



**Reporting under Article 173-VI of the French Act n°2015-992 of 17
August 2015 on the Energy Transition for Green Growth**

METROPOLE Euro SRI sub-fund of the METROPOLE Fund SICAV.

2019 Reporting

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This report relates to METROPOLE Euro SRI, sub-fund of the METROPOLE Fund SICAV, a Value-based Eurozone equities fund incorporating ESG criteria, with net assets of under €500 million.

This report should be read in conjunction with our Responsible Value management policy.

For further details: http://doc.metropolegestion.fr/pdf/Responsible_Value_policy.pdf

This report sets out how our corporate analyses impact the management of the fund and the sustainable development performance of our investments as at 31/12/2019.

It meets the requirements of Article 173-VI of the French Act n°2015-992 of 17 August 2015 on the Energy Transition for Green Growth.

The METROPOLE Euro SRI sub-fund systematically incorporates sustainable development issues by means of our 360° corporate analysis model. The fund selects according to sustainable development criteria, which means that its investment universe is defined by further sustainable development filters in addition to the exclusions applied to all our funds. These exclusions include any companies directly or indirectly linked to the financing of controversial weapons, as provided for by international conventions. Are also excluded mining companies that generate more than 30% of their revenue through coal production, energy-producing companies whose more than 30% of its production comes from coal, companies linked to tobacco production and companies linked to pornography.

For further details:

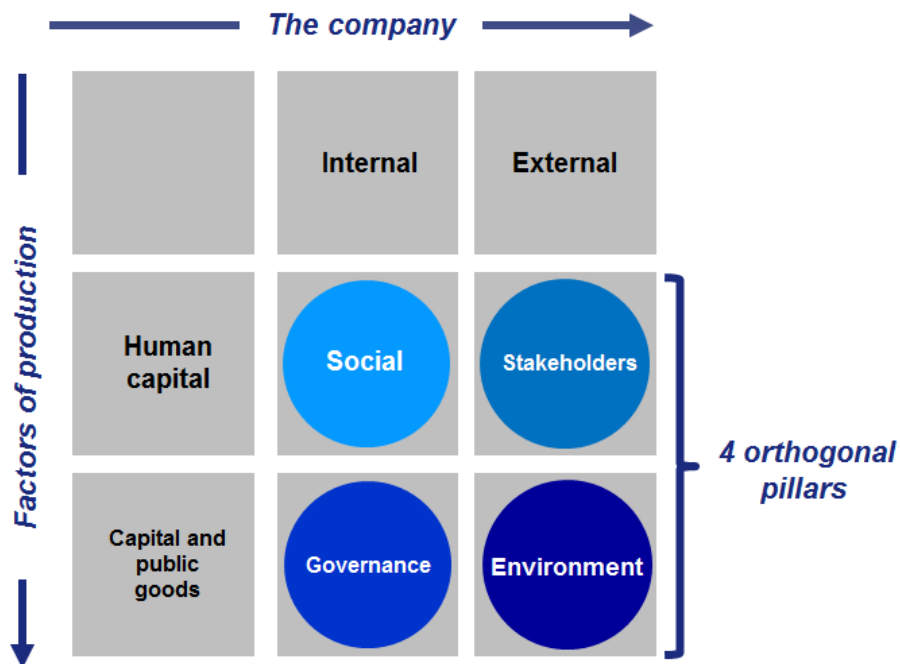
http://doc.metropolegestion.fr/pdf/Sector_exclusion_policy.pdf

1- ESG analysis model

In 2009 METROPOLE Gestion decided to establish a base methodology independently of the main ESG rating agencies by entering into an academic collaboration with the Clermont Auvergne University in order to create a company rating system specific to METROPOLE Gestion.

The fundamental architecture of the rating system is structured around 4 orthogonal pillars.

