investment processes specific to each fund.

The approaches used can consist of :

- achieve a minimum ESG score within a universe, or
- adopt a strategy to improve the rating, or
- to exclude a percentage of the worst-performing issuers on ESG factors, or
- to exclude issuers and/or instruments that do not meet Ofi Invest AM's definition of sustainable investment.

For SRI-labelled funds, two PAIs, specific to each fund, are given particular attention and are used as ESG performance indicators. Some thematic funds may track more specific indicators (e.g. % green sales).

The promotion of social and environmental characteristics also involves the management of negative impacts through the monitoring of controversies and the adoption of sectoral or regulatory exclusion policies, for example.

## ■ Data sources and processing

All the suppliers of non-financial data are detailed in our Article 29 - Climate Energy Law report, available on our website at the following address: <https://www.ofi-invest-am.com/fr/politiques-et-documents>

For historical reasons linked to the Ofi Invest Asset Management entity, created by the merger between OFI AM and Abeille AM on 1 January 2023, data may or may not be restated depending on the fund.

The data is retrieved and repatriated into a proprietary rating tool, and quality controls can be carried out to measure the confidence interval. Once the data has been reprocessed according to proprietary methodologies, it is then disseminated in our systems (Référentiel internal database) and made available to users via Excel and the PMS for fund management.

## ■ Limitations to methodologies and data

The methodological limitations of supplier data are as follows:

- Missing or incomplete disclosure by some companies of information used for ESG ratings;
- A problem linked to the quantity and quality of ESG data to be processed;
- A problem in identifying the information and factors relevant to ESG analysis;
- Problem linked to indicators not being taken into account due to lack of available data;
- Estimated data, not necessarily reported by the company, subject to estimation risk;
- Problems linked to methodological changes that make it difficult to compare data over time.

For funds that apply the proprietary analysis model, it is possible to overcome certain limitations, in particular by providing for the possibility of ad hoc ratings for unrated companies, at the request of management. Commitments with issuers also make it possible to obtain information from companies that rarely publish it. A bonus/malus system is also provided for in the event of a difference in assessment between the analysis and the rating agency.

## ■ Due diligence

For funds subject to the proprietary analysis model, due diligence is carried out both before and after the fact, through weekly monitoring of controversies, a quarterly review of ESG ratings that may be subject to a bonus or a penalty where applicable, engagement with issuers on certain issues (climate, biodiversity, social), or to obtain more information on CSR issues, indicators or the management of controversies.

Management constraints are subject to post-trade controls (control of exclusion thresholds for issuers with the worst ESG performance for the funds concerned, control of constraints linked to sector and normative exclusions).

## ■ Engagement policies

<sup>1</sup> The voting and shareholder engagement policy is based on the most rigorous governance standards (G20 and OECD corporate governance principles, AFEP MEDEF governance code, etc.). On the one hand, as part of the voting policy, the Management Company may use a number of actions at General Meetings (dialogue, written question, tabling of a resolution, challenging vote, etc.). In addition, the engagement policy involves dialogue with certain companies, not only to obtain further information on its CSR strategy, but also to encourage them to improve their practices, particularly in terms of governance.

## ■ Designated benchmark

The MSCI USA (Net Total Return) index is used as a comparison SRI universe and is consistent with the Sub-Fund's reference benchmark. However, no reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-Fund.

● **How is the benchmark index permanently aligned with each of the environmental or social characteristics promoted by the financial product?**

Not applicable.

● **How can the alignment of the investment strategy with the index methodology be guaranteed at all times?**

Not applicable.

● **How does the designated index differ from a relevant broad market index?**

Not applicable.

● **Where can I find the method used to calculate the designated index?**

Not applicable.

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<sup>1</sup> This policy is applied according to the asset class of the funds, and therefore mainly for those exposed to equities.