



INNOVATION IN RESPONSIBLE INVESTMENT

MANAGEMENT APPROACH¹

Introduction

The different entities of the Edmond de Rothschild Group have laid down their responsible investment commitments in specific policies. For Edmond de Rothschild Asset Management (France), its Responsible Investment Policy is a public document². Several documents relating to this entity's approach to responsible investment, and the solutions it offers, are available online in a dedicated section³. The information and documents relating to Edmond de Rothschild Private Equity's approach can also be consulted online⁴. A Sustainability Charter specific to the Private Equity platform sets out its policy with respect to incorporating environmental, social and governance (ESG) criteria into its investments.

Edmond de Rothschild Asset Management and Edmond de Rothschild Private Equity are signatories to the Principles for Responsible Investment (PRI)⁶, supported by the United Nations. [\(103-1b,c - 103-2c - 103-2-c.i\)](#) [\(103-2-c.i\)](#)

Sustainability context

[\(103-1b.ii\)](#)

Responsible investment has become increasingly prominent as a result of the financial sector's realisation that, through its strategies and investment choices, it can play an important role in limiting the negative externalities of the economic system and investing in companies which were responding to sustainability challenges. The majority of these challenges are the result of exponential industrial development and high global demographic growth. We are facing a major change in paradigm because our whole economic system deliver solutions to these challenges.

Since 2015, the international community has been taking decisive action to clearly express its intention to move towards the new economic paradigm based on sustainability, particularly through the signature of the 2030 Sustainable Development Goals⁷ (SDGs), adopted unanimously by the 193 member states of the United Nations in September 2015, and the beginning of the implementation of the Paris Climate Agreement through its ratification by 125 countries in 2016⁸.

Company values and commitments

[\(103-1b.i\)](#)

Responsible investment is at the heart of the Edmond de Rothschild Group's strategy. For many years, it has been viewed as a major material issue, given its impact on the economy as a whole and on the Group's performance. The Group is convinced that the solutions contributed by the private sector to sustainability challenges are a source of economic growth and return on investment.

¹ The information provided here is in line with the recommendations of the GRI (Global Reporting Initiative) standards, indicated using codes as follows: [103-1b,c - 103-2c - 103-2-c.i](#).

² See, Edmond de Rothschild Asset Management (France), Responsible Investment Policy <https://www.edmond-de-rothschild.com/SiteCollectionDocuments/asset-management/isr/EDRAM-responsible-investment-policy.pdf>

³ See, Edmond de Rothschild Asset Management (France), SRI page <https://www.edmond-de-rothschild.com/site/France/en/asset-management/our-expertise/socially-responsible-investment>

⁴ See, Edmond de Rothschild Private Equity, Internet page <http://www.edmond-de-rothschild.com/site/France/en/private-equity/our-business/presentation>

⁵ Via Edmond de Rothschild Asset Management (France) which is the signatory entity.

⁶ See PRI <https://www.unpri.org/>

⁷ See, UN Sustainable Development Goals <http://www.un.org/sustainabledevelopment/en/sustainable-development-goals/>

⁸ See, Paris Climate Agreement https://unfccc.int/sites/default/files/french_paris_agreement.pdf



In this context, the various entities of the Edmond de Rothschild Group – particularly Edmond de Rothschild Asset Management and Edmond de Rothschild Private Equity – have been proactively focusing their efforts on contributing to this structural economic change. They have therefore set their 2020 objectives and are implementing their roadmaps to integrate ESG (Environment, Social, Governance) criteria into their investments and thus accentuate the positive contribution that they can make to the SDGs.

At the same time, they are working in close collaboration with the Group’s Private Banking entities to make these investment opportunities increasingly accessible and attractive to their institutional, private and external distribution clients, so as to meet their needs, as closely as possible, for investment solutions which perform well in both financial terms and as regards ESG.

The Group uses the term “Responsible Investment” (RI) to refer to its long-term investment approaches which integrate ESG factors in the process of research, analysis, active dialogue with issuers and selection of securities within a portfolio. These approaches that the Group is developing may also be referred to as “Socially Responsible Investment (SRI)” or “sustainable” depending on the terminology preferred by different organisations (PRI, Eurosif), and have the following specific features:

SRI: Socially Responsible Investment / Sustainable & Responsible Investment	Impact investing	<p>Principle: Investment strategy which sets out to respond to sustainability challenges with the explicit objective to create positive economic/financial, social and environmental value for society and investors, while remaining competitive with the market. Evaluation of the impacts and the pursuit of ESG opportunities are focused on with great attention and are the subject of dedicated reporting.</p> <p>Impact at portfolio level: a systematic impact on all investment decisions.</p>
	Sustainability-themed investing	<p>Principle: Investment strategy which involves investing in companies or categories of securities that provide solutions to major sustainability issues, such as health, climate change – including energy and environmental transition – and economic development in emerging countries, while generating growth opportunities linked to the innovative nature of their business models.</p> <p>Impact at portfolio level: a systematic impact on all investment decisions.</p>
	Positive selection and engagement strategy	<p>Principle: Investment strategy with systematic ESG integration combined with the use of ESG criteria either to determine the portfolio composition (e.g. positive ESG selection strategy: best in class/best in universe/best effort), or to practise “engagement” (direct or collaborative in-depth ESG dialogue with the companies, which is formal and traceable).</p> <p>Impact at portfolio level: a systematic impact on investment decisions and/or ESG engagement actions that may affect portfolio composition (i.e. decisions to add to, reduce or sell positions).</p>



