



ESG Charter – Private Debt

APRIL 2020



ODDO BHF Asset Management (OBAM)

ODDO BHF Asset Management's commitment to integrating ESG is based on the long-term orientation of its business activities. It is an investment management firm and the subsidiary of an independent financial group whose origins date back to 1849 and that has stable long-term shareholders, including the Oddo family (60%), its employees (30%) and others (10%) as of 31 December 2019. This long history has made corporate social responsibility (CSR) standards an integral part of its DNA.

In Europe, sustainable investments represent a booming market, with € 12,800 billion invested in funds that integrate environmental, social or governance criteria, amounting to 48% of total assets under management. On a global level, investments of € 1,500 billion per annum are needed to keep global warming below 1.5°C, with forecasted compound annual growth rates going up to 32% for segments such as sustainable mobility in the 2017 – 2025 period.

Many labels and frameworks have been developed in order to regulate the ESG investment approach. In 2005, the United Nations launched the six Principles for Responsible Investment (PRI) to encourage investors to take sustainable development principles into account in their investment process. The signatories of these principles undertake to:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into their ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which they invest;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work together to enhance their effectiveness in implementing the Principles;
- Report on their activities and progress towards implementing the Principles.

Today, these principles have over 2,500 signatories which represent € 90,000 billion of assets under management worldwide.

In 2010, ODDO BHF Asset Management has signed the Principles for Responsible Investment and they are now the basis of its ESG integration approach, which today represents € 13.7 billion of assets under management integrating ESG criteria for a total of € 60.0 billion of assets under management.

In addition to the Principles for Responsible Investment ODDO BHF Asset Management is also engaged in several other ESG projects, such as the FIR (Responsible Investment Forum), the CDP (Carbon Disclosure Project), the FNG (Forum Nachhaltige Geldanlagen), the Climate Action 100+ and the Investor Agenda. A dedicated ESG team has been formed and seven ODDO BHF Management funds have been labelled Socially Responsible Investment (SRI)* while two have received the FNG label**.



*ODDO BHF Asset Management's 7 funds ISR labelled are: ODDO BHF Avenir Europe, ODDO BHF Avenir Euro, ODDO BHF Avenir, ODDO BHF Génération, ODDO BHF Algo Sustainable Leaders, ODDO BHF Euro Corporate Bond and ODDO BHF European Convertible Moderate

**ODDO BHF Asset Management's 2 funds FNG labelled are: ODDO BHF Algo Sustainable Leaders and ODDO BHF Euro Corporate Bond

OBAM Private Debt

ODDO BHF Asset Management Private Debt's management team has set up a specific approach enabling a custom-made ESG analysis of fundamentals within a long-term investment horizon and thus a better understanding of the risks and opportunities. It consists of:

- Exclusions:
 - Normative exclusions – exclusion of companies that fail to meet certain international standards in the areas of chemical weapons, anti-personnel mines, cluster bombs or violation of international conventions and others, and
 - Ethical exclusions – total or partial exclusion of sectors or businesses based on ethical considerations, such as tobacco, alcohol, coal, gambling, weapons, nuclear, etc.;
- Dialogue and engagement: systematic dialogue with ESG-weak investment targets or portfolio companies in order to improve their compliance.

This approach fits the specific needs and the functioning of the ODDO BHF Asset Management Private Debt team, whose activity is focused on Mittelstand companies, including small and medium European enterprises with a minimum EBITDA of € 3 million. Given their size, some of these companies can only provide a limited amount of information regarding their ESG performance.

Through this approach, the ODDO BHF Asset Management Private Debt team is committed to respecting the Principles for Responsible Investment during the different phases of the investment process, with particular emphasis on:

- The importance of ESG criteria in investment decisions;
- An approach to support the companies in which we are invested, aimed at improving extrafinancial practices and performances;
- Dissemination of relevant information to investors on progress made.

Despite a limited scope of action due to the type of companies targeted by the investments (small to medium sized, with a still relatively narrow ESG culture) and an indirect and sometimes restricted access to their management teams, the ODDO BHF Asset Management Private Debt team keeps the ESG issues at the core of its investment analysis and its asset management process.

1. Pre-investment

The management team undertakes to systematically assess the investment targets according to their ESG profile and to conduct the necessary due diligence adapted to their sectors of activity and the typology of the companies financed through the systematic sending of a questionnaire and, as far as possible, the coverage of ESG topics in meetings with managers.

The ODDO BHF Asset Management Private Debt management team reviews the ESG profile of the targets to determine if there are any warning signals that may prevent investment, such as participation



in any illicit sectors or industries, controversies (industrial accidents, pollution, allegations for corruption, anticompetitive practices, product safety, supply chain incident, etc.) or weak governance controls.

These exclusions include all companies or other entities:

- whose business activity consists of an illegal economic activity, i.e. any production, trade or other activity, which is illegal under the laws or regulations applicable to the Fund or the relevant company or entity, including without limitation, human cloning for reproduction purposes;
- or which substantially focus on:
 - the production of and trade in tobacco and distilled alcoholic beverages and related products;
 - the production of and trade in weapons and ammunition of any kind;
 - casinos, gambling and equivalent enterprises;
 - the research, development or technical applications relating to electronic data programs or solutions which aim specifically at (i) supporting any illegal activity referred to above, (ii) internet gambling and online casinos, or (iii) pornography, or are intended to enable to illegally (i) enter into electronic data networks or (ii) download electronic data.

2. Monitoring

Post-transaction, the ODDO BHF Asset Management Private Debt's management team continues to monitor the ESG status of the companies in which it has invested on an annual basis through:

- The annual sending of the ESG questionnaire;
- The monitoring of the results by the dedicated ESG Committee which, in case of an ESG problem concerning a portfolio company, will ask the management team to understand and treat the problem by setting up a clear action plan in collaboration with the leaders of the company concerned.

The questionnaire asks the investment target companies about the following main points:

- General commitments and existing policies;
- Environmental policy;
- Carbon footprint;
- Job creation;
- Staff turnover;
- Health and safety;
- Employee profit-sharing schemes;
- Risk management;
- Governance in board and top management;

- Responsible procurement.

Our approach is considered successful if the dialogue with an issuer over time leads to greater ESG transparency and / or improvement of their ESG practices. If our engagement proves unsuccessful (non-existent or unsatisfactory dialogue), the management teams may, as a last resort, decide to divest, if necessary and economically viable.

3. Reporting

On the basis of the data collected annually from its portfolio companies and the conclusions of the ESG Committee, the ODDO BHF Asset Management Private Debt team will provide relevant ESG information and progress made to the investors, in the form of an annual report including specific requirements of the investors. These reports may form the basis of a discussion between the investors and the ODDO BHF Asset Management Private Debt team, about the issues that could be of interest to them.

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