Etudes Eco

Responsible Investment Management in France

SURVEY DATA 2022

AFG

SUMMARY

MAIN RESULTS OF THE SURVEY

- **Responsible Investment (RI) Assets under Management (AuM)** in France under the **Sustainable Finance Disclosure Regulation (SFDR)** reach **€2,240.7 billion** in 2022, up +6,9% year on year.

- The breakdown of RI AuM is as follows: 57% in funds (French and foreign) and 43% in discretionary mandates.

- The breakdown of RI assets between **Article 8** and **Article 9** of the SFDR is respectively **€2,128.3 billion** and **€112.4 billion**.

- Money Market funds account for 33% of SFDR AuM in France, compared with 27% for Equities, 18% for Bonds, 13% for Mixed and 9% for other funds (Private Equity, Real Estate, etc.).

- AuM of French funds included in AMF 1st category (approach based on a significant commitment to management) amount to **€694.8 billion**. Positive selection strategies dominate the market, accounting for 70% of AuM, followed by ESG integration (22%).

- AuM of the **1,174 funds** managed in France with at least one **European** label total **€792.6 billion**.

- **AuM of Sustainable bonds and similar (green, social and transition)** invested in portfolios amount **€131.3 billion**, of which 69% of Green Bonds.

- In 2022, **43%** of Asset Management Companies (AMCs) that answered to the survey declare having **impact funds**. Impact funds in France total **€53.4 billion**.

- **68%** of responding AMCs use climate indicators and **83%** include environmental criteria in their voting policy.

- **85%** of AMCs have a formalized **coal policy**, **around 60%** have a policy related to **unconventional fossil fuels** and **41%** have a policy related to **conventional fossil fuels (other than coal)**.

1. Focus on Responsible Investment Assets under Management

Sustainable Finance Disclosure Regulation (SFDR)

The Sustainable Finance Disclosure Regulation (SFDR) aims to provide transparency in terms of environmental and social characteristics within financial markets, notably by providing sustainability information on financial products (integration of risks and adverse sustainability impacts).

- **Sustainability risk:** environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.
- **Negative impact in terms of sustainability:** negative impact of investment decisions on sustainability factors (environmental, social, and employee matters, respect for human rights, anti-corruption and anti-bribery matters).

These regulations apply to financial products and entities that manage them, including AMCs.

SFDR regulations call for the classification of each product to be defined according to its characteristics:

- **Article 8:** the fund promotes environmental and/or social characteristics, provided that the companies in which investments are made apply good governance practices;
- **Article 9:** the fund has a sustainable investment objective, i.e. it invests in an economic activity that contributes to an environmental or social objective, provided that these investments do not cause significant harm to one of these objectives and that the companies in which the investments are made apply good governance practices (in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance).

SFDR level 2 applies since January 2023 and strengthens investors' obligations. AMCs must now specify their position with regards the principal adverse impacts (PAI). At the end of 2022, the level 2 implementation led to product range modifications when it comes to products deemed "sustainable".

A. Focus on Responsible Investment assets managed in France

The SFDR regulation was adopted in order to harmonize and strengthen the transparency obligations of financial market participants that market financial products.

SFDR aims to facilitate the redirection of capital towards initiatives that promote a more sustainable economy by comparing AMC's degree to take into account ESG factors in their investment processes.

▪ CHARACTERISTICS OF SFDR-REGULATED ASSETS MANAGED IN FRANCE

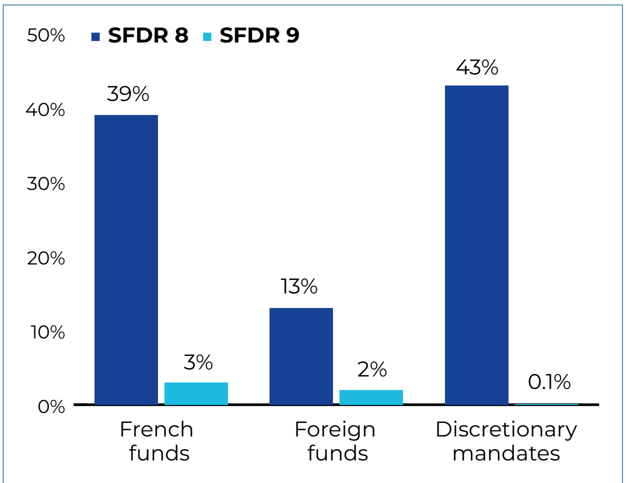
At the end of 2022, RI AuM in France total €2,240.7 billion, according to SFDR regulation.

Funds (French and foreign) account for 57% of this total, while discretionary mandates account for 43%.

The breakdown of RI assets between **Article 8** and **Article 9** of the SFDR regulation is **€2,128.3 billion** and **€112.4 billion** respectively.

Between 2021 and 2022, RI AuM in France **rose by +6.9%,** on a constant scope.
For Article 8 AuM, the increase is +9%, while the decline is -26.6% for Article 9 AuM.

52% of AuM in France (discretionary mandates, French and foreign funds) are classified as Article 8 or 9.



Breakdown of SFDR Article 8 and 9 AuM in 2022

▪ CHARACTERISTICS OF FRENCH FUNDS UNDER SFDR REGULATION

At the end of 2022, AuM in French RI funds total €951.7 billion.

- €881.3 billion for Article 8 funds
- €70.4 billion for Article 9 funds

RI funds domiciled in France thus account for 53% of AuM in the French fund market.

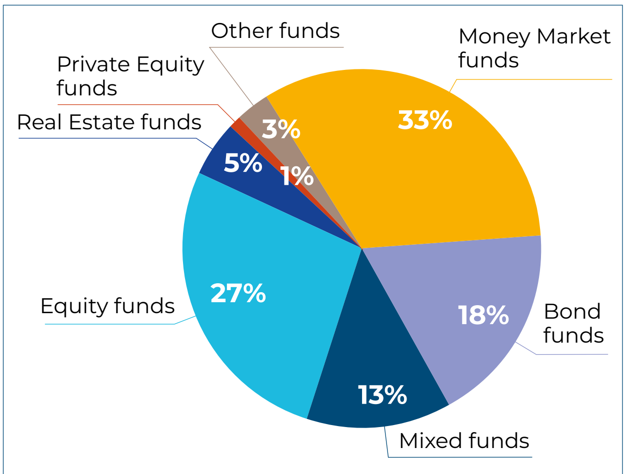
AuM in French RI funds **rose by +4.5%** between 2021 et 2022. In more detail, the rise in French Article 8 funds AuM was +6.7% and the decline in Article 9 ones was -20.8%.