Systematic ESG integration		<p>Principle: As regards Edmond de Rothschild Asset Management, ESG integration involves taking into account ESG criteria when analysing a company. This entity has defined its own methodology, identifying 10 criteria to measure the extent of ESG integration in each fund. It considers that a fund has an ESG integration approach if it meets at least eight criteria (SRI funds meet all 10 criteria). The criteria include ESG or carbon screening, ESG dialogue by asset managers and the impact of ESG criteria on the valuation of securities in the fund universe.</p> <p>ESG integration is adapted as necessary to apply it to other types of asset management activities carried out by the Edmond de Rothschild Group, such as multi-asset/fund selection, private equity, infrastructure debt and direct real-estate investments. An investment strategy's assets under management are only included in the "Responsible Investment" category if the ESG integration approach is formally defined and systematically implemented according to the criteria/methodology in place.</p> <p>Impact at portfolio level: unlike other forms of RI such as positive selection, which involve an obligation in terms of results, ESG integration involves an obligation in terms of means.</p>
Exclusions		<p>Norm-based exclusions relating to anti-personnel mines and cluster bombs¹ are defined by Edmond de Rothschild Asset Management. As regards investments, Asset Management has also devised a prohibited and a watch list of countries on the basis of national and international sanctions currently in force. Investments and divestments in those countries are forbidden or subject to prior approval by the Internal Control and Compliance team. These restrictions are integrated into the in-house Dimension system and give rise to pre-trade restrictions.</p>

¹ Note that all of the Edmond de Rothschild Group's investments integrate a normative exclusion of companies linked to the production of cluster bombs and anti-personnel mines, as defined by the Edmond de Rothschild Asset Management RI team.

Our responsible investment strategy has three key components with the following objectives:

1. To support our institutional investors and private clients and help them understand responsible investment and what it means for them. Here, the aim is to break down both perceived and actual barriers to responsible investment and actively encourage the investors and clients to align their investments with their missions/values and objectives;
 - a. For institutional investors (asset owners), our role will therefore be to implement their existing responsible investment strategy or help them draft such a strategy. In both cases, we must take account of their values, the mission of their institution, their fiduciary duty and the expectations of the final beneficiaries such as the people whose savings are invested in pension funds;
 - b. For private clients, we seek to help individuals and families identify the values and sustainability themes that are important to them and then align their investment portfolios accordingly;
2. To raise awareness of the sustainability issues among the directors of listed and non-listed companies by engaging in constructive dialogue with them and, through our engagement actions and investment decisions (e.g. ESG dialogue, vote at General Shareholders Meetings or, as a last resort, exclusion), encouraging best practices or discouraging behaviour with a negative impact;
3. To work with the financial sector and stakeholders in the international community to develop and promote responsible investment and tackle the main challenges together.



This ambition is reflected in the different responsible investment strategies the Group focuses on each year in its sustainability report. The Group aims to gradually increase its assets under management in all the responsible investment categories, from ESG integration (Environment, Social, Governance) to impact investing, the latter having the benefit of combining a positive measurable impact with a competitive return on investment.

Material issues

Keeping a focus, in practice, on both risk mitigation and the identification of opportunities, the responsible investment issues identified as material for the Group are as follows:

- i. Integration of the material ESG criteria into financial analysis;
- ii. Carbon risk management and positive contribution to the energy transition;
- iii. Shareholder activism: dialogue with companies and voting;
- iv. Innovation through the various responsible investment strategies:
 - i. Positive selection integrating ESG criteria;
 - ii. Theme-based investing;
 - iii. Impact investing.

In our annual sustainability report, Edmond de Rothschild Asset Management, Edmond de Rothschild Private Equity and the entities of the Group's Private Banking division explain their approaches and present the investment strategies which are relevant to these issues in the context of their activities. Specific aspects of their management approaches to responsible investment are set out below.

