CLIMATE AND BIODIVERSITY APPROACHES

EDMOND DE ROTHSCHILD
ASSET MANAGEMENT (FRANCE) | SYNTHESIS 2024



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MARKETING COMMUNICATION

SYNTHESIS

In 2017, Edmond de Rothschild Asset Management (France) drew up a climate roadmap aligned with the Paris Agreement, with the aim of helping to limit global warming to less than 2 degrees. It was updated in 2020 to take into account the climate emergency and the responses provided by the various economic actors and regulatory authorities.

Our membership[1] of the Net Zero Asset Managers (NZAM) initiative in May 2023 marks the strengthening of our climate commitment and concretizes the approach developed in this roadmap. Indeed, Edmond de Rothschild Asset Management is committing more than €26 billion in assets[2] to the objective of carbon neutrality by 2050.

This document therefore aims to anchor Edmond de Rothschild Asset Management's (France) NZAM commitment to this structured climate approach, by updating and explaining our strategy, organisation, risk management and climate measures, in line with the recommendations of the TCFD (Task Force for Climate-related Financial Disclosures).

This second update also recognizes the growing importance of biodiversity, which is closely linked to climate issues. This leads us to include biodiversity issues.

In line with our positioning as a conviction-based asset management company, we focus our analysis on the sectors with the highest climate and biodiversity challenges, from the perspective of risks and opportunities. The approach developed applies primarily to the three liquid asset classes Equities, Corporate Bonds and Sovereign Bonds.

In our opinion, the real asset classes managed by the Edmond de Rothschild Group, Private Equity, Infrastructure and Real Estate, which are more long-term, less liquid and have a high climate impact, require an approach adapted to their specific characteristics. Nevertheless, the core elements of Edmond de Rothschild AM's climate governance are common to all asset classes. The reference framework, i.e., that of the Task Force on Climate-related Financial Disclosure and its counterpart, the Taskforce on Nature-related Financial Disclosure, can be mobilized for all asset classes. In addition, our NZAM commitment encompasses both liquid and illiquid assets and uses the same standard (NZIF).[3]

1. Via Edmond de Rothschild Suisse SA
2. That is 47.5% of total eligible assets
3. Net Zero Investment Framework

GOVERNANCE

Edmond de Rothschild AM (France) has built its climate governance in line with the Edmond de Rothschild Group's existing commitments to the energy and environmental transition. Our supervisory bodies, the Board of Directors of Edmond de Rothschild (Switzerland) Group and the Supervisory Board of Edmond de Rothschild Asset Management (France) have the final responsibility for aligning our climate and biodiversity approaches with the Group's climate strategy.

The Group Asset Management Committee (CAMG) is in charge of steering and monitoring the climate approach. The Responsible Investment (RI) Steering Committee is fully integrated into the CAMG and chaired by the CEO Global AM. Various operational committees of Edmond de Rothschild Asset Management (France) such as the Dialogue and Engagement Committee, the Voting Committee and the Exclusion Committee structure our approach and facilitate its monitoring.

Edmond de Rothschild Asset Management (France) has a dedicated RI team, in charge of forging our RI approach, including climate and biodiversity, as well as our related methodologies. In particular, it ensures that climate issues are reflected in its ESG analysis model. It also develops policies for excluding sectors with high climate risk and defines and updates voting and engagement policies in line with our climate approach.

The IR team relies on IR correspondents within the management teams as well as the support teams to promote the best possible interactivity around ESG and climate topics on a daily basis.



BROAD SECTOR APPROACH

Since formalising its climate approach in 2017, Edmond de Rothschild Asset Management (France) has chosen to build its approach based on the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD), whose reference framework for climate reporting by issuers and investors is now a standard. For the biodiversity issues included in this update, we rely on the Taskforce on Nature-related Financial Disclosure (TNFD), which builds on the work of the TCFD and whose final recommendations were published in September 2023.

We are updating the climate scenario on which we base our climate approach, now using the latest Net Zero Emissions (NZE) scenario from the International Energy Agency (IEA), published in September 2023. This normative scenario limits annual global emissions to 24 Gt CO2 in 2030, aims for neutrality by 2050 and gives a large place to low-carbon technologies. While it includes new so-called «disruptive» technologies, it highlights the need for the massive deployment of existing low-carbon technologies.

However, we diverge slightly from this scenario, remaining more cautious on CO2 capture and sequestration (CCS[4]) and civil nuclear power.

Our approach is not to spread ourselves too thin and to remain focused on a limited number of sectors and issuers. Our model distinguishes 5 levels of risk and 5 levels of opportunity by distinguishing three periods:

- Short-term horizon (2024-2029) ;
- Medium-term horizon (2030-2039) ;
- Long-term horizon (2040-2050).

