



INVESTMENT DEPARTMENT

POLICY FOR INTEGRATING SUSTAINABILITY RISKS INTO INVESTMENT DECISIONS

Introduction

Within the framework of the European Action Plan, new rules on information on sustainable investments and sustainability risks are being applied.

AGIR CHAQUE JOUR DANS VOTRE INTÉRÊT
ET CELUI DE LA SOCIÉTÉ



ASSURANCES





1	INTEGRATION OF SUSTAINABILITY RISKS IN INVESTMENT DECISIONS ...	3
2	RISK MANAGEMENT AND CLIMATE RISK SPECIFIC	5
2.1	RISK IDENTIFICATION	5
2.2	ANALYSIS OF RISKS CALLED "PHYSICAL"	6
2.3	ANALYSIS OF TRANSITION RISKS	6
2.4	IDENTIFICATION OF OPPORTUNITIES	7
3	MANAGEMENT OF BIODIVERSITY EROSION RISKS	7

1 INTEGRATION OF SUSTAINABILITY RISKS IN INVESTMENT DECISIONS

Sustainability risks are taken into account in CALIE's ESG-Climate strategy and investment decisions. Risk of sustainability means any environmental, social or governance event or condition that, if it occurs, could have a real or potential negative impact on the value of an investment.

Since 2016, Credit Agricole Assurances has incorporated environmental, social and Governance factors into its analysis and investment decision-making processes.

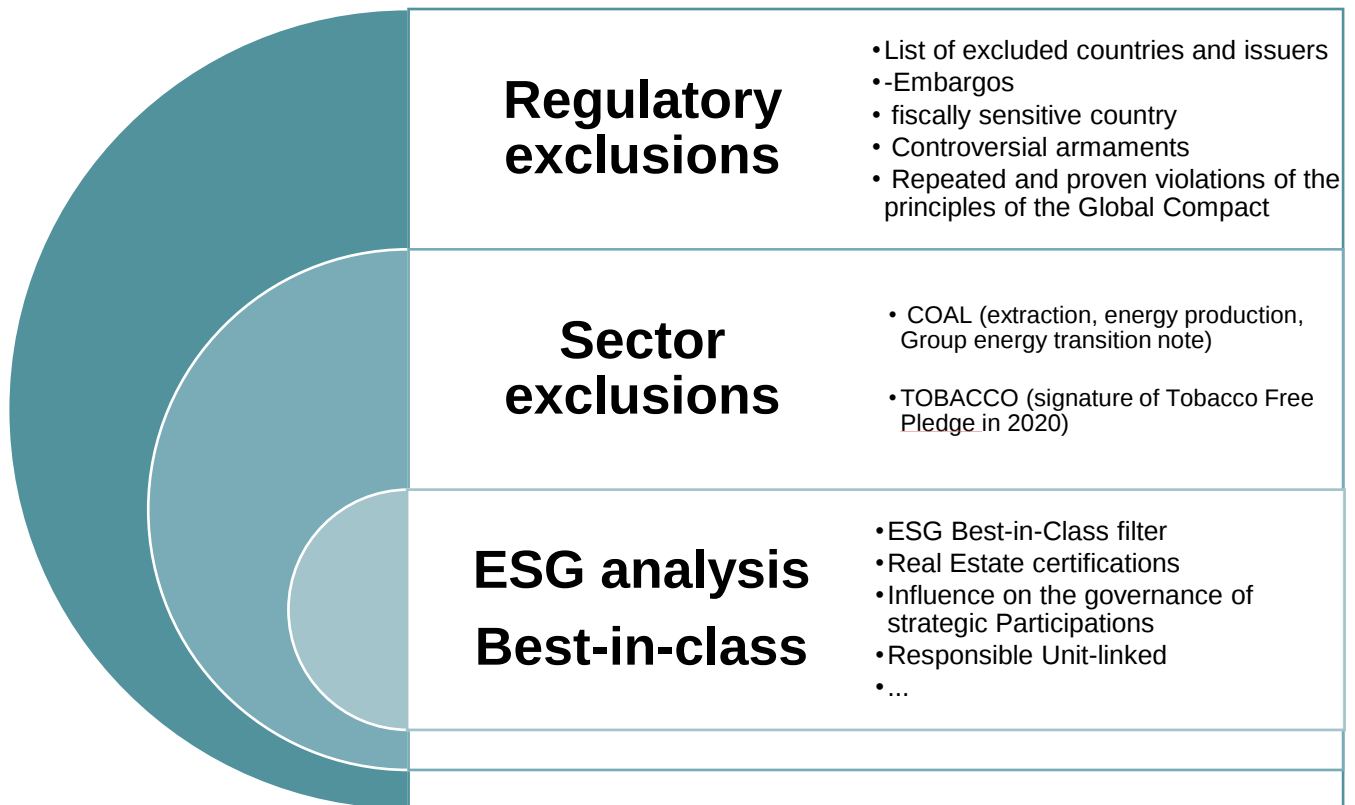
The ESG-Climat strategy of Credit Agricole Assurances is rolled out to all French companies of Crédit Agricole Assurances Group and most international subsidiaries including CALIE, and includes measurable objectives and results relating to the risk induced by climate change, for application to the investment management of the funds expressed in currencies and equities.