1. EDMOND DE ROTHSCHILD ASSET MANAGEMENT

RI STRATEGY AND GOVERNANCE

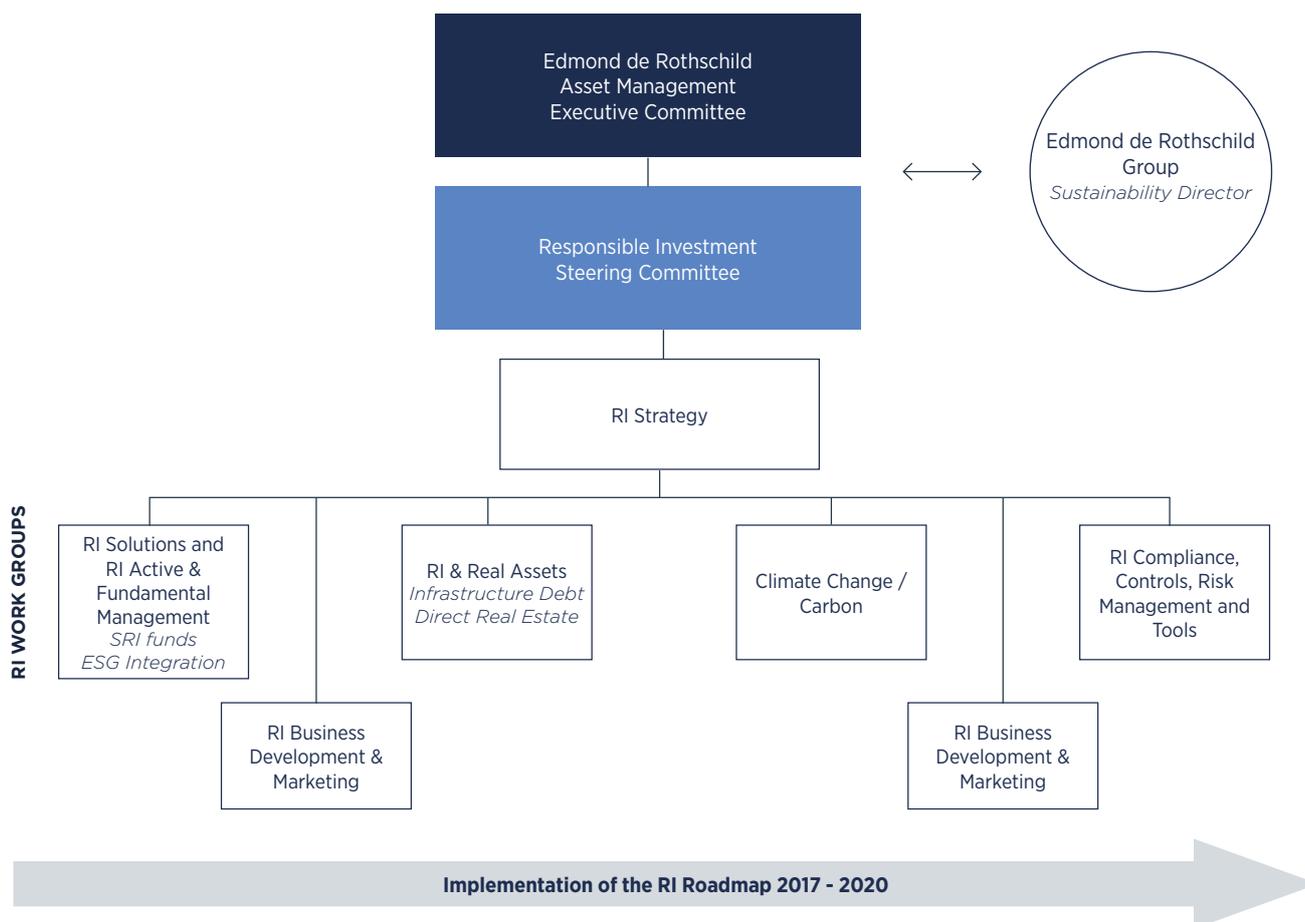
Key elements of the Edmond de Rothschild Asset Management 2017-2020 Responsible Investment strategy



Since 13 September 2017, the 2017-2020 RI strategy is being implemented by investment teams with the help of all support functions. It is overseen by Edmond de Rothschild Asset Management's Executive Committee and coordinated by an RI Steering Committee consisting of 24 RI correspondents from all operational departments. These correspondents are actively contributing to implement the actions included in the 2017-2020 RI Roadmap, which are prioritised within their departments each year.

CONCRETE IMPLEMENTATION OF THE RESPONSIBLE INVESTMENT STRATEGY OF EDMOND DE ROTHSCHILD ASSET MANAGEMENT

Governance and management of the Responsible Investment Strategy



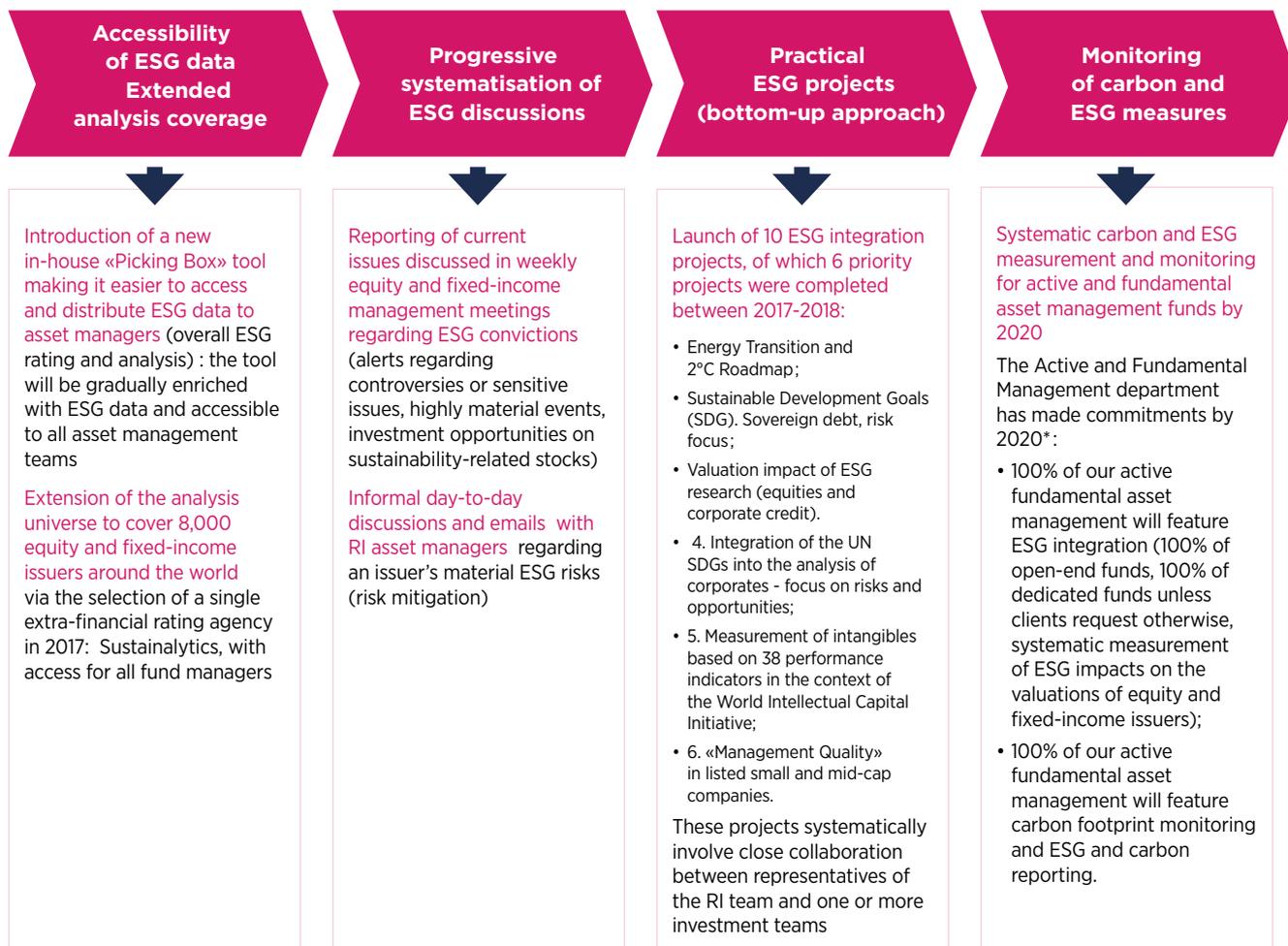
The Responsible Investment Steering Committee, chaired by the Edmond de Rothschild Asset Management CIO, is responsible for formally monitoring the definition and development of the Responsible Investment strategy, as well as its implementation through several dedicated work group projects. Results of these work group projects are presented in detail in the Edmond de Rothschild (France) annual report⁹.