The decrease in AuM in Article 9 funds is mainly due to the reclassification work carried out by AMCs following clarifications issued by European supervisory authorities, as well as new requirements related to SFDR level 2 implementation.

B. Focus on Responsible Investment Assets Under Management in France by asset class and customer type

▪ BREAKDOWN BY ASSET CLASS OF FRENCH AND FOREIGN FUNDS MANAGED IN FRANCE

Money Market funds account for 33% of Assets Under Management under SFDR 8 & 9 in France, compared with 27% for Equity funds, 18% for Bond funds and 13% for Mixed funds. Other funds (including Real Estate and Private Equity) account for 9%.

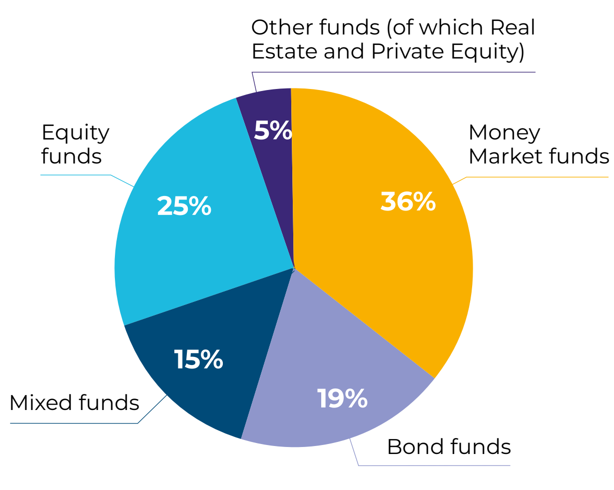


Breakdown by asset class of AuM in France for SRI funds

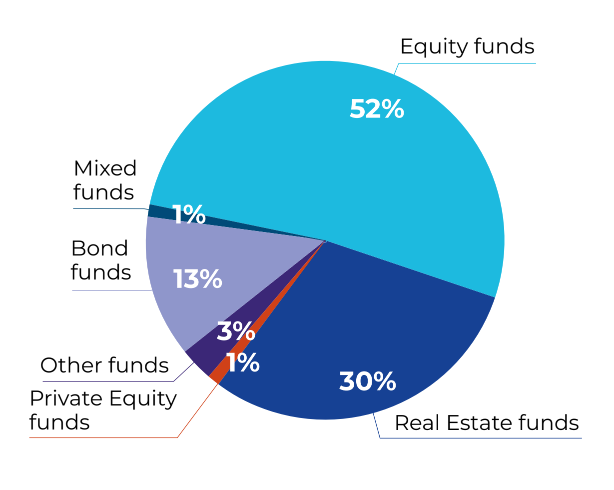
▪ COMPARISON BETWEEN ARTICLE 8 AND ARTICLE 9 FUNDS MANAGED IN FRANCE

The breakdown of French and foreign Article 8 funds managed in France is as follows: 36% in Money Market funds, 25% in Equities, 19% in Bonds and 15% in Mixed funds.

In contrast, AuM in French and foreign Article 9 funds managed in France are mainly oriented towards Equities (52%), Real Estate (30%) and Bonds (13%).



Breakdown by asset class of AuM of Article 8 funds in France

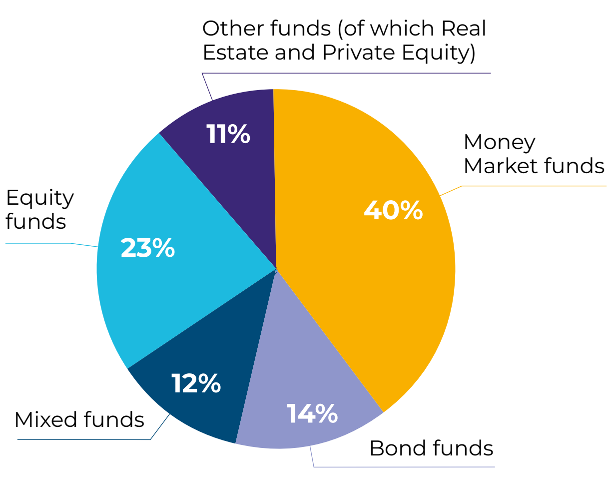


Breakdown by asset class of AuM of Article 9 funds in France

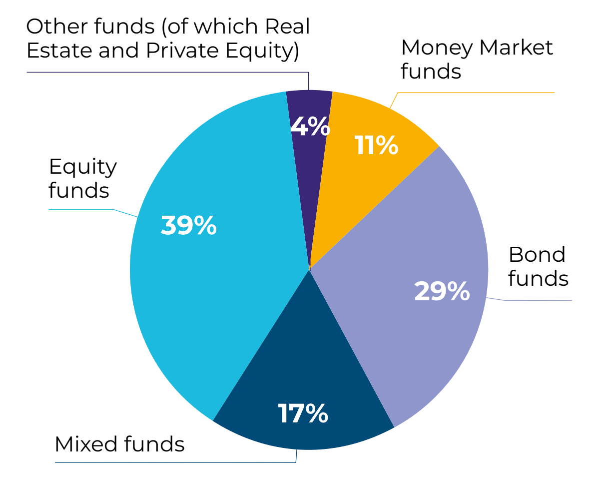
▪ COMPARISON BETWEEN FRENCH AND FOREIGN FUNDS MANAGED IN FRANCE

French and foreign funds classified under Article 8 or 9 are not invested in the same asset classes:

- Money Market funds account for 40% of French funds AuM, versus 11% of foreign funds;
- Bond funds account for 14% of French funds AuM, versus 29% of foreign funds;
- 12% of French funds AuM are Mixed, versus 17% of foreign funds;
- French Equity funds represent 23% of AuM compared with 39% of foreign funds.