At this stage, the approach remains global and does not include, apart from our country analysis, additional breakdowns by geographical investment area (Europe, US, Japan and emerging countries). This is still an area of development for the future. It should simply be remembered that the economies of emerging countries are more exposed to climate change than those of developed countries.

CLIMATE RISKS AND BIODIVERSITY

The TCFD proposes a 4-axis typology to identify the risks related to the challenges of transition and adaptation to climate change. These are Regulation, Technology, Markets and Reputation. In addition to these risks, there are potential physical risks. The review of these areas has led us to identify 5 sectors and 16 sub-sectors with high climate risk, 10 of which are high as of today.

4. Carbon Capture and Storage

CLIMATE RISKS

High risk sectors 1.5°C	2024-2029	2030-2039	2040-2050	Comments
ENERGIE / EXTRACTION				
COAL	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
OIL - OIL SANDS	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
OIL AND GAS- ARCTIC	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
OIL AND GAS - DEEPWATER	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
OIL AND GAS - HEAVY OIL	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
OIL AND GAS - FRACKING	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
OIL AND GAS - COAL GAS	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
TRANSPORT				
AIRLINES		X	X	Domestic vs international flights, emergence of "Flying shame" in Europe
AUTOMOBILE MANUFACTURERS	X			Accrued risk for generalist manufacturers in Europe
MARITIME TRANSPORT		X	X	Need for intenisfication of usage of alternatif fuels and improvement of energy efficiency
INDUSTRY				
STEEL / ALUMINIUM		X	X	Development of breakthrough technologies but lack of investments - recyclable steel
FOSSIL SOURCES CHEMISTRY		X	X	If absence of adaptation and evolution towards green chemistry
CEMENT		X	X	Development of breakthrough technologies but lack of investments
UTILITIES				
COAL	X	X	X	Accrued risks if > 10% of the business model, in particular within OECD
NATURAL GAZ			X	Accrued risks if > 10% of the business model, in particular within OECD
AGRICULTURE				
RUMINANT MEAT	X	X	X	Accrued risks for the beef industry (breeding, transformation, catering)

Source: Edmond de Rothschild Asset Management (France), september 2024

On the biodiversity side, the TNFD identifies 5 main transition risks: Regulatory, Technological, Market, Liability and Reputational risks. The sectoral approach leads us to identify 5 sectors and 6 sub-sectors with high risk.

BIODIVERSITY RISKS

High risk sectors 1.5°C	2024-2029	2030-2039	2040-2050	Comments
CONSUMER STAPLES				
FOOD & BEVERAGES	X	X	X	30% of the global biodiversity loss is due to land use for large scale food production.
MATERIALS				
METALS & MINING	X	X	X	The system change implies an intensification of extraction of minerals to answer the new needs.
ENERGY				
OIL AND GAS	X	X	X	
ENERGY/INFRASTRUCTURE PRODUCERS	X	X	X	
CONSUMER DISCRETIONARY				
TEXTILE	X	X	X	Industries such as cotton at risk.
INDUSTRY				
CHEMICALS	X	X	X	If no adaptation and evolution towards green chemistry; notably issues for plastic

Source: Edmond de Rothschild Asset Management (France), september 2024

While our broad sector approach focuses on climate and biodiversity transition risks, we systematically integrate physical risks related to climate and biodiversity into our ESG analysis model, weighting them according to the activity and especially the location of the issuer's production sites and supply chain if the data allows it

CLIMATE AND BIODIVERSITY OPPORTUNITIES

The TCFD proposes a 5-axis typology to identify opportunities related to climate change. These are the management of resources, energy sources, products and services, markets and resilience. The review of these areas has led us to identify 25 high opportunities listed below, 20 of which exist today (period 2024-2029).