ESG integration

As a PRI signatory, Edmond de Rothschild Asset Management (France) is committed to gradually incorporating the ESG criteria into its financial analysis and reporting on the progress of the integration. The objectives and breakdown of the main stages of this ESG integration are set out in the table below. The results of its PRI reporting are published annually in the Group’s sustainability report and in the Edmond de Rothschild (France) annual report. Management of Edmond de Rothschild Asset Management (France) open SRI funds and support for investment teams in integrating ESG criteria are carried out internally through a proprietary ESG analysis which takes place throughout the year.

⁹See, the 2017 Annual Report of Edmond de Rothschild (France), pages 61 <http://www.edmond-de-rothschild.com/site/France/en/private-banking/annual-reports>.

Edmond de Rothschild Asset Management - Active and Fundamental Management



* These commitments were validated by the Executive Committee of Edmond de Rothschild Asset Management and presented to the Responsible Investment Steering Committee's members on 09/13/2017.

Climate change: a holistic approach to portfolio management

GRI 102-12 / 102-49

Following its signature of the Montreal Carbon Pledge¹⁰ in 2015 and in line with the requirements of Article 173 of the Energy Transition for Green Growth Act in France, Edmond de Rothschild Asset Management is progressively expanding the scope of the carbon footprint measurement applied to its investment strategies. Details of this carbon footprint are available online¹¹. This measurement is the first step in integrating carbon risk into portfolio management.

In 2017, as part of its RI 2017-2020 strategy, Edmond de Rothschild Asset Management laid down a climate strategy which includes a «2-degree» roadmap. This roadmap reinforces its commitment as signatory to the Montreal Carbon Pledge to contribute to the energy and environmental transition of a European and global economy dominated by fossil fuels to a low-carbon economy with the aim of limiting global warming to less than 2°C. The roadmap was developed using in-house expertise, based on the final recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the latest International Energy Agency's 450 Scenario. It is primarily being applied to the Equity and Bond asset classes. A proprietary in-house rating model has been developed to quantify the main climate risks and opportunities within economic sectors and sub-sectors over three different periods - short term (2017-2020), medium term (2020-2030) and long term (2030-2040).

¹⁰See, PRI Montreal Carbon Pledge <http://montrealpledge.org/>

¹¹See, Edmond de Rothschild Asset Management (France) carbon footprint <https://www.edmond-de-rothschild.com/SiteCollectionDocuments/asset-management/isr/EDRAM-FR-EN-empreinte-carbone-carbon-footprint.pdf>



**Climate risk assessment initiated in 2017 covering 5 aspects:
Regulation, Technology, Markets, Reputation, Licence to Operate, Physical Impacts**

2°C High Risk Sectors	2017-2020	2020-2030	2030-2040	Comments
ENERGIE / EXTRACTION				
Coal	x	x	x	Increased risks if > 20% of the business model
Oil - oil sands	x	x	x	Increased risks if > 20% of the business model
Oil & Gas - Arctic	x	x	x	Increased risks if > 20% of the business model
Oil & Gas - Deepwater			x	Increased risks if > 20% of the business model
TRANSPORT				
Airline companies			x	Variable pressure according to geographical area, increasing over time
Car manufacturers	x			Increased risk for generalist manufacturers focusing on thermal engines
INDUSTRY				
Steel		x	x	No «breakthrough» technology within the next 25 years - Steel is recyclable
Fossil-fuel based chemicals			x	If no adaptation
Cement		x	x	No «breakthrough» technology within the next 25 years
UTILITIES				
Coal	x	x	x	Increased risks if > 20% of the business model

Source: Edmond de Rothschild Asset Management (France) at 31.12.2017



Assessment of high-opportunity sectors which contribute to the energy transition for green growth

