

Transparency in the promotion of the environmental and social characteristics of the Sextant PME fund under the SFDR Disclosure Regulation

10 March 2021

As a player in the financial markets, Amiral Gestion is subject to Regulation 2019/2088 of 27 November 2019 on the publication of information on sustainability in the financial services sector (called the "Disclosure Regulation - SFDR").

This Regulation establishes harmonised rules on transparency for players in the financial markets with regard to the incorporation of sustainability risks (Article 6 of the Regulation), the consideration of adverse sustainability impacts, the promotion of environmental and/or social characteristics in the investment process (Article 8 of the Regulation) or the objectives of sustainable investment (Article 9 of the Regulation).

This document aims to communicate in a transparent and centralised manner the way in which Amiral Gestion promotes environmental and social characteristics in the context of the management of its Sextant PME fund, classified as "Article 8" according to the SFDR Disclosure Regulation classification.

Consideration of sustainability risks

Sextant PME is subject to sustainability risks which it takes into account by applying a minimum set of responsible investment practices that are applied to all mutual funds managed by Amiral Gestion¹, as well as additional practices described in this document.

Extra-financial characteristics and objectives of the fund

With the France Relance label, the Sextant PME fund **promotes environmental and social characteristics** while ensuring good business governance practices. It does not **have a sustainable investment objective**.



Sextant PME's extra-financial approach is **not supported by a specific sustainable benchmark**. The management team monitors the ESG characteristics and performance of the fund in relation to **an investment universe consisting of** almost 600 French and European SMEs whose distribution by capitalisation size is consistent with the investment strategy of the Sextant PME fund.

Methods used to assess, measure, and monitor environmental and social characteristics

The extra-financial approach developed by the Sextant PME Fund is based on several supplementary areas:

- **An internal fundamental analysis systematically integrating extra-financial criteria** in the framework of the ESG integration approach applied to our equity funds.
 - o Our managers apply an internal fundamental analysis summarised in our proprietary global "Quality Rating". It is based on the analysis of various criteria on the financial model, the quality of the management, the quality of the financial structure and criteria relating to the environmental, social/societal and governance (ESG) aspects, which are the subject of a specific independent rating called the "Internal ESG rating" integrated

¹ For more information on this minimum set of practices, please refer to the document "Extra-financial communication under the SFDR Disclosure regulation at Entity level" available on the Amiral Gestion website:
<https://www.amiralgestion.com/investissement-responsable/>

into the overall "Quality rating", the scale of which ranges from 1 to 10 (10 being the best rating).

- This ESG rating, based on a qualitative assessment that is not intended to be exhaustive, accounts for 1/3 of the Overall Quality rating². The analysis of these different criteria determines a "quality rating" ranging from 0 to 10. The higher the Overall Quality rating, the more it reflects the quality of the company in terms of its fundamentals for a given valuation level.
- This rating incorporating ESG issues is one of the factors that guides investment decisions and can contribute to the ongoing dialogue with companies, or even the implementation of engagement actions when necessary in the context of potentially material ESG risks.

- **A combination of screenings**

- **Compliance with the fund's sectoral exclusion policy** (coal, controversial weaponry, tobacco, pornography)³
- **Compliance with our standard exclusion policy** : exclusion of companies that violate the United Nations Global Compact principles
- **The ban on investing in companies exposed to high to severe controversies, respectively levels 4 and 5 according to the Sustainalytics classification, and the systematic exclusion of portfolio companies involved in level 5 severe controversies.**

- **An ESG shareholder engagement approach** in the form of **active dialogue**, which can be conducted with all portfolio companies but which focuses on those :

- Whose ESG analysis and ESG Performance Rating (see description below) may reveal shortcomings on certain criteria which are likely to cause high negative externalities and/or long-term management risk.
- Which would be exposed to ESG controversy, such as in relation to a violation of the United Nations Global Compact, by determining the level of severity and/or recurrence.
- Which would be among the main contributors to the fund's carbon intensity, or for those with high stakes in energy transition.

- **Management of the ESG quality of the portfolio via an ESG Performance rating**, the structure of which is described in the last section of this document, **covering at least 90% of the portfolio in large caps and 75% of the portfolio in small and mid-caps** (this rate

² 10 out of 28 criteria are environmental, social and governance. The 10 criteria are presented in the final section of this document.

³Coal

- Exclusion of metallurgical and thermal coal producers regardless of turnover

- Where information is available, the exclusion of companies distributing, transporting and producing equipment and services where 33% of their turnover comes from customers whose business is directly related to coal.

**Tobacco : Exclusion of tobacco producers regardless of turnover, of distributors if this business represents more than 5% of their turnover and of shareholders of tobacco producers if their share ownership is more than 10% of the shareholding.