In line with the Credit Agricole Group Climate Strategy and as an institutional investor focused on CSR challenges, Credit Agricole Assurances focuses on investments that can support the energy transition and sectors that meet the basic needs of the population: feed it, house it, care for it and provide it with essential services. This also allows it to contribute in part to the Sustainable Development Goals ¹(SDGs).

The Investment Department of the Credit Agricole Assurances Group works for the majority of insurance companies in the group, including CALIE. It defines, together with the companies, their investment strategy, which takes into account ESG-Climat challenges. It then has the responsibility to implement them in the funds expressed in currencies. As part of this implementation, it manages, on behalf of insurance companies, relations with all financial service providers (asset management companies, financing and investment banks, etc.). In addition, it directly manages some of the assets, notably on investments in real estate, infrastructure and debt funds. In the field of ESG-Climate policy, the Credit Agricole Assurances Investment Department exchanges with the Amundi Group team of extra-financial analysts on the evolution of topics, methods and controversies in terms of extra-financial risks (risk and opportunity management). It ensures the consistency of the approaches chosen between the assets managed by the Amundi Group, the assets managed by other management companies and the assets managed by itself.

¹ Details on the site: <https://www.un.org/sustainabledevelopment/fr/objectifs-de-developpement-durable/>

Selection process



2 RISK MANAGEMENT AND CLIMATE RISK SPECIFIC

2.1 RISK IDENTIFICATION

In the context of environmental changes and multiple regulatory changes, CALIE measures the importance of climate change on its business. A risk management system is set up in the overall structure of the company's decision-making process for the inclusion of climate and ESG risks. The ESG analysis helps to better identify risks and opportunities. In this case, the aim is to protect yourself from regulatory, financial, operational and reputational risks. This ESG analysis can be documented as an alphanumeric note and for which holding thresholds can be applied.

The ESG policy on investment decisions is based on the following principles:

- Not to invest in issuers with unacceptable practices,
- Not to invest in practices that, while not unacceptable, lead to significant extra-financial and financial risks: this is the ESG selection.

Before integrating a portfolio company, a review of ESG risks is carried out at the same time as the financial analysis. In this case, it helps to anticipate the depreciation risks and/or environmental impact of our assets. The physical, economic, and even legal impacts on assets held directly or indirectly in investment portfolios are assessed. If an ESG-Climate risk seems too important to us, we do not invest. This may be the case, in particular, in taking into account extreme events related to climate change.

A controversy may arise for a company that we hold in our portfolio. We identify the source, the veracity of the information and the company's response. If the answer does not seem appropriate, a divestment may take place.

As for climate change, which requires initiatives to reduce greenhouse gas emissions, climate risks have been identified:

- The increase in cost of risk due to the increase in climate risks affecting customers, in this case, on products from non-life insurances,
- The cost of the physical impacts of climate disasters,
- Transition risks.

Physical risks	Transition risks
Acute Risks: Increased severity of extreme weather events (cyclones, floods, etc.)	Market risks: Change in consumer behavior (demand for goods and reduced service as a result of a change in consumer preference); Increase in production costs related to price developments (energy, etc.), revaluation of the value of asset (oil reserves, real estate, etc.)
Chronic risks: Rising sea and ocean levels, temperature	Technology / policy Risks: Transition costs associated with the use of less greenhouse gas-emitting technologies; substitution of existing products and services with less GHG-emitting options; Increasing pricing of greenhouse gas issues, strengthening of emission reporting bonds.
	REPUTATIONAL RISKS: Change in consumer preference, stigmatization of certain sectors of activity (e.g. fossil fuels)

To address these physical and transition risks, measures can be taken, such as the development of climate-related insurance products that enable policyholders to reduce their risks, the continued financing of the energy transition, and green technologies.

