

ESG Annual Report

SCOR EURO HIGH YIELD

31 December 2019

Unincorporated French Mutual Fund (*fonds commun de placement*)

Fund Management Company

SCOR Investment Partners SE
5, avenue Kléber 75016 Paris (France)

Custodian

BNP Paribas Securities Services S.C.A.

Statutory auditor

Deloitte & Associés

This report has been prepared in accordance with Article 173
of French Energy Transition for Green Growth Act.

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REGULATORY INFORMATION

A. ESG (environmental, social and governance) criteria taken into consideration

ESG risks are various and difficult to monitor. SCOR Investment Partners monitors the risk for all its investments on two levels:

- by evaluating the overall ESG risk of the companies or projects financed;
- by isolating the specific risk of contributing to global warming caused by producing or using technologies that emit greenhouse gases (generically referred to as “carbon risk”).

SCOR Investment Partners uses **Institutional Shareholder Services group of companies (“ISS”)** to:

- manage the overall ESG risks and ratings of the financed companies and projects – through an ESG rating per issuer;
- evaluate the carbon risk – through a carbon risk rating per issuer.

Founded in 1985, ISS provides investors and companies with market and corporate data, analytics, and insight. With nearly 2,000 employees spread across 30 U.S. and international locations, ISS is today the world’s leading provider of corporate governance and responsible investment solutions, market intelligence and fund services, events and editorial content for institutional investors and corporations, globally. Over the past few years, ISS acquired various other data providers, such as Oekom Research AG and South Pole Group, both companies were historic data providers for SCOR Investment Partners.

The methodologies for ESG ratings and for estimating pollution by companies that contribute to global warming are annually revised, depending on material changes from the rated company and from the evolving rating methodology. Besides, Scope 3 greenhouse gas (GHG) emissions are not calculated in a uniform manner or cannot be calculated at all. This can create uncertainty in the interpretation of the carbon risk data being evaluated. SCOR Investment Partners does not disclose this Scope 3 but has decided to include the ESG risk assessments in its management processes.

In addition, prior to the ESG risk assessment, SCOR Investment Partners applies normative and thematic exclusion filters to its investment universe.

B. Analysis performed on ESG criteria

Prior to an investment SCOR Investment Partners incorporates ESG criteria following a two-step methodology::

First, SCOR Investment Partners categorically excludes certain types of investments that are deemed to be contrary to its ESG principles. These types of investments are included in the normative or thematic exclusion list (Step 1).

Next, relying mainly on its provider ISS, SCOR Investment Partners evaluates the overall ESG risk for the investment being considered (Step 2). This second step is performed ex ante and ex post.

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Step 1:

Normative exclusions

As a preventive measure, SCOR Investment Partners applies to every investment the following series of filters and restrictions derived from its own or international standards, which results in the exclusion of some investments:

- application of recommendations by the Financial Action Task Force (FATF);
- OFAC list and list of sanctioned companies/countries published by the Ministry of Finance;
- compliance with the provisions of the Ottawa Convention (anti-personnel mines) and the Oslo Accords (cluster bombs);
- frozen assets list.

Thematic exclusions

SCOR Investment Partners applies some thematic exclusion filters. For the SCOR Euro High Yield fund, SCOR Investment Partners will not invest in:

- companies that derive more than 50% of their revenue from thermal coal;
- companies in the Utility sector for which coal represents more than 30% of their power production;
- companies that are included into the Top 120 of coal plant developers exclusion list;
- companies for which oil sands represents more than 30% of their total reserves;
- companies for which arctic oil represents more than 30% of their total reserves;
- companies in the tobacco industry.

Step 2:

Ex-ante ESG incorporation and ex-post ESG monitoring

ESG risk analysis depends on the business sector and the specific characteristics of the company being evaluated. The approach taken by SCOR Investment Partners is intended to be practical and adaptive.

For the investment universe qualifying for SCOR Euro High Yield and included within the scope of ISS rating coverage, SCOR Investment Partners uses the ISS ESG rating to filter and analyse its investments. A low ISS ESG rating triggers an in-depth analysis of the investment.

SCOR Investment Partners sets a limit on amounts invested per fund in companies (or where appropriate, projects) not rated by ISS. For the SCOR Euro High Yield fund this limit is 25%.

SCOR Investment Partners continuously tracks changes in the ESG risk of companies and countries included in portfolios by monitoring controversies that might affect issuers (using ISS tools or its own means).

SCOR Investment Partners also conducts a periodic review of the portfolios' ESG risks by using ISS ESG ratings. This monitoring makes it possible to assess the overall non-financial quality of the portfolios and to identify the significant changes in both individual and average ratings of the companies or countries. Individual issuers with the lowest ESG ratings are more closely monitored.

Carbon risk

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For portfolios of significant size (over EUR 500m) SCOR Investment Partners performs a specific analysis of climate risk. This analysis may include a calculation of the carbon footprint, if applicable, based on data and technical resources made available by its provider ISS.