***Controversial weapons : Exclusion of any company involved in the development, production, maintenance, use, distribution, stockpiling, transportation or trade

- Chemical weapons

- Biological and bacteriological weapons

- Uranium-based weapons

- Cluster bombs / anti-personnel mines

- Non-treaty nuclear weapons

****Pornography : Exclusion of producers of such content regardless of turnover, of distributors and retailers whose activity generates more than 5% of their turnover and of shareholders of pornographic content producers if their shareholding is more than 10% of the shareholding.

can be understood as a percentage of the fund's net assets or in terms of the number of issuers in the fund).

- **A commitment to maintain the portfolio's average ESG Performance Rating above that of its investment universe.**

The shareholder engagement approach applied to the fund is also embodied in the **systematic participation in general meetings**, according to Amiral Gestion's proprietary voting policy⁴.

Internal and external extra-financial data sources and resources

Amiral Gestion has preferred to distribute ESG analysis within the management team for a better representation of expertise, with managers being responsible for the financial and ESG performance of their funds, as well as for dialogue-engagement initiatives with companies. However, support measures were put in place in September 2020 with the creation of an IR/CSR department and an ESG/IR division aimed, in particular, at coordinating ESG analysis and shareholder engagement with companies (voting at shareholders' meetings and active ESG dialogue). This centre of expertise comprises a manager and advisers from among the management teams who are gradually specialising in the environmental, social, societal and governance analysis pillars.

Finally, it should be noted that the manager of the Sextant PME fund is one of the leading experts on environmental issues, and that a person dedicated to ESG analysis is currently being recruited.

In terms of external resources, Amiral Gestion uses and makes available to the management team data from several external agencies to contribute to the responsible investment approach:

- ⇒ Fundamental ESG analysis: internal analysis based on public sources, direct exchanges with companies conducted by the management team and research produced by extra-financial rating agencies (Ethifinance Gaïa Ratings database, MSCI ESG research).
- ⇒ Sectoral exclusion screening : MSCI ESG (except for coal, for which the screening is based on S&P-Trucost data)
- ⇒ Monitoring of the ex-post ESG Performance Rating: ratings from our internal analysis as well as from indicators selected by our teams from Ethifinance's Gaïa Ratings database (see details in the final section of this document).
- ⇒ Review of ESG controversies : Sustainalytics and Ethifinance
- ⇒ Review of compliance with the United Nations Global Compact principles: Sustainalytics
- ⇒ Climate and Environmental Data : S&P-Trucost

Underlying asset valuation criteria and relevant indicators used to measure the environmental and social characteristics of the fund

- i. **As part of the integration of ESG within fundamental analysis, which is central to our selection of securities, Amiral Gestion evaluates 10 ESG criteria out of the 28 that make up the Global Quality Rating of each security :**
 - **Social Pillar**
 - Social utility and the nature of the business
 - Employee motivation and pride in belonging to the company
 - Respect for employees (training and career development policy, corporate culture, etc.)

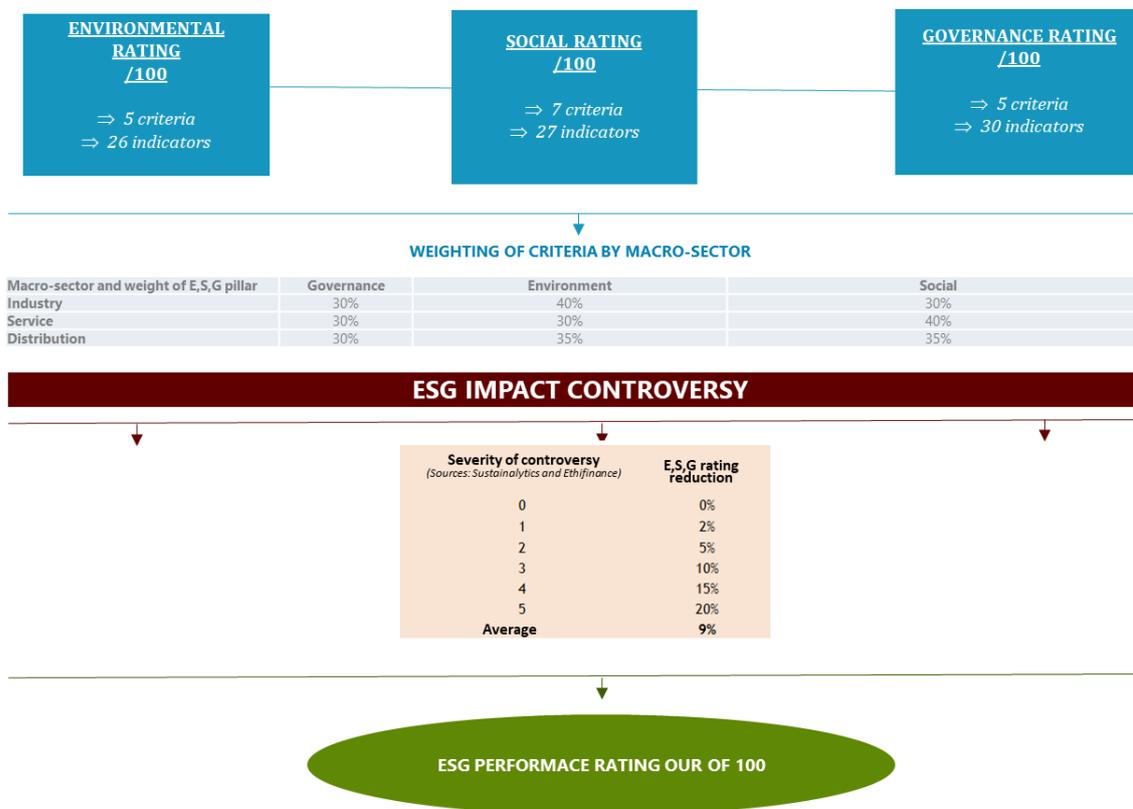
⁴ The voting policy is available on the following website : <https://www.amiralgestion.com/investissement-responsable/>