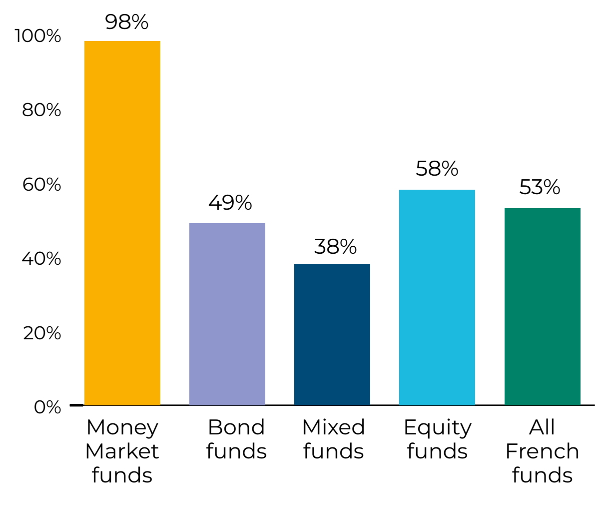
Breakdown by asset class of AuM of French responsible funds



Breakdown by asset class of AuM of foreign responsible funds

▪ SHARE OF RESPONSIBLE INVESTMENT ASSETS UNDER MANAGEMENT IN FRENCH FUNDS

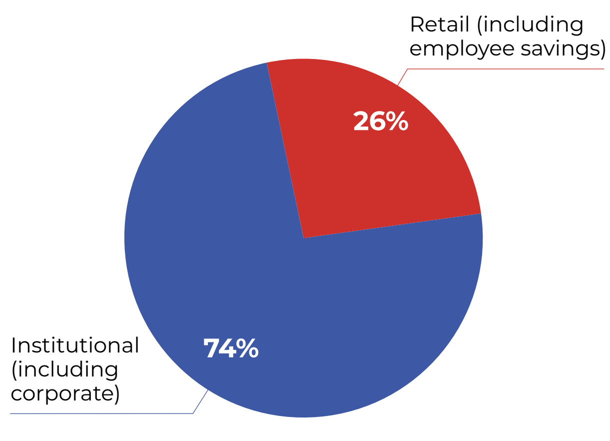
In 2022, 53% of French-domiciled funds AuM are in RI funds. In more detail, almost all French Money Market funds AuM are responsible. For Equity and Bond funds, it represents nearly 60% and 50% of their assets respectively.



Share of RI funds among funds domiciled in France

▪ BREAKDOWN BY CUSTOMER TYPE (INSTITUTIONAL AND RETAIL)

Institutional investors (including corporates) account for 74% of responsible AuM. Similarly, institutional investors account for the majority of UCITS and AIF clients: 57% and 61% respectively (or 43% and 39% for retail clients, including employee savings schemes). For discretionary mandates, the weighting of institutional investors is stronger, with institutional investors representing 96% of AuM.



Breakdown of RI AuM by customer type

C. Focus on funds assets under AMF doctrine 2020-03 and dominant strategies

AMF Doctrine 2020-03

To ensure the quality of information provided to retail investors, the French financial markets regulator, the *Autorité des Marchés Financiers (AMF)*, published a position-recommendation in March 2020. Its role is to establish best practices with the aim of ensuring that the information provided on the consideration of non-financial criteria by investment funds is accurate, clear and not misleading. The AMF requires the communication delivered to investors to be proportionate to the effective consideration of non-financial characteristics.

Three categories are defined:

CATEGORIES	Standard	Communication on non-financial criteria
1	Significantly binding approach	Central
2	Non-significantly binding approach	Limited
3	Approach not meeting central or limited communication standards	Limited to prospectus

At the end of 2022, assets in AMF 1st and 2nd categories reach **€847.9 billion**. Those included in AMF 1st category (significantly binding approach) equal **€694.8 billion**. AuM of funds belonging to AMF 2nd category (non-significantly binding approach) amount to €153.1 billion. Between 2021 and 2022, the assets included in AMF 1st and 2nd categories are down by - 1.8%.

Positive selection strategies (Best in class, Best in universe and Best effort) dominate the market of assets subject to 1st & 2nd AMF categories accounting for **70% of AuM**. Taking ESG directly into account in the financial analysis process and portfolio construction via *ESG integration* covers 22% of AuM. This is followed by 5% for *Thematic strategies* (Environmental, Social, Governance) and *Impact Investing* at 2%.

D. Focus on labelled funds

The success of labels is a factor that helps structuring the market and boosting confidence in the range of responsible investment products offered by asset managers. The labelling of a fund certifies the management process and the selection of issuers in the portfolio according to the various criteria required by each label. Labelling a fund guarantees compliance with each label's criteria and reassures savers and investors in their selection of sustainable products.

In France, there are three labels:

- The **SRI** label, which ensures that a fund complies with environmental, social and governance criteria;
- The **Greenfin** label, which focuses on environmental issues;
- The **Finansol** label, which aims to distinguish a solidarity-based investment from other savings products for the general public.

Other labels exist in European countries:

- **FNG-Siegel** for funds marketed in German-speaking countries (Germany, Austria and Switzerland). The rating developed by this label encourages the adoption of the most encompassing ESG management practices and rewards commitments made globally by the AMCs;
- **Towards Sustainability** (Belgium), which focuses on the level of transparency, the rigour of ESG analysis and the use of exclusions with low thresholds in particular (on coal and unconventional fossil fuels);
- **LuxFLAG**, whose aim is to issue labels on themes such as micro-finance, climate protection, environmental protection, green bonds and compliance with ESG criteria;
- **Umweltzeichen** is the Austrian label which aims to certify projects and companies ethically-oriented that generate benefits through sustainable investments.

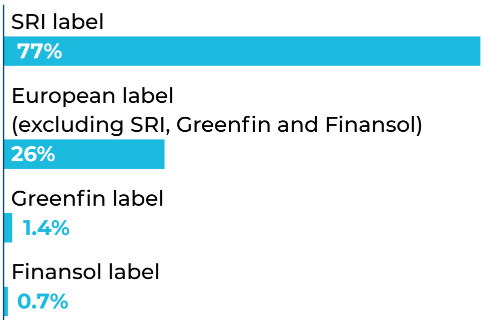
For all the data introduced in the "Focus on labelled funds" part, the total is slightly higher than 100%, as one fund may have several labels.

▪ AUM OF LABEL FUNDS

At the end of 2022, the AuM of the 1,174 funds in France with at least one European label amount to €792.6 billion.

Of these AuM:

- 77% are SRI labelled,
- 1.4% Greenfin, and
- 0.7% Finansol.

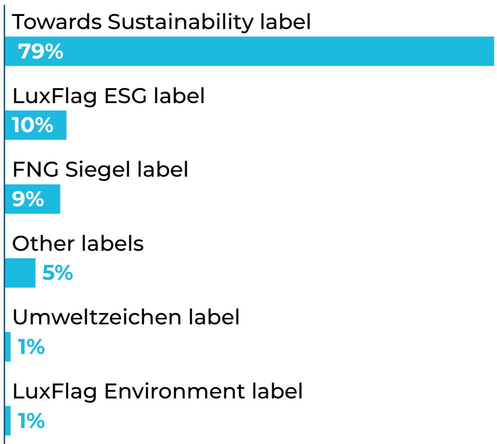


Funds with at least one European label (€792.6 billion in 2022)

Funds with a non-French European label total €207.1 billion.