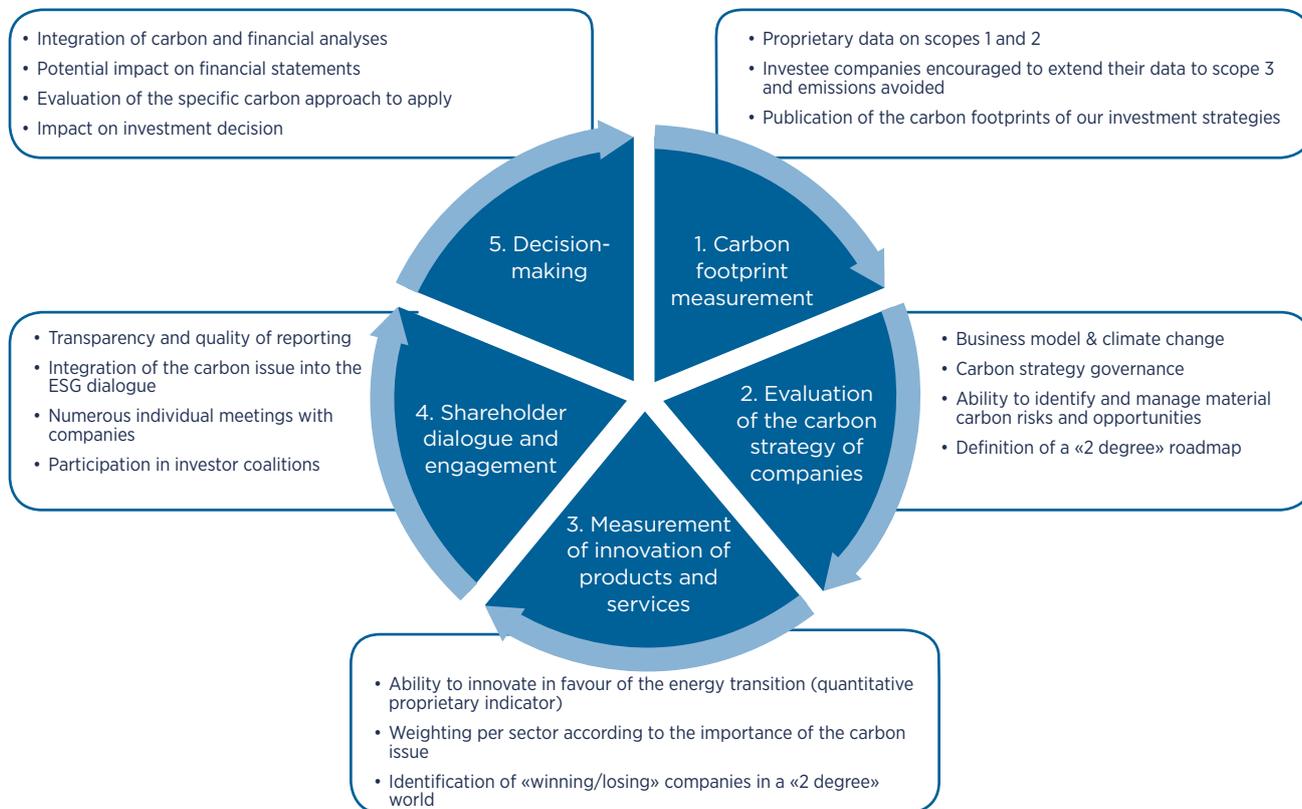
2°C High Opportunity Sectors	2017 - 2020	2020 - 2030	2030 - 2040	Comments
ENERGY/EXTRACTION				
Energy / Smart Grid	x	x	x	Capital goods sectors, business services
IT	x	x	x	Internet sectors, semiconductors, software
Transport	x	x	x	Automotive equipment makers, capital goods
Buildings	x	x	x	Building material sectors (insulation), consumer goods (lighting, LED)
Industry	x	x	x	Capital goods sectors, business services
RENEWABLES				
Wind power industry		x	x	Capital goods sectors - pressure on costs in the period 2017-2020
Solar power industry		x	x	Capital goods sectors - pressure on costs in the period 2017-2020
Biomass			x	Slow rise of 2nd and 3rd generation biofuels
ENERGY STORAGE				
Battery storage		x	x	Lack of technological visibility in the period 2017-2020
Electric vehicle batteries		x	x	Growing intensity in competition in the period 2017-2020
TRANSPORT - SUSTAINABLE MOBILITY				
Hybrid	x	x		Sustainable mobility technology transition during the period 2017-2025
All-electric		x	x	Acceleration of the increase in uptake from 2025
Railway infrastructure	x	x	x	Strong resilience
Railway infrastructure equipment makers		x	x	Growing intensity in competition in the period 2017-2020
INDUSTRY				
Vegetable-based agro-industries	x	x	x	Strong resilience
Green chemistry			x	Acceleration of the transition if the price of oil remains consistently >100 US \$
SERVICES TO COMPANIES				
Environmental services	x	x	x	Strong resilience
Testing, Inspection, Certification	x	x	x	Strong resilience
Circular Economy		x	x	Strong resilience
UTILITIES				
Renewables	x	x	x	Benefits from reduction of equipment cost from 2017-2020 onwards

Source: Edmond de Rothschild Asset Management (France) at 31.12.2017

Climate change is fully integrated in all aspects of Edmond de Rothschild Asset Management's portfolio management and the dialogue it has with issuers, as can be seen in the illustration below:



Climate change: our holistic approach to portfolio management



Shareholder activism

Edmond de Rothschild Asset Management (France) is committed to fulfilling its shareholder responsibility and to practice responsible investment. Voting at General Assemblies is an essential activity in order to take part in company decision-making. For this reason, Edmond de Rothschild Asset Management (France) has committed to voting in a consistent manner on all of the issuers in its portfolios, (with the exception of external SICAVs), regardless of the nationality of the issuers and providing that we own at least 0.01% of a company’s capital, that the information provided by the issuer and custodians is sufficient, and that the depositories are able to take the vote into account. The Voting Policy and annual report on exercising voting rights of this entity can be found on its website¹².