2.2 ANALYSIS OF RISKS CALLED "PHYSICAL"

Physical risks are risks resulting from damage caused directly by weather and weather events.

As an investor, CALIE's main risk is geographical, with the location of investments. Geographical areas may be exposed to weather events whose occurrence, durability and severity may increase with climate change.

Assets	Risk analysis
Public issuers	The physical risk of climate change has insignificant impacts on sovereign and related debts.
Corporates	Investments are mainly concentrated in Western Europe, the United States and France

2.3 ANALYSIS OF TRANSITION RISKS

Transition risks are risks resulting from the implementation of a low-carbon business model. These are risks linked to adverse developments in commodity prices in the producer and exporting sectors, to developments in energy markets, to the strengthening or compliance with environmental standards, technological risks and reputational risks related to the financing of certain activities.

Several approaches can be used to identify transition risks, in particular the measurement of the carbon footprint. We use two methodologies, notably CA CIB's Top-down approach (SAFE ex-P9XCA).

CALIE's investments are mainly made in Europe and the US, and are mainly in the public administration and services, the economic macro-sector of our greenhouse gas-less portfolios in absolute terms. However, investments mainly in the US, particularly in the transport and energy sectors, despite relatively smaller investments (3-4% of the portfolio), bring the portfolio's carbon footprint to 94 Teq CO2/million euros invested.

The result is a very high degree of heterogeneity in the contributions of the various sectors. Furthermore, within the same sector, the same disparity is found in geographical areas. For the energy sector, CALIE's investments, particularly in France, are the least contributing to the sector's carbon intensity.

It is therefore necessary to be extremely selective in the choice of issuers to invest in. The implementation of the Credit Agricole Group sectoral policies, in particular the coal policy, will give priority to issuers in an energy transition process aimed at reducing their greenhouse gas emissions.

For real estate, the transition risks are identified, in particular during the process of environmental labeling and certification.

2.4 IDENTIFICATION OF OPPORTUNITIES

Our main opportunities as an institutional investor can be summarized by the renewable energy project financing, financing of innovative companies in Energy Transition, investments in green bonds, investments in sustainability-linked loans, financing of transition infrastructures, energy-efficient real estate investments, investments in environmental-certified real estate debts (lower costs in energy consumption generating a positive environmental impact), investments in debt finance funds launching green projects.

3 MANAGEMENT OF BIODIVERSITY EROSION RISKS

In this context of health crisis and priority given to climate and energy transition issues, biodiversity remains an important issue. The conservation and restoration of biodiversity is the responsibility of companies whose activities may harm natural ecosystems.

The TNFD (Taskforce on Nature-related Financial Disclosures), in its first technical recommendations, identifies three main categories of risks:

- Physical Risks: Acute risks (e.g. natural disasters exacerbated by loss of nature protection, resulting in related damage costs) and physical risks (due to loss of ecosystem services).
- Transition Risks: these risks are linked to political and legal, technological, reputational or market changes.
- Systemic risks: these risks relate to financial stability more generally: collapse of natural ecosystems, aggregate risks, contagion effect.

In assessing our investment on environmental, social and Governance criteria, the issue of biodiversity is taken into account in particular in the environmental dimension.

Each issuer is therefore analyzed on how it measures and deals with its negative and positive impact on biodiversity.

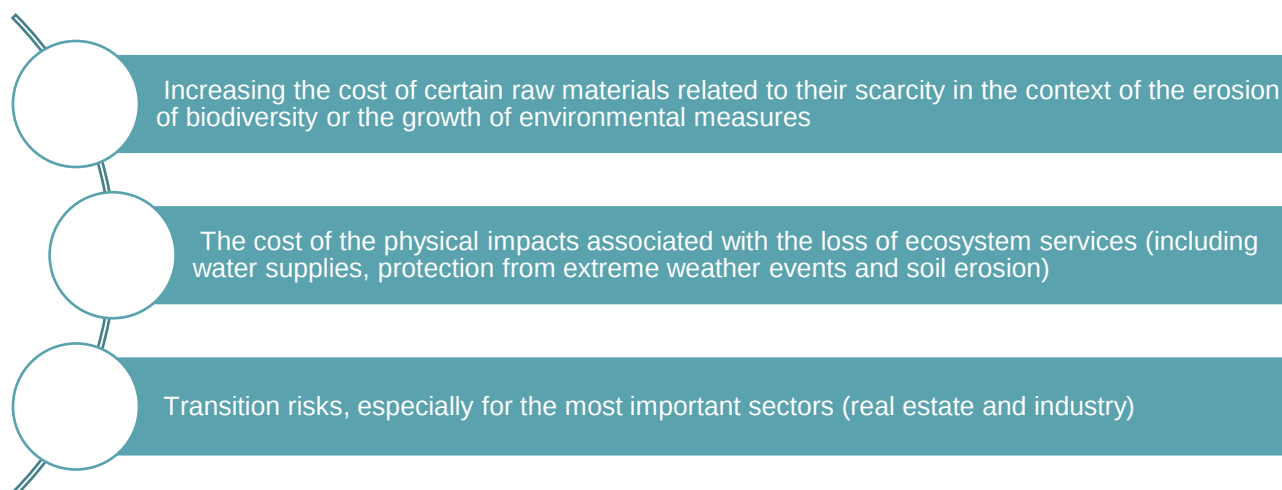
In the portfolio under consideration, a sector is considered highly impacting or dependent if it has a high or very high level of pressure or dependence on nature.