- **Environmental Pillar** :
 - Overall assessment of the company's environmental policy according to its sectoral exposure
 - **Governance Pillar**
 - The existence of company-specific controversies
 - Governance and alignment of interests with minority shareholders
 - Communication and transparency of the company
 - Encouraging managers to behave with integrity and in support of sustainable development
 - **Societal Pillar / Stakeholder Consideration**
 - Respect for clients
 - Respect for other stakeholders (suppliers, government, fiscal transparency, etc.)
- ii. **As part of the ex-post control of the portfolio's ESG quality, Amiral Gestion primarily relies on an ESG Performance Rating.**
- The source data for the ESG Performance Rating comes from our internal analysis as well as from indicators selected by our teams from the Ethifinance Gaïa Ratings database. The detailed rating criteria are shown in the diagram below. **This rating enables the calculation of the ESG quality** of the Sextant PME portfolio, on which **the fund is committed to having an ESG performance rating above its investment universe** of 600 securities, in accordance with the requirements of the Relance Charter Label which the fund holds⁵.
 - The analysis of ESG controversies is continuously integrated into the securities in the portfolio with the implementation of warnings on our securities universe. Controversies are monitored on a monthly basis and integrated dynamically into our ESG Performance Rating, with the severity of the controversy impacting the relevant E/S/G analysis pillar. Companies exposed to level 5 Severe controversies are excluded from the fund portfolio. Companies that may be exposed to level 3 and 4 controversies are monitored and prioritised for dialogue engagement, the outcome of which may result in the exclusion of the company in case of an inconclusive response. Level 1 and 2 controversies are analysed in order to ascertain the prospect of development and a discussion with the company is initiated in order to assess the relevance and effectiveness of the corrective actions taken.

This ESG Performance Rating also identifies the companies that will be prioritised for engagement on targeted ESG issues as part of the fund's influence and impact strategy.

⁵ Sextant PME has held the 'Relance' label ([Label Relance | economie.gouv.fr](https://www.economie.gouv.fr/relance)) since 3 November 2020. The purpose of this label is to direct the savings of French people towards collective investment schemes that undertake to mobilise new resources rapidly in order to support the equity and quasi-equity capital of French companies (SMEs), whether listed or not. The aim is to direct the savings of savers and professional investors towards these investments, which meet the financing needs of the French economy following the health crisis. Furthermore, labelled funds must comply with a set of environmental, social and governance (ESG) criteria, including a ban on financing coal-based operations and the monitoring of an ESG rating or indicator.

ESG PERFORMANCE RATING : STRUCTURE



ESG PERFORMANCE RATING: CRITERIA AND WEIGHTINGS *(sources : Amiral Gestion + Gaïa Rating indicators - Ethifinance)*



ENVIRONMENT => 26 indicators in favour of the energy transition

- Environmental impact of the activity and the company's initiatives in this area (25%)
- Overall environmental strategy (12%)
- Management of environmental impacts (34%)
- Managing the risks associated with climate change and contributing to the energy transition (23%)
- Responsible management and measures to protect the environment in the supply chain (6%)



SOCIAL => 27 indicators

- Social impact of the activity and the company's initiative in this area (25%)
- Social policy and job preservation (21%)
- Skills development and training (12%)
- Inclusion, promoting equal opportunities and fighting discrimination (12%)
- Improving health and safety conditions (15%)
- Responsible management and social practices in the supply chain (9%)
- Value-added sharing scheme (6%)



GOVERNANCE => 30 indicators

- Integrity of governance bodies, quality of communication and transparency (25%)
- Best governance practices (44%)
- Business ethics (16%)
- Tax transparency and accountability (3%)
- Gender equality (12%)

CONTROVERSY IMPACT



WEIGHTING OF CRITERIA BY MACRO-SECTOR

Macro-sector and weight of E,S,G pillar	Gouvernance	Environnement	Social
Industry	30%	40%	30%
Service	30%	30%	40%
Distribution	30%	35%	35%



Reliance Label Reporting Meeting

Criterion assessed qualitatively by Amiral Gestion's fund managers and analysts internally