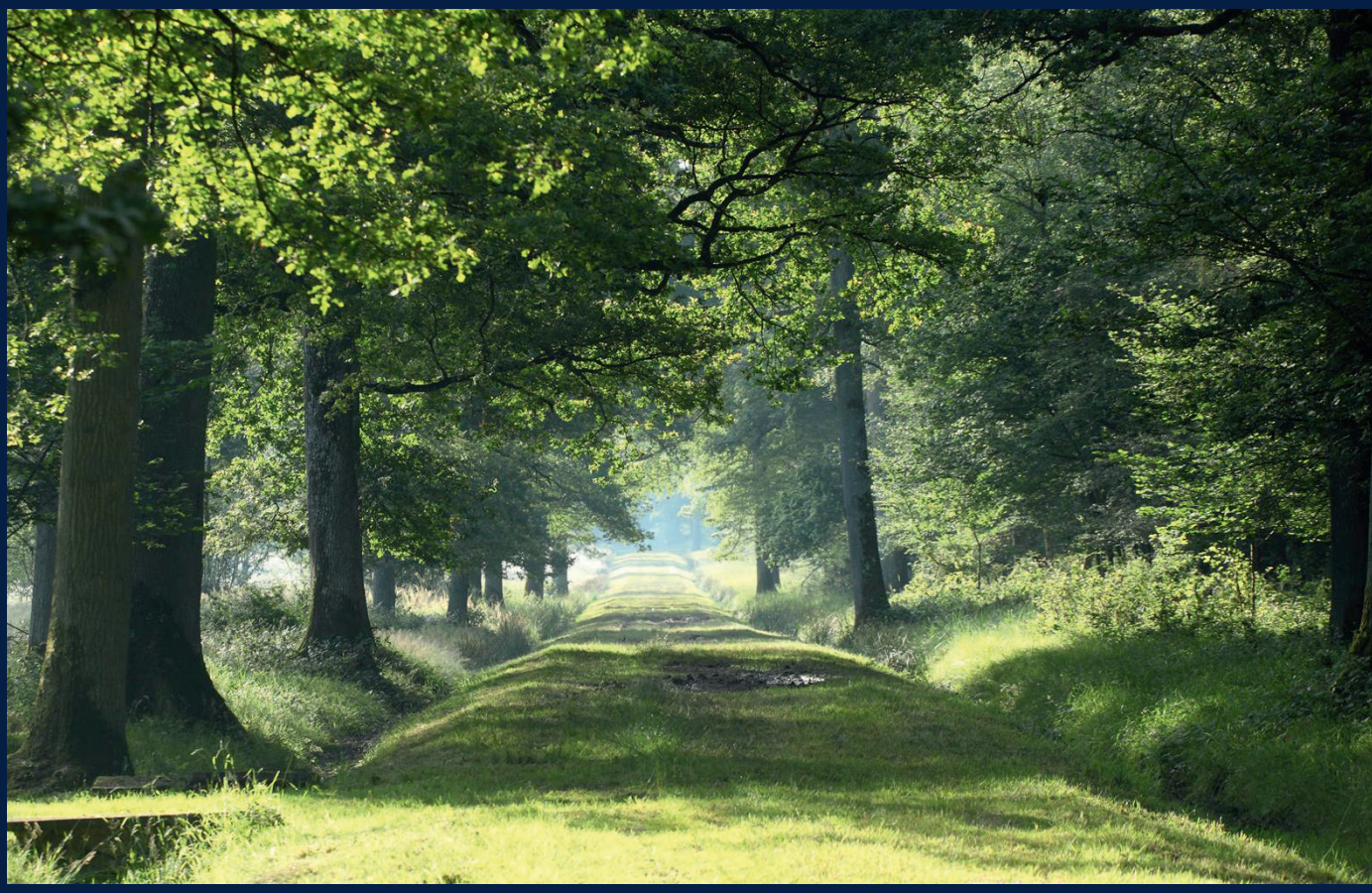
EDMOND DE ROTHSCHILD

RESPONSIBLE INVESTING OVERVIEW



Domaine des 30 Arpents © Edmond de Rothschild

EDITORIAL

CHRISTOPHE CASPAR
Global CEO
Asset Management

MATCHING VALUES TO VALUE CREATION

The Edmond de Rothschild Group has been an investment pioneer for more than 250 years so finding innovative solutions to today's big issues is a major concern for us.