GRI 205-5

¹²See, Edmond de Rothschild Asset Management (France)’s Voting Policy <https://www.edmond-de-rothschild.com/SiteCollectionDocuments/asset-management/isr/EDRAM-voting-policy.pdf> and annual report on exercising voting rights: <https://www.edmond-de-rothschild.com/SiteCollectionDocuments/asset-management/isr/EDRAM-EN-annual-report-on-exercising-voting-rights.pdf>



2. EDMOND DE ROTHSCHILD PRIVATE EQUITY

Responsible Investment Approach

Responsible Investment is integrated into Edmond de Rothschild Private Equity's activities in two main ways:

1. A traditional approach, sometimes including a specific theme, such as economic development in Africa, in which ESG criteria form an integral part of analysis, investment decisions, contractual agreements and portfolio monitoring;
2. A thematic approach using an impact investing strategy. This strategy is attracting increasing numbers of institutional investors, particularly development finance institutions, family offices and private clients wanting to promote not only the financial performance of these investments but also their positive social and/or environmental impact.

As a result of this dual approach, 94% of our assets under management now integrate ESG criteria. The percentage of assets under management covered by each category is published in the Group's annual sustainability reports:

1. Impact investing strategies:

This type of strategy is characterised by its aim to consistently achieve positive synergies between financial, social and environmental performance. In this category, evaluation of the impacts and the pursuit of ESG-related opportunities are a strong focus of our attention at each stage of the investments.

2. ESG integration strategies:

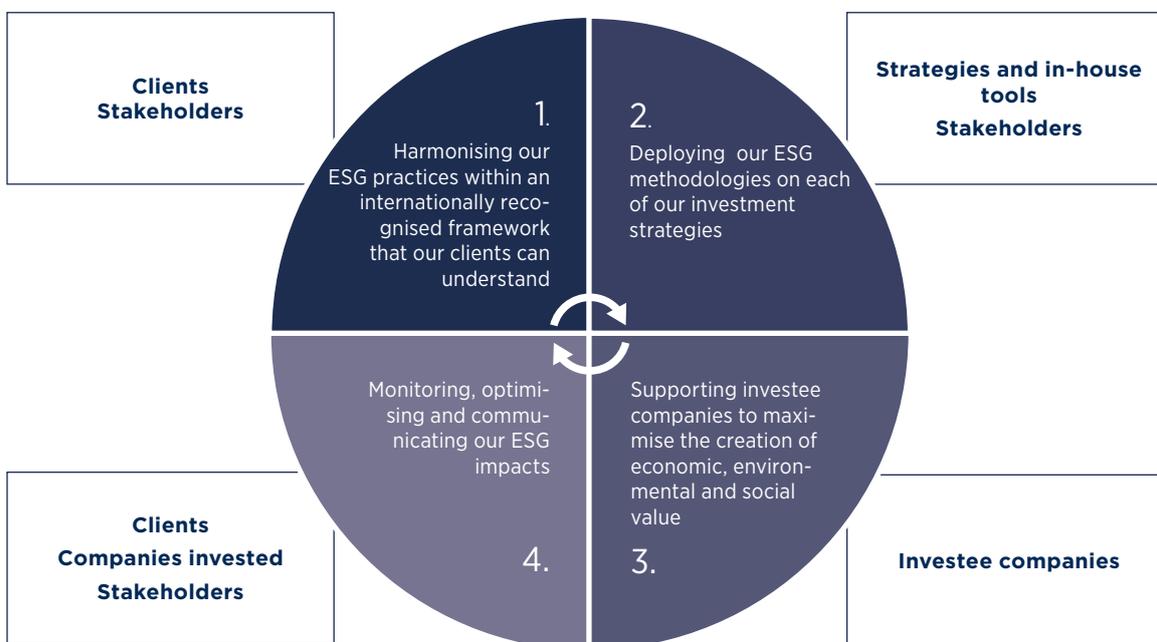
Strategies which integrate environmental, social and governance (ESG) considerations at each stage of their investment process, from selection until final implementation. Analysis of ESG risks is fully embedded in the investment process and these risks are monitored over time.

3. Traditional strategies:

Assets managed according to this approach usually correspond to private equity strategies at the end of their lifespan, and are not subject to ESG integration. They will decrease automatically as these older products are liquidated.

The diagram below shows the management process for integrating ESG considerations into the Edmond de Rothschild Private Equity platform:

The life-cycle of Private Equity Investments



1. Standardising our practices: UN PRI¹³ - reporting across 100% of the platform

The commitment of our Private Equity operations to responsible investment was further strengthened in March 2016 with the signature of the PRI for the entire Private Equity platform, which formalised and harmonised a commitment which had been in existence, but had hitherto been illustrated in different ways by our management companies and our investment strategies. In 2016 we raised awareness among our teams on these matters and reflected on how to implement an integration strategy. This work resulted in these considerations being integrated into the legal documents of both the investment strategies and the management companies. A detailed action plan has also been developed to align our processes with responsible investment issues. In 2016, the Private Equity platform carried out its first voluntary ESG and PRI reporting exercise. These various activities clearly demonstrate our commitment and our convictions to stakeholders.