Of which:

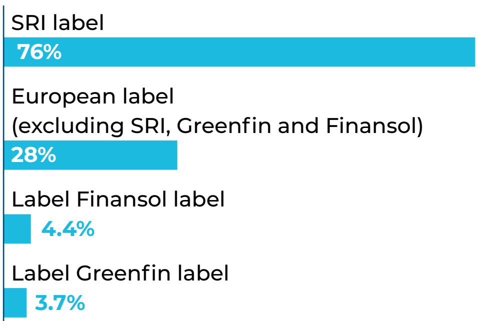
- 79% have the Towards Sustainability label,
- 10% have the LuxFlag ESG label and
- 9% have the FNG Siegel label.



AuM of funds with at least one non-French European label (€207.1 billion in 2022)

▪ CHARACTERISTICS OF LABELLED FUNDS

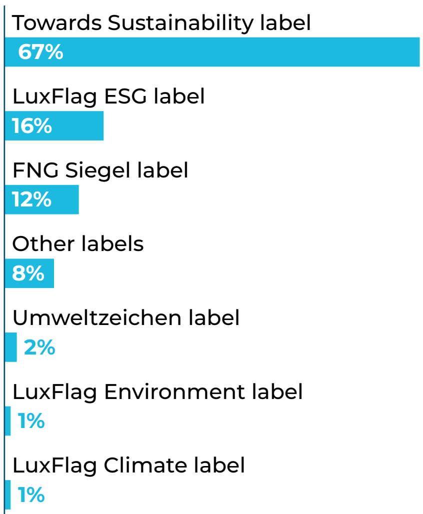
In 2022, AMCs that responded to the survey manage 1,174 funds with at least one European label. Of these, 76% have the SRI label, 4.4% have the Finansol label and 3.7% have the Greenfin label.



Number of funds with at least one European label (1,174 in 2022)

332 funds have a non-French European label. Of these:

- 67% have the Towards Sustainability label,
- 12% have the LuxFlag ESG label and
- 8% have the FNG Siegel label.

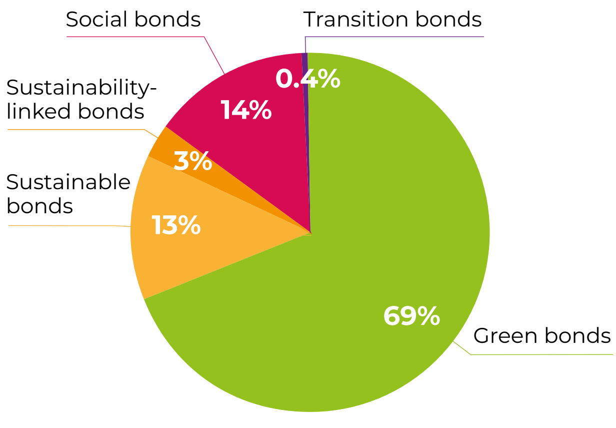


Number of funds with at least one non-French European label (332 in 2022)

E. Focus on Sustainable bonds and similar

In 2022, half of the AMCs that answered to the survey held sustainable (and similar) bonds in their portfolios. The outstanding amount of this type of bond is **€131.3 billion**. Among these bonds, Green Bonds are up +2.3% compared to 2021. While Green Bonds account for 69% of outstanding sustainable bonds (and similar) in 2022, Social Bonds (14%) and Sustainable Bonds (13%) are also invested by AMCs. As for Sustainability-linked Bonds (3%) the use of Transition Bonds (0.4%) is marginal.

These differences in AuM can be explained by companies' preference for Green, Social and Sustainable bonds. Indeed, on a global scale, in 2022, each type of bond represented 57%, 15% and 19% respectively of sustainable (and similar) bond issues.[1]



Exposure to sustainable and similar bonds (€131.3 billion at end-2022)

→ ***Green bonds***	Bonds issued by companies, local authorities, governments or international organizations to finance activities with an environmental benefit.
→ ***Sustainable bonds***	Bonds whose net proceeds are used exclusively to finance or refinance environmental and social projects. Sustainable bonds follow the four key principles of ICMA's Green Bond Principles and Social Bond Principles, respectively relevant to environmental and social projects.
→ ***Social bonds***	Bonds whose net proceeds are used exclusively to finance or refinance, in whole or in part, new and/or ongoing social projects.

1) *For more information, consult the report "Sustainable Debt Global State of the Market 2022".*

Impact investing: characteristics of impact funds in France

Impact finance is developing more and more, and the Paris financial centre has a role to play in defining a recognized framework. AFG has been involved in the construction of a Paris marketplace definition of impact investing.

As an emerging investment method, impact investing is attracting growing interest from clients of AMCs.

Impact investing

Impact finance is an investment or financing strategy that aims to accelerate the fair and sustainable transformation of the real economy, by providing proof of its beneficial effects.

It relies on the pillars of intentionality, additionality and impact measurement, to demonstrate:

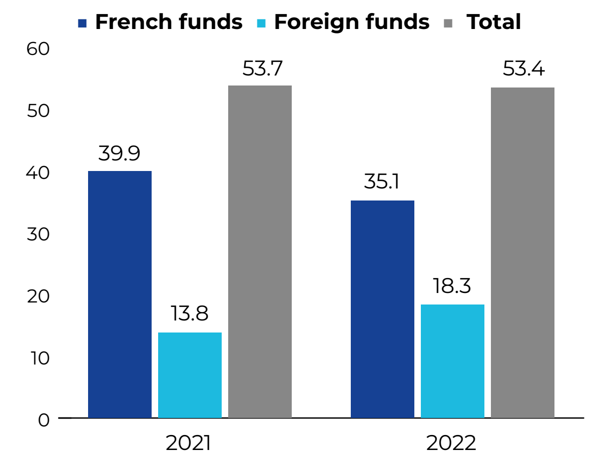
- The joint pursuit, over time, of ecological and social performance and financial profitability, while controlling the occurrence of negative externalities;
- The adoption of a clear and transparent methodology describing the causal mechanisms by which the strategy contributes to environmental and social objectives defined upstream, the relevant investment or financing period, as well as the measurement methods, according to the theory of change methodology;
- The achievement of these environmental and social objectives within reference frameworks, in particular the Sustainable Development Goals, at international, national and local levels.