We are maintaining this tradition, rolling out our entrepreneurial and banking expertise across all business divisions to accomplish our mission. Challenges have become more complex. Today, more than ever, they require us to harness strong convictions to create a more responsible economy.

Our responsible investing strategy has an ambitious roadmap, seeking to gradually integrate environmental, social and governance (ESG) criteria across our equity and fixed income strategies. Our specialist SRI fund range acts as a driver for our approach. Real assets also play a key role in helping the world to reinvent itself.

These strategies are all having a bigger impact, helping us to continue offering pioneering products which meet your needs. Many investors are looking to embrace impact investing and are now fully aware of the value created when ESG criteria are taken into account.

Far from sacrificing performance to ethical concerns, responsible investing actually reconciles both, helping to limit risk and volatility and unquestionably providing opportunities for attractive returns.

Rather than speculating on the future, we prefer to join you in building it. Our goal is to leave a visionary legacy to future generations.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré, 75401 Paris Cedex 08

Public limited company with an Executive Board and a Supervisory Committee
Share capital €11,033,769
AMF certification number: GP 04000015 - Paris Trade and Companies Register number: 332 652 536 Paris

www.edmond-de-rothschild.com

A CONVICTION-DRIVEN PLAYER IN RESPONSIBLE INVESTING

JEAN-PHILIPPE DESMARTIN
Head of the Responsible Investment Team

More than 10 years after embracing SRI with the launch of a renewable energy strategy (2007), Edmond de Rothschild Asset Management is escalating its responsible investment drive.

Our responsible investing expertise embodies the Rothschild family's values, guaranteeing improved risk management while creating long-term value. It is simply part of our investment DNA: independent, active, fundamental and conviction-driven. Our aim to is to provide high-performance investments while helping virtuous companies grow. And our approach is validated by the confidence leading institutional clients have in us.

We provide several strategies so as to cater to different client profiles and needs. Our specialist range is designed for investors looking for a positive ESG screening approach. It consists of two open-ended SRI-label funds (EdR SICAV Euro Sustainable Growth, an equity fund launched in 2009, and EdR SICAV Euro Sustainable Credit, a corporate bond fund launched in 2015[1]), an in-depth ESG engagement fund (EdR Tricolore Rendement) and two SRI mandates managed since 2011 and 2012. Assets under management total around €3.5bn[2].

KEY FIGURES

2010
PRI signatory

€3.5 bn
in SRI assets under management

2 SRI
label funds

26 open-ended funds with carbon footprint assessments

3
dedicated SRI analyst-fund managers

A ROBUST PROPRIETARY ANALYSIS MODEL

Our responsible investing expertise relies on a dedicated team of three fund manager-analysts. They are backed up by 8 RI officers specialised by asset class and our proprietary ESG analysis methodology. Our research model enables us to analyse 300 European companies a year regardless of market capitalisation size.

The model is regularly revised and improved, helping us to be highly responsive and take contrarian positions in innovative companies. Since 2017, it has included the UN's 17 Sustainable Development Goals in research into sovereign and private issuers of equities and bonds. Activation of the 17 SDGs depends on each SDG's relevance to the company concerned. In practice, 7 of these SDGs account for 75% of activations in our model, or 1.4 SDGs per company.

Investment decisions are strongly influenced by a company's sustainability. This is assessed using economic/financial, social and environmental/governance factors like the establishment of balanced long-term relations with stakeholders.

GRADUAL INTEGRATION OF ESG CRITERIA ACROSS ALL INVESTMENTS

Edmond de Rothschild Asset Management has undertaken to constantly raise its financial and extra-financial performance standards. Our approach seeks to (i) promote the emergence of more sustainable models, (ii) control risks and (iii) create long-term opportunities.

In our drive to meet investors' increasingly rigorous demands, ESG criteria are being gradually integrated into asset classes in line with each class's specifics. RI officers channel the Responsible Investment Team's convictions and assist all fund managers.

