

OPCVM Risk Management

Control of statutory, contractual and strategic constraints

ESG Risk Control-EN

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ESG Risk Control

1. ESG Data provider

RepRisk is our main ESG data provider. It offers a solution which enable to monitor controversies.

Business conduct risks related to human rights, labor, the environment, and corruption can translate into reputational, compliance, and financial risks for a company. How a company manages such issues is recognized as a long-term value driver and is directly linked to their operational excellence and social license to operate. RepRisk helps us reducing blind spots and shed light on the ESG and business conduct risks related to our investments.

We chose a 'controversies' approach because it is the most suitable and appropriate method for our quantitative stock selection process.

We are also following the exclusion recommendations from Norges Bank. We do exclude from investing these companies. Norges Bank recommends not to be invested in companies that contribute to violations of fundamental ethical norms, manufacture certain types of weapon, base their operations on coal, or produce tobacco.

<https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/>

2. Processed data and definition

- RepRisk Index (RRI): The RRI is a proprietary algorithm developed by RepRisk that dynamically captures and quantifies reputational risk exposure related to ESG issues. The RRI is not a measure of reputation, but is rather an indicator of ESG-related reputational risk of a company or other entity. It allows the comparison of a company's exposure with that of its peers and helps track the risk trend over time. In essence, the RRI facilitates an initial assessment of the ESG and reputational risks associated with financing, investing, or conducting business with a particular company.

The RRI ranges from zero (lowest) to 100 (highest): 0-24 means low risk exposure, 25-49 means medium risk exposure, 50-59 means high risk exposure, 60-74 means very high risk exposure, and 75-100 means extremely high risk exposure.

- Peak RRI: highest level of the RRI over the last two years – a proxy for overall ESG-related reputational risk exposure.
- RRI Trend: change of the RRI within the past 30 days.
- UNGC Violator Flag
- E, S and G contribution to RRI: The RRI is made of a sum of an environmental, a social, and a governance components.

3. Rules applied and criteria for exclusion

Potential candidate-stock to portfolio inclusion must comply with the following rules:

- Peak RRI ≤ 60
- RRI ≤ 40
- No UNGC Operational Violator Flag
- Absence from the Norges Bank exclusion list.
- E, S or G RRI contribution ≤ 30

4. Implementation and risk monitoring

Several monitoring tools have been put in place to put our ESG policy into practice. These tools have been integrated into the daily pre-trade Risk Control and are applied to the totality of portfolio investments.

First, the RRI Trend is daily-monitored for all portfolio securities. A significant increase for a company could result in increased scrutiny.

In the event that one of the criteria previously mentioned in paragraph 3 is not met by a company in the portfolio, the management team will then undertake an in-depth analysis of that company and the cause of the exceedance. Following this analysis, the investment committee will take the decision to exclude or maintain the company in the portfolio.

Maintained and excluded companies are listed and documented in order to ensure transparency and reporting.