In October 2021, the AFG published a guide to impact finance for AMCs.

A. Assets under Management and characteristics of impact funds

In 2022, **43% of the AMCs** that responded to the survey hold impact funds. Of these, 76% use the definition of the *Institut de la Finance Durable* working group to qualify their impact funds.

Impact funds total **€53.4 billion** in 2022: €35.1 billion in French funds (66%) and €18.3 billion in foreign funds (34 %). In 2021, total assets in impact funds reached €53.7 billion : 74% of total assets in French funds (versus 26% for foreign funds).



AuM of impact funds (in € billion)

Between 2021 and 2022, AuM in impact funds remained stable. This is mainly due to reclassifications made by AMCs.

In 2022, impact fund clients were mainly institutional investors (70% of AuM, versus 30% for retail clients). Furthermore, investment was mainly directed towards listed companies (66% of AuM).

B. Reference framework used by Asset Management Companies and prioritized Sustainable Development Goals

▪ REFERENCE FRAMEWORK USED BY ASSET MANAGEMENT COMPANIES WITH IMPACT FUNDS

Nearly 80% of AMCs with impact funds use the Sustainable Development Goals (SDGs) as a reference framework for their impact funds, while 46% rely on the Paris Agreement. While the Paris Agreement focuses on strengthening responses to climate change and came out of the Cop21 that took place in December 2015, the SDGs cover a broader spectrum of objectives: in addition to environmental issues, social and health ones were added.

▪ SUSTAINABLE DEVELOPMENT GOALS PRIORITIZED BY ASSET MANAGEMENT COMPANIES WITH IMPACT FUNDS

In 2022, impact funds are primarily focused on three SDGs:

- “Affordable and clean energy” (75 funds[2]),
- “Industry, innovation and infrastructure” (74 funds) and
- “Sustainable cities and communities” (74 funds).

On the contrary, the least targeted SDGs are "Partnerships for achieving the goals" (22 funds), "Zero hunger" (23 funds) and "Gender equality" (22 funds).

SDGs prioritized by AMCs with impact funds	
▸ Affordable and clean energy	75
▸ Industry, innovation and infrastructure	74
▸ Sustainable cities and communities	74
▸ Climate action	68
▸ Good wealth and well-being	67
▸ Responsible consumption and production	67
▸ Decent work and economic growth	61
▸ Reduced inequalities	50
▸ Clean water and sanitation	43
▸ No poverty	40
▸ Quality education	37
▸ Life on land	31
▸ Life below water	25
▸ Peace, justice and strong institutions	25
▸ Gender equality	24
▸ Zero hunger	23
▸ Partnership for the goals	22

2) *One fund might be oriented toward different SDGs at the same time.*

Paris Agreement

The Paris Agreement ambition is to strengthen the global response to the risks induced by climate change. It sets out several long-run objectives:

- Significantly reduce global greenhouse gas emissions, with the aim of limiting global warming to 2°C compared with the pre-industrial era, while continuing action to limit it further to 1.5°C;
- Reassess national commitments every five years;
- Provide developing countries with financial resources to mitigate climate change, build resilience and increase capacity to adapt to the effects produced by these changes.

Sustainable Development Goals and the 2030 Agenda

Adopted on 25th September 2015 in New York at the United Nations General Assembly, the 17 Sustainable Development Goals help put the 2030 Agenda into practice. The latter sets out a vision for transforming the world, by strengthening peace, eradicating poverty and promoting sustainable development. The 169 SDGs targets cover the full range of sustainable development issues such as climate, biodiversity, energy and water, as well as poverty, gender equality, economic prosperity, peace, agriculture and education.

These 17 objectives are intended to all public players (international community, States, local authorities) and private players (NGOs, companies, citizens). In order to achieve the goals set out in the 2030 Agenda, progress should be monitored rigorously, areas for improvement must be identified, and the mobilization and collaboration of all stakeholders is needed.

Elements of the responsible management policy

A. Participation in international initiatives

Participation in specific initiatives enables the various players to harmonize responsible management practices and initiate new ones.

In 2022, 84% of AMCs surveyed take part to at least one initiative.

PRI Principles for Responsible Investment

Launched in 2006, the United Nations' Principles for Responsible Investment (PRI) aim to voluntarily engage the financial sector and encourage investors to integrate environmental, social and governance (ESG) issues into the management of their portfolios.

The PRI is one of the tools used to encourage all financial markets participants to take non-financial aspects into account.

At the end of 2022, 81% of AMCs that responded to the survey had signed the UN-PRI.

Other initiatives are also attracting AMCs interest: 44% are committed to the Carbon Disclosure Project (CDP), while 35% are committed to the *Forum de l'Investissement Responsable (FIR)*. AMCs also demonstrate their commitment to the ecological transition by participating in the following initiatives: *Task Force on Climate-related Financial Disclosures* (33%), *Net Zero Asset Managers Initiative* (22%), *Science Based Targets* (14%).

B. Use of climate indicators

▪ DEPTH OF USE OF CLIMATE INDICATORS

The use of climate indicators helps to assess a portfolio's climate risks (physical[3], transitional[4] and legal liability) and achieve its environmental transition objectives.

Greenhouse gas emission indicators among AMCs with a responsible investment policy that includes climate indicators

At the end of 2022, 67% of the AMCs that answered use climate indicators in their responsible investment policy.

These climate policies cover 62% of the assets managed by the survey panel.

Among AMCs using climate indicators:

- 86% use carbon footprints. For a company, this is the measurement of the total annual emissions in tons of carbon dioxide equivalent (CO_2eq)[5]. The carbon footprint of a portfolio is calculated by weighting that of each company by their weight in the portfolio;
- 97% use carbon intensity. For a company, it is measured by the ratio between its total emissions in CO_2eq and its total sales. For a portfolio, the calculation is made by weighting by the share of each company in the portfolio;
- 71% use both carbon footprint and intensity.

3) *Defined as direct exposure to weather and climate phenomena.*

4) *Defined as exposure to changes linked to the transition to a low-carbon economy.*

5) *Emissions are measured for all greenhouse gases (carbon dioxide, methane, nitrous oxide, chlorofluorocarbons, etc.) combined, in "Tons of CO_2 equivalent" (CO_2eq).*

▪ CLIMATE INDICATORS USED BY ASSET MANAGEMENT COMPANIES

a. Scope of greenhouse gas emissions

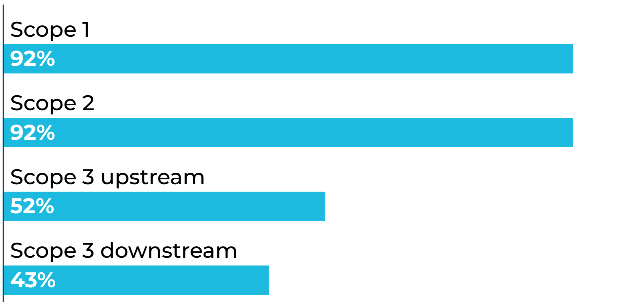
Defined by the international Greenhouse Gas Protocol standard in 1998, "scopes" correspond to the three main families of greenhouse gases directly and indirectly emitted by an organization.