1. EdR SICAV Euro Sustainable Credit is a sub fund of the French-regulated SICAV with AMF certification and is approved for marketing in Austria, Belgium, Switzerland, Germany, Spain, France, the UK and Italy.

EdR SICAV Euro Sustainable Growth is a sub fund of the French-regulated SICAV with AMF certification and is approved for marketing in Austria, Belgium, Switzerland, Germany, Spain, France, Italy, Luxembourg and the UK.

2. Data at 28/02/2019.

JOINT INTERVIEW

SPECIALIST SRI MANAGEMENT: WHAT IMPACTS FROM INTEGRATING ESG CRITERIA?

Integrating ESG criteria in investment strategies means so much more than simply taking ratings into account. Our dedicated funds, Edmond de Rothschild SICAV Euro Sustainable Growth (a eurozone equity fund) and Edmond de Rothschild SICAV Sustainable Credit (eurozone corporate debt) take a pragmatic but rigorous approach which translates into high selection rates rather than a priori exclusions. This approach is made possible by our proprietary research which guarantees independence and responsiveness, forming the corner stone for Edmond de Rothschild Asset Management's SRI investment strategy.

Alexis Foret, fund manager Corporate Bonds and Marc Halperin, Co-Head of European Equities, describe their approach.

ALEXIS FORET
Fund manager Corporate Bonds

MARC HALPERIN
Co-head of European Equities

How can a socially responsible investment approach provide a base for both credit and equity investments?

A.F : Responsible investment criteria round off our credit analysis and help us better identify investment risk factors. Integration is all the more important as it is based on in-house analysis. As well as providing more in-depth analysis, it also gives us a crucial, independent vision. This is particularly true for our Edmond de Rothschild SICAV Sustainable Credit fund as it helps us maximise leeway when investing in high yield[1] credit. We believe these companies are in an attractive investment universe but they are often unlisted and therefore coverage by extra-financial rating agencies is very limited.

Team proximity provides responsiveness and flexibility, allowing us to seize a maximum number of opportunities, especially on the new issues market.

M.H : Responsiveness is of course indispensable, but the value added from the in-house model for our equity strategy mainly relies on its independence and ambitious vision. This is because our RI research teams help us invest in small and mid-caps, a segment which extra-financial rating agencies do not cover much, if at all. This segment therefore represents a genuine source of investment opportunities for the Edmond de Rothschild SICAV Euro Sustainable Growth fund.

> THE VALUE ADDED FROM OUR IN-HOUSE MODEL RELIES ON ITS INDEPENDENCE AND AMBITIOUS VISION

How does SRI provide fresh investment ideas? Could you give us some examples?

A.F : The credit fund gives us access to a vast market with an almost daily flow of new deals. Many issuing companies are privately held and that generally means no rating from specialist agencies. Our role is to harness our in-house SRI screening process to identify new opportunities. By digging into the business models of low-visibility issuers, we can throw light on traditional players with large exposure to renewable energy and thus broaden our portfolio with new ideas. Good examples are Italy's Enel and Portugal's EDP, which are the biggest national electricity producers. Their migration towards renewable energy has helped increase their valuation multiples. At first glance, these groups were not obvious candidates for an SRI portfolio but we currently hold both.

M.H : We are both in total agreement on this point as our approach to equities is largely the same. SRI provides a new analytical angle, one that means we can invest in sometimes unexpected stocks. Our approach is clearly pragmatic and non-dogmatic. We exclude few stocks a priori and instead put the accent on extra-financial analysis, ending up with a rather high 44% in selection rates. On the other hand, we have a few examples where our in-house rating has generated genuine interest. GTT, which is specialised in liquefied natural gas, provides a solution to environmental issues that a traditional analyst would not necessarily pick up on. Fineco Bank was given a low rating by extra-financial agencies, mainly because some company information was hard to get, but our in-house model sees genuine upside.

You have one proprietary model and the same SRI research team and yet your portfolios have little in common. Why is that?