CLIMATE OPPORTUNITIES

High opportunitiy sectors	2024-2029	2030-2039	2040-2050	Comments
ELECTRIFICATION				
DISTRIBUTION NETWORK	X	X	X	Need to invest in distribution networks
HEAVY INDUSTRY - HEATING				Inrease of the porportion of alternative fuels
UTILITIES	X	X	X	Weight of renewables in the electricity production estimated at 60% in 2030 and over 90% in 2050.
SMART GRID	X	X	X	Capital goods and business services sectors
ENERGY EFFICIENCY				
ENERGY	X	X	X	Capital goods and business services sectors
IT	X	X	X	Data centers, Internet, Semiconductors and Software sectors
TRANSPORT	X	X	X	Automotive equiment supplier and capital goods sectors
BUILDING	X	X	X	Construction material (isolation), climatisation and consumer goods (LED) sectors
HEAT PUMPS	X	X	X	3-5 x more energy efficient than gas boilers
INDUSTRY	X	X	X	Capital goods and business services sectors
RENEWABLES				
SOLAR INDUSTRY	X	X	X	Secteurs capital goods - Economies d'échelle en cours
WIND INDUSTRY	X	X	X	Secteurs capital goods - frein technologique à court terme sur l'offshore et d'acceptabilité sociale sur l'onshore
BIOMASS		X	X	Progressive ramp up of 2nd and 3rd generation biofuels , including SAF for air transport
STORAGE OF ENERGY				
STORAGE OF BATTERIES		X	X	Still insufficient technological visibility - Deployment of stationlary battery storage capacities (+ 2500% GW vs 2010)
BATTERIES ELECTRIC VEHICLES	X	X	X	Increasing competition and issue of battery recycling
TRANSPORT - SUSTAINABLE MOBILITY				
HYBRID	X	X		Sustainable mobility transistion technologies until 2035
"LOW CARBON" HYDROGENE		X(2035)	X	"Low carbone" hydrogen competitivity starting from 2035 - insdustry shift first

Source: Edmond de Rothschild Asset Management (France), september 2024

FULL ELECTRIC - EV	X	X	X	Acceleration and ramp up ongoing - starting from 2030, 65% of vehicles sold will be electric (AIE, World Energy Outlook 2023)
RAIL	X	X	X	Strong infrastructure resilience and intense competition for automobile equipment suppliers - acceleration of distribution network electrification
WIND INDUSTRY				
GREEN CHEMISTRY		X	X	Aceleration of the shift if oil prices structurally > 100 US$
BUSINESS SERVICES				
ENVIRONMENTAL SERVICES	X	X	X	Strong resilience
TESTING, INSPECTION, CERTIFICATION	X	X	X	Strong resilience
CIRCULAR ECONOMY	X	X	X	Strong resilience - increasing regulation in Europe
UTILITIES				
RENEWELABLES	X	X	X	Benefice of the continuing cost dercrease of equipements over all periods
AGRICULTURE				
PLANT-BASED INDUSTRY	X	X	X	All plant based industries (production, transformation, distribution, consumption)

Source: Edmond de Rothschild Asset Management (France), january 2024

The review of the TNFD's biodiversity opportunity analysis axes (including the efficiency of resources, products/services, markets, sustainable use of natural resources, protection, restoration and regeneration of ecosystems) led us to identify 9 high opportunities, 6 of which are short-term.

BIODIVERSITY OPPORTUNITIES

High opportunity sectors	2024-2029	2030-2039	2040-2050	Comments
FOOD INDUSTRY				
REGENERATIVE AGRICULTURE		X	X	Change of soil use with the help of soil rehabilitation technics, re-introducing native spaces etc. Agritech opportunités.
FISHING/SUSTAINABLE AQUACULTURE	X	X	X	
PLANT BASED INDUSTRIES	X	X	X	
ORGANIC PRODUCTS	X	X	X	
FORESTS				
REFORESTATION/ SUSTAINABLE FORESTS	X	X	X	Agroforestry
MARITIME SPACES				
COASTAL ECOSYSTEMS		X	X	
MARITIME ECOSYSTEMS		X	X	
UTILITIES				
WATER MANAGEMENT	X	X	X	
CIRCULAR ECONOMY				
RECYCLING	X	X	X	The World Economic Forum estimtes the market siza at $4 500 bn in2020.

Source: Edmond de Rothschild Asset Management (France), january 2024

CLIMATE POLICIES AND BIODIVERSITY

Our global exclusion policy includes several exclusion policies aimed at sectors with a high climate and biodiversity impact. These policies actively support the energy transition and are regularly strengthened. These include policies to exclude thermal coal and unconventional fossil fuels.

Edmond de Rothschild Asset Management (France) has defined a comprehensive strategy for exiting thermal coal by 2034, with an exit schedule that distinguishes between developed (OECD) and emerging countries.

We have also decided to phase out unconventional oil and gas companies from our portfolios, starting with the most controversial techniques given their negative impact on the environment. We are targeting a total exit from unconventional fossil fuels by 2040. In addition, in 2024, we implemented a palm oil exclusion policy.

https://am.edmond-de-rothschild.com/media/j4gek0wp/edram-en-exclusion-policy.pdf

These policies are accompanied by a dedicated climate engagement policy. Our individual and collective climate commitment is focused primarily on sectors and sub-sectors identified as high-risk as well as companies with high emittances in absolute value and/or intensity. To do this, we refer to the Climate Action 100+ list.