The clear and precise definition of these scopes enables non-financial analysts to estimate companies' total emissions in tons of CO_2eq, and thus calculate their carbon footprint and intensity.

More generally, the formalization of these scopes makes it easier for a company to carry out its own carbon footprint and enables it to target its actions to reduce greenhouse gas emissions.

At the end of 2022, the scopes taken into account by the AMCs were not homogeneous. Among the AMCs that have implemented a policy with climate indicators:

- 92% use **Scope 1**, which corresponds to greenhouse gas emissions generated directly by the company's direct production process;



Perimeter taken into account for carbon footprint and/or intensity

- 92% use **Scope 2**, which focuses on indirect emissions linked to the energy consumption required to manufacture products: electricity, steam, heat, cold;
- 52% use **upstream Scope 3**, which covers emissions generated by the upstream value chain (suppliers and raw materials);
- 43% use the **downstream Scope 3**, which lists emissions linked to the use and the end-of-life of a product.

b. Avoided emissions

There are several ways in which a company can act to commit to the low-carbon transition. In order to clarify and unify the definitions on the market, ADEME[6] distinguishes between two types of emissions:

- those "reduced, eliminated or sequestered". These include all emissions that have been and are still linked to the company's activity. They are directly accounted for through the organization's GHG Balance exercise. As an example, this includes reducing the carbon footprint of its products or reducing its energy consumption;
- on the other hand, some actions taken by companies help to reduce greenhouse gas emissions outside their production process. This is the case when they offer low-carbon products that enable their users to reduce their own impact. Similarly, some companies finance low-carbon or carbon sequestration projects at third parties, outside their own scope of activity. The category of "avoided" emissions therefore includes all greenhouse gases not emitted as a result of action taken by the company outside its scope of activity.

16% of AMCs with a climate policy use avoided emissions to measure the carbon emissions of their investments.

6) "Les émissions évitées, de quoi parle-t-on ?", ADEME, January 2020.

c. Implied temperature rise indicator

The Taskforce on Climate-related Financial Disclosures (TCFD)[7] recommended the development of implied temperature rise indicators. Their purpose is twofold:

- to measure the temperature rise associated with an entity's greenhouse gas emissions;
- to calculate the degree of alignment of a portfolio to a greenhouse gas emissions reduction scenario.

For AMCs, such an indicator has a dual interest:

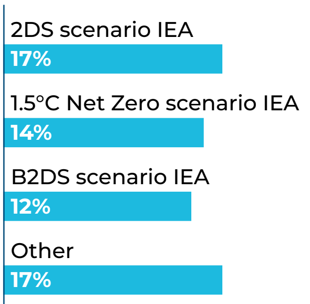
- it provides a tool to help with asset allocation, notably by integrating the environmental component in their ESG analysis;
- it contributes to the ESG reporting required to justify a responsible investment policy.

In 2022, 60% of AMCs with a climate policy use an implied temperature indicator.

Although more and more AMCs are taking this metric into account, the operational complexity of its use and the low level of standardization of existing methodologies are holding back its development.

Climate scenarios enable AMCs to direct their investments towards sectors whose development is essential to mitigating climate change.

Among the AMCs that use implied temperature indicators, 17% use the International Energy Agency's (IEA) “2DS” scenario[8]. This is followed by the “1.5°C Net Zero”[9] (14%) and “B2DS” (12%) scenarios.



Reference scenarios used by AMCs with implied temperature indicators

Focus on International Energy Agency scenarios

The IEA produced three major energy scenarios to 2060:

- **the reference scenario** which, based on the current energy and climate commitments of the various countries, assesses the possibility of containing global warming to 2°C by 2100. Its latest edition shows that it is not possible to achieve this objective;
- **a "2°C" scenario ("2DS")** that respects the 2°C warming limit and advocates, in particular, a new energy mix emphasizing the pre-eminence of renewable energies;
- **a scenario aiming for "carbon neutrality" in 2060** to contain global warming to 1.75°C by 2100 ("B2DS").

At the same time, the IEA also presented a scenario that would take the energy transition to **net zero emissions by 2050** *(Net Zero by 2050)*.

7) *“Reporting Climat “TCFD” dans le secteur financier”, AMF, December 2021.*
8) *Consult this page for more information: ETP Model 2017.*
9) *Consult this page for more information: Understanding WEO Scenarios.*

C. Setting a climate target

Setting climate objectives is at the heart of AMCs' responsible management policies.

57% of AMCs with a policy including climate indicators also set a climate target.

Several metrics are used by AMCs to monitor their climate objectives. For example:

- carbon intensity and/or footprint concern 37% of the assets managed by the survey respondents;
- implied temperature, which applies to 6% of their AuM.

D. Engagement and exclusion policies

→ **Shareholder engagement policy**	Refers to the fact that an investor interacts with the companies financed, in debt or equity, with the aim of influencing their practices in the target sector over the long run and/or improving their reporting on these subjects. These requirements are formulated as part of a structured approach that is monitored over the long run.
→ **Exclusion policy**	Consists both in not investing in new projects linked to environmentally and/or socially harmful activities (coal, tobacco, controversial weapons, pornography, tax havens...) as well as disinvesting in sectors according to thresholds and perimeters of activities defined by the AMC.

▪ VOTING AND SHAREHOLDER ENGAGEMENT POLICIES[10]

Shareholder engagement is one of the tools AMCs can use to influence and support companies in ESG practices. This includes the implementation of a general engagement policy which defines, in particular the positions taken by the company as part of the share-holder dialogue, or more specifically, by implementing a voting policy that can have a direct impact on companies' strategic choices.

In 2022, 83% of AMCs include environmental criteria into their voting policy.

On average, the AMCs that took part to share-holders' general meetings of the companies in their portfolios voted on 34 resolutions concerning climate. On average, they voted in favour of 17 resolutions and against 11.

In addition to voting on resolutions filed by other shareholders, AMCs can bring their own issues to the strategic decision-making process of the companies they invest in.