A.F : In my view, this is because our initial universes are rather different. On the credit side, we look mainly at banks and non-listed companies. A significant 15% of the fund is invested in non-European issuers of euro-denominated debt. We also look closely at corporate governance issues so as to get the best assessment of any downgrade or even default risk. We look at ESG analysis through a corporate debt prism: as bond investors, our major concern is the solvency of companies we select. Our investment process consists of totally independent and complementary financial and extra-financial analysis, neither of which intrudes on the other. We always bear in mind that a virtuous company is not necessarily profitable.

M.H : Our investment universes do in fact explain a lot of our differences. We are not analysing the same company profiles. On the credit side, companies are generally rather mature while we focus on companies with strong potential. We do, however, meet up with stocks like Enel which we also own, or Spie in France.

EDMOND DE ROTHSCHILD SICAV EURO SUSTAINABLE GROWTH[2]

€178m

under management at end March 2019

7.44%

in annualised returns at end March 2019 since launch (July 1984)

28.8%

in 5-year cumulative performance

EDMOND DE ROTHSCHILD SICAV EURO SUSTAINABLE CREDIT[3]

€127m

under management at end March 2019

4.35%

in annualised returns at end March 2019 since launch (June 1982)

12.4%

5 year cumulative performance

Past performance is not necessarily a guide to future returns.

Information on securities herein may not in any way whatsoever be construed as an opinion of Edmond de Rothschild Asset Management (France) on future price trends in the said companies, nor, where applicable, on the likely price trend of the financial instruments that these companies might issue. Any information herein cannot be interpreted as a solicitation to buy or sell these stocks. Portfolio holdings are likely to change over time. Source : Edmond de Rothschild Asset Management (France). Data at 29/03/2019.

1. High yield : corporate bonds with more default risk than investment grade bonds but which pay out higher coupons. 2. Performance of the A–EUR share from launch: 05/07/1984 to 29/03/2019: +1,111.2% or an annualised 7.44%. The fund is a category 5 or high risk/return fund profile which reflects its ability to be up to 110% exposed to equity markets. 3. Performance of the A–EUR share from launch: 24/06/1982 to 29/03/2019: 378.25% or an annualised 4.35%. The fund is a category 3 or high risk/return fund profile which reflects its ability to be up to 110% exposed to equity markets.

The risks described below are not exhaustive. It is up to each investor to analyse the risks associated with each investment and to form their own opinion.

Risk of capital loss: The UCITS does not benefit from any protections. This means that the capital initially invested may not be returned in full even if subscribers retain their units for the entire recommended investment period. Equity risk: The value of an equity can fluctuate due to factors that are specific to the issuing company, as well as exterior political or economic factors. Changes in equity markets, as well as in convertible bond markets whose growth is partly linked to that of underlying equities, can lead to significant fluctuations in net assets which can have a negative impact on the net asset value of the UCITS. SRI (socially responsible investment) selection related risk The selection of SRI securities can result in the UCITS departing from the benchmark. Risk related to small- and mid-cap companies: The securities of companies with small and medium capitalisations can be significantly less liquid and more volatile than those of companies with large capitalisations. The net asset value of the UCITS can therefore fluctuate more rapidly and more significantly. Credit risk: If a credit event occurs (for example, a significant widening of the remuneration margin of an issuer compared to a State bond with the same maturity), or a default or downgrading of the quality of bond issuers (for example, a downgrading of their rating), the value of the debt securities in which the Fund is invested may drop, and cause the Fund's net asset value to fall. The use of high-yield securities up to a 100% limit of the Fund's net assets may result in sharper falls in net asset value, and such securities can present a greater risk of default. This Fund must therefore be considered as speculative, and is specifically intended for investors who are conscious of the risks inherent in investing in securities whose rating is low or non-existent.Credit risk from investing in high yield bonds: the fund may invest in government and corporate rated as non investment grade by a rating agency (i.e. rated below BBB- by Standards and Poor's or an equivalent rating from another independent agency) or considered as equivalent by our investment company. These issues are so-called speculative debt securities with a higher risk of issuer default. The fund must be viewed as partly speculative and concerns in particular investors who are aware of the risks inherent in these securities. Consequently, investing in high yield securities (speculative securities which have a higher default risk) may entail a bigger fall in the fund's net asset value.Interest-rate risk: Interest-rate risk is the risk that bond-market rates may increase, thereby causing bond prices to fall and reducing the Fund's net asset value. A rise in interest rates may negatively affect performance for an indefinite period; similarly, if the portfolio's sensitivity is negative, a drop in interest rates may have a negative impact on performance for an unspecified period. This phenomenon may cause the net asset value to fall. Such interest-rate risk may cause the net asset value to fall.Risk linked to the SRI (Socially Responsible Investing) selection: the selection of SRI securities may cause the performance of the UCITS to differ from that of the benchmark.