Regarding biodiversity issues, we are prioritizing companies that are on the Nature Action 100 list. Participation in the filing of climate resolutions at general meetings is also a particular lever for raising the issuer's awareness of the climate emergency

As with any dialogue and engagement, our climate and biodiversity commitment primarily targets issuers in our portfolio (equities and bonds).

https://am.edmond-de-rothschild.com/media/ib2nbcap/edram-en-engagement-policy.pdf

Finally, the voting policy of Edmond de Rothschild Asset Management (France) incorporates requirements related to climate governance.

https://am.edmond-de-rothschild.com/media/dyznbylf/edram-en-voting-policy.pdf

IMPACT MEASUREMENT

OWN METHODOLOGIES

The IR team has formalized a 5-step approach to the global analysis of an issuer's carbon risk:

- ► Carbon footprint measurement;
- ► Assessment of the issuer's carbon strategy;
- ► Measurement of product and service innovation;
- ► Dialogue and engagement;
- ► Decision-making (if any)

Our proprietary EdR BUILD analysis model considers both the climate risks that can affect companies and the means implemented by companies to mitigate them.

Regarding biodiversity, EdR BUILD takes into account the direct or indirect impact of the company's activity on biodiversity. We also evaluate companies' efforts to avoid and reduce the biodiversity footprint as well as remediation (e.g. reforestation projects, area rehabilitation, animal welfare).

For a limited number of issuers, the RI team also formalized in 2023 a proprietary carbon impact scoring model, based on Carbon4 Finance's Carbon Impact Analytics (CIA) methodology. This internal rating applies exclusively to companies not rated by Carbon4 Finance or rated statistically (top-down) by it.

Finally, since 2010, Edmond de Rothschild Asset Management (France) has developed a proprietary ESG analysis methodology that quantifies and proposes for each issuer an ESG impact, positive or negative, on its long-term valuation. This methodology has been developed for the analysis of equities and corporate bonds and integrates the climate component from both the perspective of risks (negative impact) and opportunities (positive impact).

MANAGEMENT TOOLS

Measuring the resilience of the portfolios managed by Edmond de Rothschild Asset Management (France) and therefore their carbon risks is the priority and starting point for effectively managing the portfolios' decarbonization trajectory. We also attach importance to measuring the risks related to the biodiversity of our portfolios, even if we are cautious about the possible management of biodiversity impacts, given the current methodological difficulties and understanding of these measures.

Edmond de Rothschild Asset Management (France) has therefore decided to develop a series of cutting-edge measurement and management tools available to management teams in particular, including a climate dashboard and a biodiversity dashboard. A specific dashboard has been designed to manage our NZAM commitments. We have chosen Carbon4 Finance as the main provider of this climate and biodiversity data.

OBJECTIVES

CLIMATE OBJECTIVES

As part of our NZAM commitments, Edmond de Rothschild AM made the following commitments in May 2024 for its eligible liquid assets (equities and bonds):

► Initial scope of commitment of 70% of the AUM,

► Reduction of carbon intensity (scope 1 and 2) in millions of € invested by 50% by 2030, compared to 2019 levels,

► Achievement of a carbon intensity (scope 1 and 2) in €13.75 million invested in 2030.

Qualitative and/or quantitative targets should focus primarily on funds with the highest carbon footprint (e.g. energy funds) and those with a lower carbon performance than their benchmarks.

We will closely monitor these commitments over time and review these targets at least every five years, with a view to gradually increasing the proportion of assets under management covered, until 100% of addressable assets are included.

Climate dialogue and engagement, including through our voting policy, is also an important part of our membership of the NZAM initiative. We are therefore aiming for at least ten annual commitment actions, three of which are specifically related to climate and/or biodiversity issues.

BIODIVERSITY OBJECTIVES

In a context of a lack of harmonised data and standardised methodologies, Edmond de Rothschild AM will initially focus its efforts on a better understanding of the selected indicators. Similar to our climate-risk exclusion approach, which focuses on sectors with the highest climate risks, we could use our list of high-biodiversity risk sectors in the future to develop targeted exclusion policies, starting with palm oil. We are also aiming for a gradual ramp-up of our engagement with companies exposed to high biodiversity risks.

PRODUCT DEVELOPMENT

Stemming from our approach to climate and biodiversity issues that gives a strong place to opportunities, product development is a strategic focus. Achieving our NZAM objectives at the management company level requires a reorientation of the product mix towards funds with greater climate resilience. All new open-ended funds and dedicated funds – unless expressly expressed otherwise by the client – are intended to be part of our NZAM scope.

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