G4-DMA FS4

2. Our methodology for integrating ESG considerations in our investment activities

A Sustainability Charter specific to the Private Equity platform sets out our ESG policy. For any new strategy or any new fund-raising, we guarantee that a methodology will be applied which includes ESG considerations. This includes a responsible investment policy adapted to each business sector, with a list of exclusion criteria appropriate to each type of investment. There is an ESG officer on our investment team to ensure adherence to our ESG integration procedures at each stage of the transaction. We also communicate and report to stakeholders and investors, to ensure our methodology is transparent.

G4-DMA FS1 / G4-FS11

¹³See, PRI <http://www.unpri.org>

3. Supporting and maximising the economic, environmental and social results of our investments

Thanks to our ESG integration methodology and by supporting our strategies towards these integration models, we are seeking to develop efficient, sustainable growth models. Our role on the boards of directors or supervisory boards of the invested companies gives us significant influence on the development and direction of their strategies, particularly in terms of ESG integration. Each year we publish the main results of our investments, based on their ESG impacts, in the Group's sustainability report. [G4-DMA FS5](#)

4. Performance monitoring and measurement tool

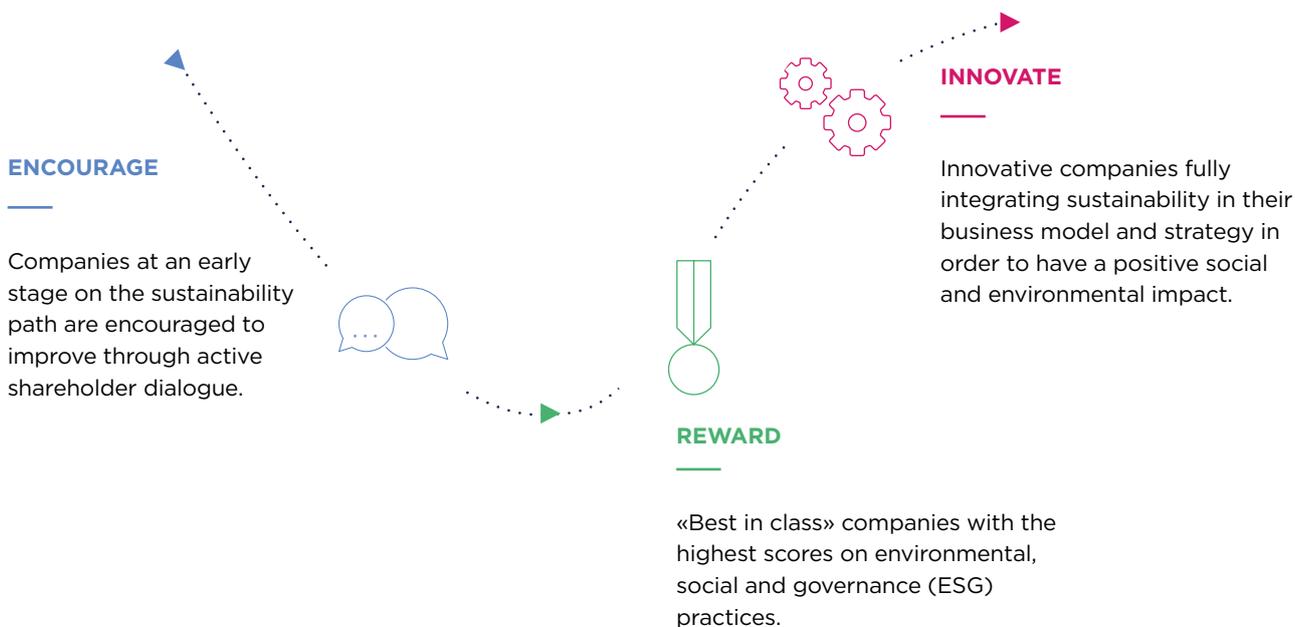
Each year, our impact investment strategies produce a detailed impact measurement report which gives the quantitative and qualitative results of their specific activities. This report is for investors but some of the results, notably those which contribute directly to the UN Sustainable Development Goals, are published in the Group's annual sustainability reports. Our ESG integration strategies also monitor their ESG impacts using specific activity-appropriate indicators. Some of these results are published in the Group's annual sustainability reports. [G4-DMA FS2](#)

3. PRIVATE BANKING ENTITIES OF THE EDMOND DE ROTHSCHILD GROUP

Responsible Investment Approach

The Edmond de Rothschild Group seeks to offer its private clients Responsible Investment products which combine financial performance with a positive social impact. To this end, it has created a Responsible Investment Mandate which enables its clients to align their investments with their values.