In 2022, 20% of AMCs that include environmental criteria in their voting policy put a resolution in partnership, or not, with other shareholders to the vote.

An escalation policy refers to a coherent and gradually series of sanctions that are applied when an investor determines that dialogue with the company has failed. The ultimate step in an escalation strategy is to divest from the company.

In 2022, almost 60% of AMCs that include environmental criteria in their voting and commitment policies have an escalation policy.

10) For more information, AFG surveyed its members on voting policies: "Exercice des droits de vote par les sociétés de gestion en 2022".

▪ USE OF NORMATIVE OR SECTORAL EXCLUSION POLICIES ARE USED BY ASSET MANAGEMENT COMPANIES

→ ***Normative exclusion policy***	Consists of removing from the investment universe issuers that do not comply with certain laws or international conventions.
→ ***Sectoral exclusion policy***	Consists in removing from the investment universe issuers that derive a significant proportion of their sales from activities deemed harmful to society.

In 2022, 84% of survey respondents have a formal normative or sectoral exclusion policy.

This represents 80% of the assets managed. In 2022, exclusions linked to controversial weapons, excluding legal exclusions (anti-personnel landmines and cluster munitions), and coal were the most widespread in portfolios. They accounted for almost 80% and 70% of AuM respectively. On a constant scope, those figures are stable compared to 2021.

Asset Management Companies' fossil fuel strategies

A. Characteristics of the coal strategy

Coal is the world's main source of greenhouse gases (GHGs): 40% of GHGs are attributable to coal, 32% to oil and 19% to natural gas. Coal intrinsically emits more GHGs (scopes 1, 2 and 3) than oil or gas for electricity generation.

According to ADEME, indirect carbon emissions from coal (carbon intensity of coal) are 1,050 gCO_2eq compared with 443 gCO_2eq per KWh for natural gas. These correspond to carbon emissions linked to electricity production and heating and cooling networks. One of the means of action for asset managers to meet the targets set by the Paris Agreement is therefore to divest from the coal sector. That's why, in July 2019, the Paris financial center committed to encourage its members to establish a coal strategy.

In November 2020, AFG published a coal guide for AMCs..

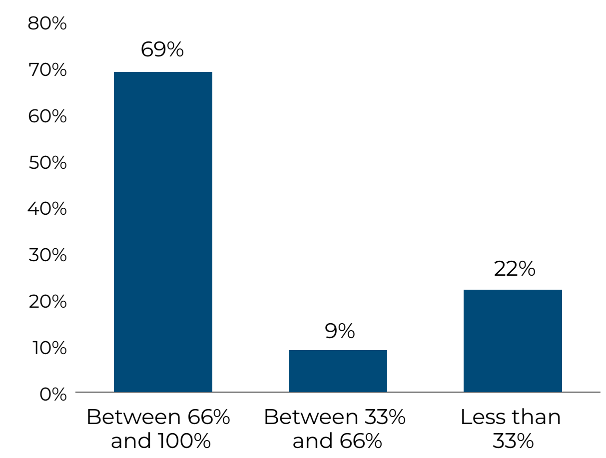
85% of AMCs surveyed have a coal strategy in place.

Almost all of them make this strategy public.

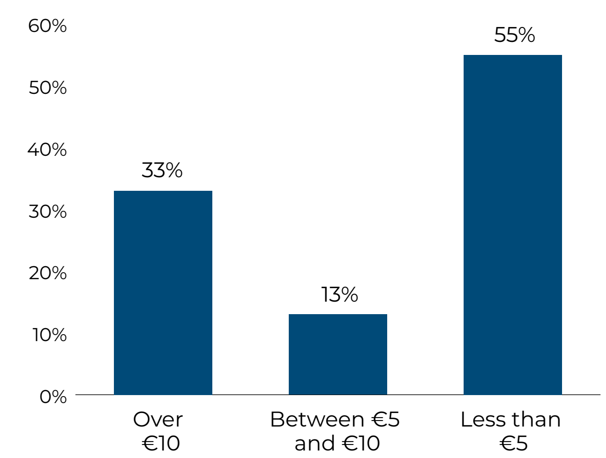
■ ASSETS SUBJECT TO A COAL STRATEGY

As in 2021, in 2022 almost 70% of AuM in France by the AMCs that responded to the survey are subject to a coal strategy.

For a third of AMCs, the coal strategy applies to all their AuM in France.



Distribution of AMCs according to the proportion of their assets subject to a coal strategy



Distribution of AMCs according to the volume of total assets subject to a coal strategy (in € billion)

▪ EXPOSURE TO COAL OF ASSET MANAGEMENT COMPANIES SURVEYED

→ ***Global Coal Exit List (GCEL)***

The GCEL was designed to provide clear information on companies whose business model is based on coal. The list provides statistics on over 1,000 companies (and over 1,800 subsidiaries) operating in the coal value chain. By 2022, it will cover 90% of the world's thermal coal production and coal-fired power generation capacity.

The AMCs' exposure to coal is calculated based on companies that mine and produce electricity from coal listed on the Global Coal Exit List. Investments in upstream or downstream companies or in companies that use coal-fired electricity are not included in this exposure calculation.

In 2022, the AMCs' surveyed have an exposure to coal of €19.1 billion. This represents 0.53% of their total assets.

Between 2021 and 2022, the AMCs' coal exposure remained stable on a constant scope.

B. Characteristics of non-coal fossil fuel strategies

Focus on fossil fuel

Fossil fuels are derived from the methanization of dead plants and living organisms buried in the ground for several million years. There are two main categories of hydrocarbons:

- **those of conventional origin,** which have left their bedrock and accumulate in porous, permeable rock. The formation of this reservoir facilitates their extraction;
- **those of unconventional origin** that are stored in rocks with low porosity, making them difficult to access. Exploiting them presents more risks for the environment, including soil, air and water pollution.

▪ EXPOSURE TO GAS AND OIL OF ASSET MANAGEMENT COMPANIES SURVEYED

Global Oil & Gas Exit List (GOGEL)

GOGEL is a database that provides financial institutions with information exposure of their portfolios to oil and gas. It includes **901 companies operating in the extraction production or transportation of oil and gas**. The information provided is useful to develop and implement effective oil and gas exclusion policies.