FOCUS

INTEGRATING EXTRA-FINANCIAL ANALYSIS INTO SOVEREIGN DEBT INVESTING

In 2015, we decided to reinforce our proprietary corporate debt valuation model by integrating extra-financial indicators. These round off our issuer analysis model which takes the budgetary and economic situations as well as banking risk into account.

FRANÇOIS RAYNAUD
Fund manager Asset Allocation & Sovereign Debt

Close cooperation between the Sovereign Debt and Responsible Investment teams resulted in a list of 25 ESG Indicators likely to have a positive impact on the long-term growth of countries under consideration.

Our proprietary SRI rating tool includes criteria related to the three ESG pillars such as greenhouse gas emission intensity compared to energy consumption and a country's ranking in the NGO Transparency International's corruption index.

For each criterion, we award a score in the overall ranking and a relative progress score which depends on the country's positioning vis a vis the universe's extremes and its mean. The progress score rewards countries which are making efforts that we expect will have a positive impact on development and growth prospects.

The analysis takes budgetary efforts into consideration so as to assess the efficiency of sustainable development policies, thereby broadening a bond investor's point of view. Over the long term, our ESG indicators also seek to provide complementary information on how to deal with the core issue of a country's ability to reimburse its debt.

The model is constantly changing. In 2017, we decided to align it with the UN's Sustainable Development Goals for 2030. There are 17 SDGs covering very different fields like climate change, education and the reduction of inequality. Our model helps us anticipate a country's interest rate changes.

IN THE SPOTLIGHT

ENERGY AND ENVIRONMENTAL TRANSITION: TOTAL COMMITMENT ACROSS OUR BUSINESS DIVISIONS

Whatever our expertise, we adopt the same approach. We are committed to a support and assistance role. We act positively, avoiding exclusion and seeking to invest in companies which wish to improve their environmental footprint. Our role is to seek a positive impact by identifying factors which have improved and assisting management in risk management processes. Whatever the investments, we are convinced that there can be no responsible investing without financial profitability. Our goal is to combine financial, social and environmental performance.

SRI EXPERTISE

The responsible Investment team has devised a 2°C roadmap to limit global warming. The document is based on the final recommendation of the *Task Force on Climate-related Financial Disclosures* and the International Energy Agency's latest climate stabilisation scenario.

As part of our gradual drive to decarbonise portfolios by 2040, the 2°C roadmap applies to both equities and bonds. Thanks to our proprietary rating tool, it helps identify issuers who concentrate climate risk and reveal investment opportunities. The roadmap is regularly updated.

In 2015, Edmond de Rothschild Asset Management (France) also signed the Montreal Carbon Pledge which is under the auspices of the United Nations. As a result, we now publish the carbon footprint of 26 open-ended funds.

PRIVATE EQUITY

As impact investing is a core concern for our Private Equity teams, they strive to provide genuine added value for tomorrow's world. Which is why strategies reflect a strong commitment to energy and environmental transition in 2018. Performance metric systems are included in each investment to help rigorously monitor impact management.

► Ginkgo has developed an approach which combines soil decontamination expertise with responsible repositioning. The company integrates abandoned and unusable land to free up wasteland and limit urban sprawl in Europe.

► Moringa acts to combat deforestation by investing in agroforestry projects in Latin America and Africa. To date, 7,500 hectares of forests have been rehabilitated and the goal is to take this to 25,000 hectares by 2027.

► The PEARL fund, which is specialised in turnkey environmental structure projects for major water and electricity users like industrials and local councils, has the "Energy and Ecological Transition for the Climate" (TEEC) label from the French climate and ecological transition ministry. Its solutions include blue gold resource management, renewable energy production and waste recovery.