Identification of physical risks	Identification of transition risks
Acute risks: Violent natural phenomena (storm, flood, etc.) related to climate change causing disruptions: • In works, in freight and transport flows and in continuity with the supply of water and energy; • In the production and distribution of energy (degradation of energy production or transport infrastructure); • In water supply or restrictions on its use (increased central cooling difficulties, decrease in hydropower efficiency) • Downgrades to buildings and continuity Chronic risks: • Drought and soil erosion, in particular causing disturbances in the water supply or restrictions on its use; • Shortages of metals for wind power wind mill and photovoltaics (price increase and quality decline over the medium term) • Raising or decreasing the quality of certain supplies which may lead to higher commodity prices • Decrease in metal availability (price increase and quality decline over the medium term), sand (price increase and quality decline)	Market risks: • Customers are increasingly considering the limitation of environmental impact in their choices (the aircraft is particularly over-exposed to these risks but also to infrastructure-sponsoring communities) • Consumers, customers choosing to reduce their carbon energy consumption • Political instability leading to increases in commodity prices (e.g.: Russian oil and gas • Very high impacts on the agricultural sector (feed and deforestation, pollution, etc.), which expose to fluctuations in demand related to meat products and products of certain crop types • As protection of natural areas affects the availability of resources, asset are exposed to market changes caused by changes in demand as a result of price fluctuations • Customers/municipalities wishing for buildings that are more biodiversity friendly and less water-consuming • Customers/municipalities wishing to mitigate the impact of pesticides causing pollution requiring suitable management types or the establishment of labels • Customers/municipalities to combat invasive alien species requiring specific measures Reputation risks: • Very strong impacts on changes in use, fragmentation, soil permeability and pollution can generate conflicts of use and civic mobilization. • The very strong impacts on the change in land use of infrastructure, CO2 and air pollutant emissions from projects can generate conflicts of use and civic mobilization. • Land degradation, water and soil pollution related to car industry batteries, related to the exploitation of certain resources (sand, copper, wood) may lead to boycotts or citizen movements, affecting demand • Impacts of intensive agriculture upstream of the production of bio-fuels or food (palm oil, animal feed) for the catering Political and legal risks: • Access to and preservation of spaces in linear infrastructure projects (strengthening of environmental assessments and compensation measures) • the management of these impacts, the protection of natural areas, which reduces access to certain resources, such as sand, and leads to shortages, higher prices, and lower quality. • Changes in regulations to promote renewable energy and decarbonize energy production • Changes in fuel regulations (fossil fuels, biofuels, etc.) have led to significant risks of compliment, particularly for the car sector; regulations on protected natural areas (expose to risks of reduced access to resources, increases in costs)

- Increased requirements on building standards, particularly in relation to climate change
- Strengthening regulations on protected natural areas and the fight against artificial soil, invasive alien species and pollution (pesticide for green space management)
- Increased waste sorting and management requirements

CALIE has identified certain challenges (climate change, pollution, the relevance of real estate labeling, etc.) and is supporting some of its players in the search for better protection of biodiversity.

Identified biodiversity-related risks:



The current ESG review now takes into account certain impacts and dependencies on biodiversity (e.g. profit-sharing to climate change, pollution, and water consumption).

However, following this first analysis of the biodiversity footprint, new risks have been identified and CALIE will focus in the coming years on building a biodiversity strategy and in particular updating its ESG criteria to deal with these new risks.