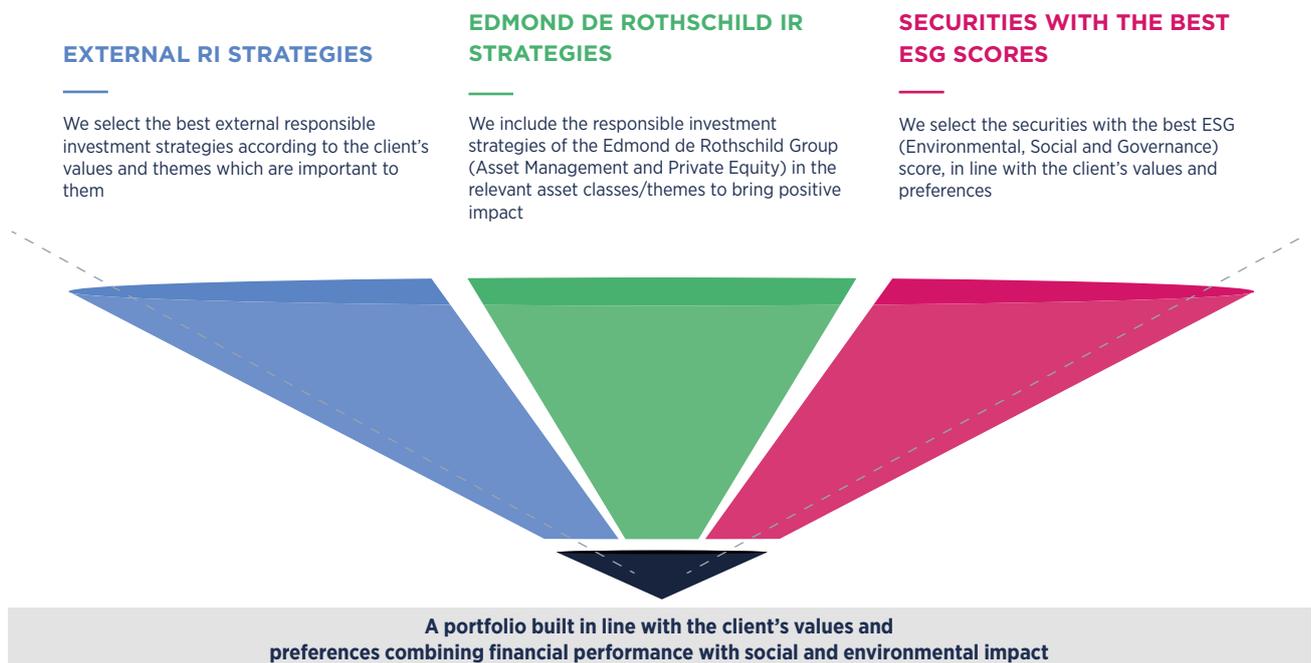
The Responsible Investment Mandate applies the Group's responsible investment philosophy or theory of change: supporting the transition to a sustainable economy by engaging with and investing in three categories of companies according to the type of impact the client seeks to achieve. [GRI 102-44](#)



The Responsible Investment Mandate has three key elements, shown in the diagram below, which can be customised to suit the client's preferences:

1. Edmond de Rothschild Group's in-house responsible investment strategies;
2. The external responsible investment strategies which are selected by the Fund Selection/Multi-asset team of Edmond de Rothschild (Switzerland);
3. The direct line securities selected by the Research and Analysis team at Edmond de Rothschild (Switzerland).

The three components of the Edmond de Rothschild Group's Responsible Investment Mandate



Formal ESG integration processes have been put in place by the teams that contribute to the Responsible Investment Mandate:

1. The Edmond de Rothschild Asset Management (Switzerland) Fund Selection/Multi-asset team has adopted a dual approach:

1.1 A full review of the responsible investment commitments and expertise of all the external asset managers and their respective funds (equities and bonds): each year the Fund Selection/Multi-asset department sends a detailed questionnaire to all external managers whose funds could potentially be selected for integration into the portfolios of private and institutional clients. Each fund on the Group's recommended list is classified according to one (or more) of four categories and the results published on the intranet for the portfolio managers:

- a. SRI funds which seek to generate financial performance by investing in companies and countries which have adopted a sustainability approach (manage ESG risks + seek a positive impact);
- b. funds which integrate ESG criteria to limit risks and take advantage of opportunities;
- c. funds which exclude certain sectors or issuers which could be viewed as having a negative social and/or environmental impact;
- d. funds whose management company is a signatory of the PRI (Principles for Responsible Investment).

1.2 Selection of SRI funds based on specific sustainability-related themes (e.g. energy, water, food/agriculture, ageing population, health, etc.) which have managed to combine financial performance with a positive social and environmental impact. These funds are particularly important to allow us to meet the values and preferences of our clients.

2. The Research and Analysis team at Edmond de Rothschild (Switzerland) has established its ESG integration process as follows:

2.1 Application of the proprietary analysis methodology of Edmond de Rothschild Asset Management (France) to assess the sustainability performance of more than 300 European issuers;

2.2 Access to the Sustainalytics database which contains ESG analyses and ratings of around 6,000 issuers worldwide. This access is made possible by a Group-wide Edmond de Rothschild contract;

2.3 Screening of all issuers on the recommended list based on the analysis of the available ESG data, in close collaboration with the Responsible Investment management team of Edmond de Rothschild Asset Management (France);

2.4 The ESG rating of the companies on the recommended list is published on the intranet for the portfolio managers.

A report on the ESG impact of the Responsible Investment Mandate portfolios is available to clients, if they wish to have it. This report, provided by Conser Invest, a partner Edmond de Rothschild Group partner with expertise on this subject, shows the quality of the portfolio with respect to ESG criteria, the presence of any sensitive or controversial sectors and the exposure to fossil fuels or renewable energies, etc.





Responsibilities

(103-2-c-iv)

Each Group entity involved in the management of responsible investment strategies or portfolios must meet its responsible investment objectives according to the specific context in which it operates (legislation, commitments, client and stakeholder expectations, etc.).

Evaluation of the Management Approach

The Management Approach for Responsible Investment-related issues is constantly being improved based on (1) the Group's vision and strategy, (2) regulatory and market changes and (3) good industry practice. The adjustments required in response to this «organic» evolution in management processes are made incrementally.

For some of the Group's operations, the relevance of its Management Approach can be evaluated with greater objectivity and the adjustments can be made on the basis of various perspectives. These include the checks performed by the Group's Internal Audit Department or the external audit which takes place when the annual reports are being prepared.