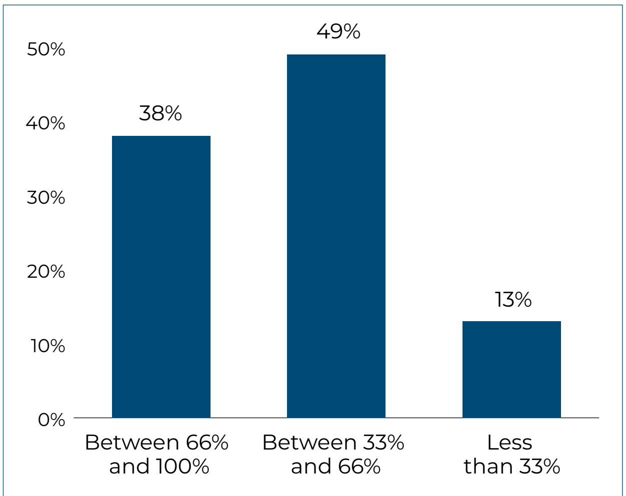
In 2023, for the first time in its annual survey on responsible investment, the AFG questioned its members on their exposure to oil and gas according to GOGEL.

In 2022, the AMCs that answered have an exposure of €71.3 billion to oil and gas, which represent 2% of their AuM in France.

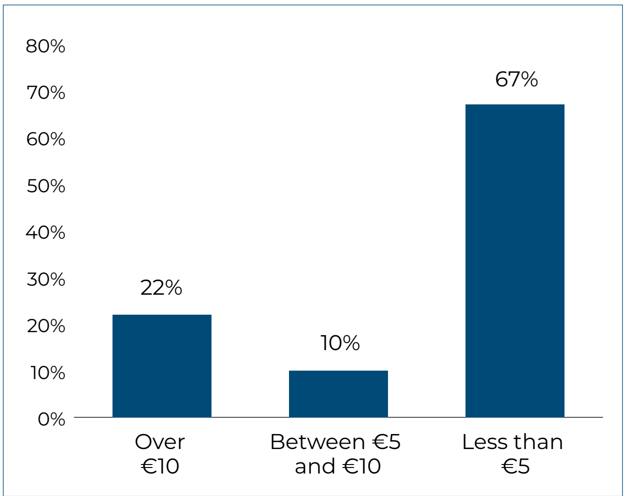
■ STRATEGY ON UNCONVENTIONAL FOSSIL FUELS

a. Assets under Management subject to a strategy on unconventional fossil fuels

The use of a non-coal fossil fuel strategy by AMCs is less common. **Nearly 60% of the AMCs surveyed have a formalized strategy for unconventional fossil fuels.** Among the AMCs that do not have a strategy for unconventional fossil fuels, 17% plan to introduce one in 2023, and 19% within the next 5 years.



Distribution of AMCs according to the proportion of their assets subject to a strategy on unconventional energies



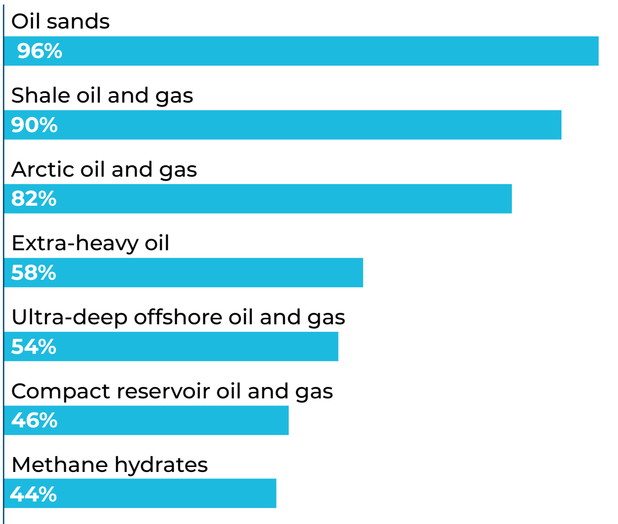
Distribution of AMCs according to the volume of total assets subject to a strategy on unconventional energies (in € billion)

b. Unconventional fossil fuels defined by AMCs

Some operational choices made by fossil fuel companies have more impact than the nature of the resource (except in the case of oil shale). According to several experts, in certain cases, the extraction of unconventional fossil fuels can have less impact than conventional ones on the environment. As a result, there is no international list to guarantee a uniform definition of unconventional fossil fuels. AMCs may have to decide for themselves which energies should be classified as non-conventional.

Almost all of the AMCs with a strategy for unconventional fossil fuels include oil sands in their definition of this type of energy. Similarly, shale oil and gas (90%) and Arctic oil and gas (82%) are considered unconventional hydrocarbons.

By contrast, ultra-deep offshore oil and gas, methane hydrates, tight oil and gas, and extra-heavy oil are included in the definition of non-conventional by only around 50% of the AMCs with a strategy on unconventional energies.



Unconventional energies defined by AMCs

▪ STRATEGY FOR CONVENTIONAL FOSSIL FUELS (EXCLUDING COAL)

41% of the AMCs surveyed have a strategy for conventional fossil fuels (excluding coal). Of those who do not yet have one, 10% plan to define one within the year, while 14% will do so within 5 years.

In 2022, 25% of survey respondents' AuM are subject to a strategy for conventional fossil fuels (excluding coal).

SFDR level 2 measures apply from 1 January 2023 and require, among others, the disclosure of the "sustainable investment" proportion of financial products.

The application of the very general definition of sustainable investment according to SFDR has led to very heterogeneous results from one player to another. The AFG and its members has carried out work to propose common principles to clarify this definition. As the SFDR will not be reviewed before 2025, these principles could provide some help to apply the definition and be used as convergence tool.

Far from considering this deliverable as definitive, the AFG continues to work on the subject and to exchange with other stakeholders who have also started work. Clarifications may come from the authorities and AFG will modify or enrich its recommendations accordingly. These principles are being promoted by AFG in a context where other stakeholders are also working on the issue.


MARCH 2023
NOTE
Definition of Sustainable Investment according to SFDR
AFG

AFG collected information from its Asset Management Company members on their Responsible Investment Management activities in 2022.

The sample is made up of 96 AMCs, representing 86 answers to the survey (some Asset Management Companies responded on behalf of all the companies in the group). Together, the AMCs in the sample manage €3,555 billion in funds and discretionary mandates.

Etudes Eco

For the past 60 years, AFG has brought together Asset Management professionals, serving the interests of investment industry participants and economic players.

- It coordinates the industry's thinking about its development
- It defines shared positions which it promotes and defends with the authorities in France and Europe.
- It contributes to the emergence of solutions that are beneficial to all actors in the ecosystem and acts, in the universal interest, to foster the industry's expansion and influence in France, Europe and beyond.

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