The matrix consists of two axes producing the 4 pillars: External/Internal and Human Capital/Capital and public goods:



The 4 pillars are equally weighted. They are then broken down into sub-pillars analysed in extensive detail:

Environment: measurement of the company's impact on the ecosystem.

- Impact of the production process on emissions
- Impact of the production process on resource consumption
- Impact of the products

Labour relations: measurement of the company's impact on its human resources.

- Fundamental rights
- Quality of working conditions (arduousness, health & safety in the workplace, etc.)
- Employee development and job security (compensation, training, promotion, etc.)

Governance: measurement of the quality of relations between senior management, shareholders and the board of directors

- Shareholder protection, CSR approach
- Effectiveness of the board of directors
- Effectiveness of executive officers

Stakeholders: measurement of the quality of relations with contractual and external stakeholders

- Customers
- Suppliers
- Government and public authorities
- Civil society

A total of 150 indicators are taken into consideration and allocated to the 4 analytical pillars.

Our methodology is designed to select the best European companies in their sector in terms of ESG criteria (best-in-class approach), or which are striving to improve in these areas (best effort approach).

Data measurement and aggregation

- We use the Eikon database from Refinitiv, one of the largest non-financial databases (5,000 companies worldwide) which maintains stable data over time and combines official data from the companies (annual reports and sustainable development reports) with data on controversies emanating from press agencies.
- Based on this data, 150 indicators have been constructed measuring each element of the system, emphasising results versus the resources employed (weighting 75% to 25%).
- Best-in-class rating

The results obtained for each indicator lead to the company being classified within its sector followed by a standardisation process producing a score between 0% and 100%. The scores are then aggregated to produce a score for the 4 pillars of environment, labour relations, governance and stakeholders, which are equally weighted. The results obtained for each pillar are aggregated once again and standardised to obtain a global ratings between 0% and 100%.

The global ratings are distributed among multiple groups rated from AAA+ to CCC-.

- Best effort rating

The issuer's global rating is supplemented by a best effort rating. This is calculated using the variation of the global rating over the past 3 years with incremental coefficients (the latest year has a coefficient of 3). The companies are classified and broken down into 5 groups ranging from 1 to 5 stars (5 stars being the highest best effort rating).

- Annual rating review.

The ratings are reviewed once each year when the companies' annual reports and sustainable development reports are published.

Quantitative ratings verified and supplemented by:

- Due consideration given to ongoing controversies:
 - All controversies relating to the securities held in the portfolio are collated and monitored on a weekly basis.
 - In addition to the quantitative rating, controversies of new companies being reviewed are analysed for the past 3 years.
 - In order to assess the significance of the controversy, a procedure has been implemented incorporating a specific analytical matrix.
 - The emergence of a controversy does not change the company's quantitative rating during the year in question. Depending on the significance of the controversy the weighting within the portfolio will be modified, potentially leading to exit.
- Analysis of specific sectoral risks.
- Dialogue with companies during the meetings held with the companies' CSR officers and senior management, at least once a year for portfolio companies, designed to conduct in-depth investigations into identified risks, to detect risks not identified during the rating process and to encourage the company to adapt its strategy.

The methodology is applied in the same manner regardless of the business sector, country or region. As the selected approach is a best-in-class approach, the companies are compared with each other within a given sector and the pertinence or otherwise of an indicator applies to the entire sector.

2- Method of analysis of Energy and Ecological transition risks and changes associated with climate change.

A set of climate change indicators is integrated within our in-house model, the principles of which are set in the preceding section. 35 indicators out of 150, i.e. over 20% of the indicators we monitor are climate change criteria and are distributed among the 4 analytical pillars. These form an integral part of the ESG rating system as described above.

In addition, we have a rating dedicated to climate risk management that enables us to rank companies on their performances accordingly. As such, we calculate a “climate risk score” for each company, that takes into account the physical and transition risks faced by the companies. This score has 22 sub-indicators grouped into percentiles that are then equally weighted.