INFRASTRUCTURE DEBT

Infrastructure projects have a big impact on the environment, especially the design of clean infrastructure or renovation of ageing facilities. The sector creates jobs and helps reduce carbon emissions.

Launched in 2018, the fourth generation of BRIDGE[1], an infrastructure debt platform fund, is focused on energy transition. One of its two subfunds is one of the first TEEC-labelled investment grade[2] senior secured debt funds.

BRIDGE invests in concrete, useful, innovative and emblematic projects which are rooted in the real and sustainable economy. They include wind farms, solar power stations, biomass and geothermal energy projects, energy-efficient social housing and clean transport. The goal is to make our investments for clients even more meaningful.

REAL ESTATE

► Ecological and demographic challenges as well as social developments from new ways of consuming and working are all profoundly changing the urban landscape. Real Estate is a key global economic sector and is playing an active part in changing society and creating tomorrow's cities. The SMART ESTATE fund was launched at the end of 2018 to tap into this trend. It invests in assets which will benefit from these developments over the next five years.

► In addition, Edmond de Rothschild's property platform -investment and asset management- intends to adopt these principles on their local markets (Cleaveland in France, Orox in Switzerland and Cording in Germany, Benelux and the UK). For example, Orox introduced a dynamic dashboard indicating energy indices as well as water, electricity and heating consumption in its Swiss property holdings.

RIGOROUS MONITORING OF IMPACT INVESTING

For us, real estate is much more than expertise: it represents 150 years of a conviction-driven business. Our conviction is that the business can no longer restrict itself only to simply making returns. We are duty bound to assist and shape tomorrow's social and environmental developments. It is a token of our determination to build the future, not only with construction but also renovation projects.

At Edmond de Rothschild, we have always been keen to engage in simple, measurable actions. Our commitment is sincere and pragmatic. In all our activities, whether they be financial, philanthropic, sportive or entrepreneurial, we have introduced new, ground-breaking projects to foster energy and environmental transition.

Our ambition is simply to use our banking and entrepreneurial expertise to fund transition projects.

1. BRIDGE's investment vehicles are reserved exclusively for professional investors, or their equivalent, and might come with restrictions for certain persons and in certain countries. Any investment in BRIDGE involves exposure to certain risks associated with the holding of debt securities such as counterparty risk, non-redemption risk at maturity, deferred or early repayment, credit risk, liquidity risk, interest rate risk, currency risk and concentration risk. The fund has no guarantee or protection and there is therefore capital loss risk. Investors may not recover the amount originally invested.

2. Investment Grade: debt which benefits from specific guarantees and is reimbursed before other, so-called subordinated debt. Investment Grade credit refers to bonds which are almost certain to be redeemed as they are issued by companies with very low to moderate default risk. It corresponds to a rating scale from AAA to BBB- at Standard & Poor's.

The investment vehicles and strategies in this document are reserved exclusively for professional investors or their equivalent and might come with restrictions for certain persons and in certain countries. Any private equity investment involves a degree of risk, notably because of the sort of investments involved. There is no guarantee that targets will be met or that investors will get their money back. Investors should only proceed if they can withstand the total loss of their investment. Such investments only suit qualified investors who must have the financial capacity to understand and accept all the risks they are exposed to as well as the low liquidity which these investments invariably entail. Investors must obtain all necessary information before investing. They must analyse the risk involved, come to their own opinion and seek advice from specialists in this area so as to assess all the investment's advantages and risks at the legal, fiscal, accounting and financial levels with regard to their own circumstances, and especially their financial situation. Any investment in the investment vehicles and/or strategies in this document involves exposure to risks, and notably counterparty risk, credit risk, liquidity risk, interest rate risk, currency risk, concentration risk, capital loss risk, discretionary management risk, geographical and political risk, risk related to being dependent on key persons, property market risk and risk from volatility on these markets, environmental responsibility risk or risk from investment selection, infrastructure project risk and risk inherent in development capital investments. Potential investors are invited to acquaint themselves with information on vehicles and strategies. Information in this document shall in no way be construed as a transaction or solicitation offer in any jurisdiction where such an offer or solicitation is illegal or in which the person making the offer or solicitation is not authorised to act.

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