Also, SCOR Investment Partners evaluates the transition risk of these portfolios and, when possible, whether they are properly positioned on the 2°C trajectory.

C. Detailed methodology for sustainable analysis

ESG ratings provided by ISS

The overall ESG risks assessment is based on the ESG Corporate rating and the ESG Country rating provided by ISS ESG, a specific service offered by ISS.

The ESG Corporate rating assesses companies' sustainability performance on an absolute best-in-class basis. An analyst opinion complements each rating to provide a qualitative commentary of key rating results across the three dimensions of sustainability opportunities, sustainability risks and governance. Prime status is attributed to those companies with an overall rating / ESG performance above the sector-specific Prime threshold, which means that they fulfil ambitious absolute performance requirements.

In addition to the overall rating, a decile rank indicates performance relative to industry peers. The performance assessment draws from a pool of over 800 indicators, of which approximately 90% are industry-specific. The rating structure provides different weights at the topic level and the overall E, S and G pillars depending on the industry.

The ESG Country Rating assesses countries' sustainability performance on an absolute best-in-class basis using a twelve-point grading system from D- (poor) to A+ (excellent). Prime status is attributed to those countries that reach or exceed the ESG Country Rating Prime threshold of B-. That means, that they fulfil ambitious absolute performance requirements. In addition, a decile rank from 10 (low) to 1 (high) indicates performance relative to all rated entities. An analyst opinion complements each rating to provide a qualitative commentary of key rating results across the three dimensions of governance, social and environment.

SCOR Investment Partners uses these ratings as indicators for monitoring the changes in macro ESG risks.

In addition, SCOR Investment Partners monitors ESG controversies that may affect issuers in the portfolio and that come from either market information or non-financial rating agencies, including ISS.

Climate data

Carbon footprint

SCOR Investment Partners uses ISS data to evaluate the portfolio's carbon footprint. The resulting photograph is only one indicator at a given point in time and provides little information on the approach or commitment of issuers with regard to climate risk in general and risk related to greenhouse gas emissions in particular. The methodologies available today are far from standardised. The formula for allocating a company's greenhouse gas production between its shareholders and its creditors is arbitrarily uniform. The likely development of market standards in the near future will no doubt allow SCOR Investment Partners to refine its approach.

The carbon footprint assessment is based on a certain number of hypothesis and conventions, including the breakdown of greenhouse gas emissions according to type:

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- type 1: direct production of greenhouse gas from fossil fuel consumption
- type 2: indirect production of greenhouse gas from energy consumption, which itself consumes fossil fuels
- type 3: other forms of greenhouse gas production related to the issuer's activities

The limited nature of type 3 data, presumably significant for many companies, makes the analysis difficult.

Carbon risk: the Carbon Risk Rating

The carbon risk is based on the Carbon Risk Rating, delivered by ISS, that assesses, on a scale from 0 to 100, how a company deals with industry-specific climate risks. The scale can be translated into four broader performance categories: Climate Laggard, Medium Performer, Outperformer, and Leader. Comparing a portfolio's Carbon Risk Rating distribution to a benchmark can help with understanding and reporting on the climate-related risks inherent to the investment portfolio and can serve as a basis for decision-making in portfolio management.

SCOR Investment Partners conducts a prospective analysis of the portfolio's carbon risk, using the ratings assigned by ISS. ISS uses its Carbon Risk Rating to assess a company's commitment to take into account the risk of climate change to its business.

Exposure to carbon-intensive companies: the Weighted Average Carbon Intensity

The Weighted Average Carbon Intensity (WACI) associated with a portfolio measures its exposure to carbon-intensive companies. It is expressed in tons CO₂ / Million EUR and this metric is recommended by the Task Force on Climate-related Financial Disclosures (TCFD). GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value), rather than the equity ownership approach. This metric is used to communicate the carbon footprint of a portfolio consistent with the GHG protocol or to track changes in GHG emissions in a portfolio.

D. Results of the ESG analysis

ESG ratings assigned by ISS

The ISS Corporate ratings range from A+ (best rating) to D- (worst rating). For the SCOR Euro High Yield portfolio, these ratings only reach B, as the best grade.

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Breakdown of fund positions by ESG rating in % NAV, at 31/12/2019



The average rating of rated issuers is C. This figure is better than on the previous report, in 2016 (the average rating was C-).

Bonds rated D- have a weighting of about 1% (4% in the 2016 report). The individual analysis of issuers primarily reveals a lack of transparency in their published information, but no red flag for the portfolio.

Cash portion of the fund follows the rating of the financial institution managing the cash.

The portion of not rated (NR) issuers is around 17% and is mostly comprised of small, unlisted issuers.

Carbon footprint

The methodologies for calculating a portfolio's carbon footprint are still piecemeal and inconsistent. Excluding scope 3 provides a rough approximation, but it remains the best practice considering the unreliability or unavailability of data. It significantly weakens the quality of the analysis of the data produced.

The carbon footprint data calculated by ISS on the positions of the SCOR Euro High Yield fund at the end of 2019 is summarised in the charts below. These are annual emissions.