This quantitative approach is completed by a qualitative approach for each company during interviews conducted directly with them.

They are broken down into the following themes:

Physical risks induced by climate change

- Risks induced by transition to a low-carbon economy
- Benefits of favouring a low-carbon economy
- Compatibility with the 2°C pledge
- Consequences of climate change and of extreme weather events
- Changing availability of resources “climatically” compatible with the objectives
- Consistency of investment expenditure with the low-carbon strategy
- Measurement of greenhouse gas emissions

In addition to incorporating criteria within the ESG ratings, METROPOLE Gestion has adopted a policy of themed engagement covering climate change. During dialogue with issuers, we question all companies held in the portfolio about their CO2 strategy and assess the extent to which they comply with the 2°C pledge established during the Paris Climate Agreement. The results of this engagement are detailed in our 2019 Engagement Report.

Furthermore, as a signatory of the Carbon Disclosure Project, METROPOLE Gestion has adopted the Non-Disclosure Campaign, a collective engagement campaign targeting companies not responding to information requests from the CDP. This engagement is designed to improve the transparency of climate change information communicated by companies.

3- Procedures for taking ESG and climate criteria into account in the investment process: a global and integrated management process, termed Responsible Value.

Our initial investment universe is composed of European companies with over 100 million euros of market capitalisation, with the exception of those subject to the exclusions specified in our policy (controversial weapons, coal production or consumption, tobacco and pornography). As such, the systematic exclusion of mining companies that generate more than 30% of their revenue through coal production and energy-producing companies with more than 30% of its production coming from coal is a strong incentive for European companies to embark on the path of the Energy and Ecological Transition. Our eligible universe therefore constitutes the starting point for portfolio construction.

Exclusion Policy: http://doc.metropolegestion.fr/pdf/Sector_exclusion_policy.pdf

Financial analysis and the selection of discounted securities vis-à-vis their industrial value constitutes the second filter that once again narrows the universe.

The third filter involves the use of extra-financial analysis to supplement the financial analysis, giving preference to undervalued companies that are the highest rated in their business sector or that make the biggest efforts in terms of transition towards ESG best practices. This approach both limits the potential risks, whether financial or more specifically ESG and climate related, and encourages companies to accelerate implementation of their transformation towards a sustainable growth and to seize the new opportunities such transformations create.

The final filter applied when selecting potential stocks for portfolios is analysing the catalysts in place to reduce both the undervaluation and ESG controversies.

The investment universe is determined on this basis but may evolve day by day in accordance with changing market valuations and transformations as regards to ESG. The management team adjusts the investable universe on a daily basis.

The portfolio is constructed by a collegial decision-making process by the team, weighting each stock according to its discount, the quality of its balance sheet and its ESG qualities. The management team also adopts a strict sell discipline once valuation targets are reached or in the event of a downgrade in the company's ESG qualities or of a major controversy.

The METROPOLE Euro SRI sub-fund also applies further selection constraints:

- Companies rated BBB- or higher may be selected with no Best Effort condition
- Companies rated BB+ or lower may be selected subject to a minimum Best Effort +++ rating
- Companies in the CCC bucket are excluded
- The portfolio's overall ESG rating must be higher than the overall ESG rating of the reference investment universe after removing 20% of the lowest-rated stocks.

The management process can be portrayed as follows:

3.1 A global and integrated management process: The Responsible Value investing process

Pre-selection

Selection of undervalued stocks compared to their industrial value within a stock picking framework

- Filter of the European universe using for each business type the same valuation metrics as corporations do in their relevant sector. These metrics are referenced in our proprietary database of past mergers and acquisitions transactions.
- Filter of the resulting universe according to our proprietary Best-in-class / Best effort ESG rating taking into account our exclusion policy.

Valuation

Calculation of industrial value, analysis of the balance sheet strength, consideration of extra-financial controversies followed by meeting with management.