Based on data provided by ISS and internal calculations, SCOR Investment Partners can provide two main carbon metrics associated with SCOR Euro High Yield portfolio:

- Emissions per million invested (in tCO₂ / Million EUR)
- Carbon intensity (in tCO₂ / Million EUR financed revenue)

These two metrics are based on total financed emissions (scopes 1 and 2 only) per investment, assets under management and financed revenue per investment. Figures are at 31/12/2019.

Carbon-related metrics, Scope 1 + 2

Total financed emissions	54 553 tCO ₂ e
Total AUM coverage	405 Million EUR
% AUM coverage	80,7%
Emissions per million invested	134,71 tCO ₂ / Million EUR
Carbon intensity	278,86 tCO ₂ / Million EUR Financed Revenue

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These two metrics can also be seen under a sectoral breakdown, that can be found below.

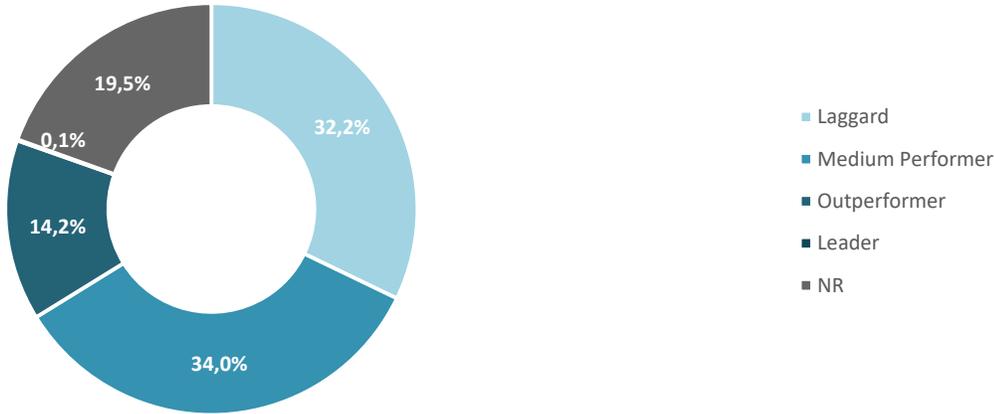
Emissions and Carbon intensity per sector		
	Emissions per million invested, tCO ₂ / Million EUR	Carbon intensity, tCO ₂ / Million EUR Financed Revenue
AIRLINES	1 908,45	1 073,57
AUTOMOTIVE	57,20	56,04
BUILDING_MATERIALS	215,11	694,72
CABLE_SATELLITE	6,99	46,13
CHEMICALS	428,46	718,61
CONSTRUCTION_MACHINERY	3,03	37,79
CONSUMER_CYCLICAL_SERVICES	12,59	130,07
CONSUMER_PRODUCTS	5,32	29,93
DIVERSIFIED_MANUFACTURING	1 225,34	576,03
ELECTRIC	176,30	1 519,14
ENVIRONMENTAL	-	-
FOOD_AND_BEVERAGE	34,23	229,19
GAMING	11,65	43,19
HEALTHCARE	5,07	35,54
INDUSTRIAL_OTHER	17,46	63,01
LEISURE	-	-
LODGING	85,66	493,94
MEDIA_ENTERTAINMENT	0,16	5,14
MEDIA_NONCABLE	6,54	8,03
METALS_AND_MINING	775,50	842,74
OIL_FIELD_SERVICES	152,76	188,96
PACKAGING	92,46	230,54
PAPER	971,62	1 209,31
PHARMACEUTICALS	12,87	40,03
RAILROADS	7,05	95,86
RETAILERS	6,04	19,24
SUPERMARKETS	63,97	36,73
TECHNOLOGY	13,44	85,46
TRANSPORTATION_SERVICES	73,33	154,15
WIRELESS	3,91	18,46
WIRELINES	14,99	37,94

Carbon risk: the Carbon Risk Rating

The breakdown of Carbon Risk Ratings for this fund at the end of 2019 was as follows:

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Breakdown of fund positions by Carbon Risk rating in % NAV, at 31/12/2019



The high yield nature of issuers limits the availability of Carbon Risk Rating data.

From a Carbon Risk Rating perspective, 14,3% of the fund is invested in issuers that have actively taken account of climate risk (Outperformer and Leader issuers). A large portion of the names are not rated.

These indicators will become more meaningful and their rate of coverage will increase over time.

Exposure to carbon-intensive companies: the Weighted Average Carbon Intensity

At the end of 2019, 81% of SCOR Euro High Yield portfolio was covered by a Weighted Average Carbon Intensity (WACI) analysis, that amounted to 42,43 tCO₂ weighted emissions per Million EUR weighted revenue.

Weighted Average Carbon Intensity (WACI)	
Total AUM coverage	405 Million EUR
% AUM coverage	80,7%
WACI	42,43 tCO ₂ weighted emissions per million EUR weighted revenue

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