- A 360° analysis of the company taking into account three aspects: extra-financial analysis, financial analysis, balance sheet analysis.
- Meeting with management regarding these 3 aspects.
- Choosing an appropriate valuation ratio for each type of business. Evaluation of ESG risks.

Identification of catalysts

Anticipation of changes in market status for the security selected, likely to reduce any undervaluation relative to their industrial value.

- Identifying financial or extra-financial catalysts, new controversies or changes in extra-financial ratings.

Entry

Entry based on a collegial decision and weighting of each security according to its discount and catalysts.

- Portfolio with stocks discounted against their industrial value, with strong balance sheet and ESG qualities,
- Concentrated portfolios with 30 to 40 stocks.

Strict sell discipline

- When the valuation target is reached;
- When identified catalysts do not materialise;
- In the event of a sharp downgrade in extra-financial ratings;
- In the event of significant controversy.

Selectivity in favour of sustainable investment:

- Companies rated above or equal to BBB- (Investment grade) may be selected with no Best effort condition
- Companies rated below or equal to BB+ may be selected subject to a minimum +++ Best effort rating
- Companies rated in the CCC bucket are ruled out.
- The portfolio's overall ESG rating must be higher than the overall ESG rating of the reference investment universe after removing 20% of the lowest-rated stocks.

3.2 ESG performance indicators

We calculate various sustainable development performance indicators for our investments in the METROPOLE Euro SRI sub-fund.

Our proprietary method enables us to calculate an ESG rating for 100% of our investments.

As of the 31/12/2019, the ratings for the METROPOLE Euro SRI portfolio were as follows, and are compared to those of its reference investment universe after removing 20% of the lowest-rated stocks:

	ESG Rating	Environnement Rating	Labour Relations Rating	Governance Rating	Stakeholders Rating
METROPOLE Euro SRI 31/12/2019	AA+	AAA-	AAA	A	AAA-
Reference universe as at 31/12/2019 minus 20% of the lowest ratings	AA	AAA-	AAA-	A-	AA

These data are the outcome of the investment process, noting that METROPOLE Euro SRI has a predetermined ESG rating target.

3.3 Performance indicators for Energy and Ecological Transition risks and Climate risk

A set of climate change indicators is integrated within our in-house model, the principles of which are set in the preceding section. 35 indicators out of 150, i.e. over 20% of the indicators we monitor are climate change criteria and are distributed among the 4 analytical pillars. These criteria form an integral part of the quantitative rating of each company and are subjected to ESG analysis as described above.

In addition, we have a rating dedicated to climate risk management that enables us to rank companies on their performances accordingly. As such, we calculate a “climate risk score” for each company, that takes into account the physical and transition risks faced by the companies. This score has 22 sub-indicators grouped into percentiles that are then equally weighted.

As of the 31/12/2019, the METROPOLE Euro SRI sub-fund’s Climate score was 88.9% compared to 85.1% for its benchmark.

These data are the outcome of the investment process, noting that METROPOLE Euro SRI has no predetermined climate score target.

Our approach to climate risks is based on the work and recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) to which we are signatories and whose recommendations are incorporated into the UNPRI annual reporting with effect from 2020. As in previous years, this report will be published on our website in the second quarter of 2020.

Our approach to and calculations of climate risks are a work in progress, which we are constantly refining.

This quantitative approach is completed by a qualitative approach for each company during interviews conducted directly with them.

They are broken down into the following themes:

- Physical risks induced by climate change
- Risks induced by transition to a low-carbon economy
- Benefits of favouring a low-carbon economy
- Compatibility with the 2°C pledge
- Consequences of climate change and of extreme weather events
- Changing availability of resources “climatically” compatible with the objectives
- Consistency of investment expenditure with the low-carbon strategy
- Measurement of greenhouse gas emissions

In addition to incorporating criteria within the ESG ratings, METROPOLE Gestion has adopted a policy of themed engagement covering climate change. During dialogue with issuers, we question all companies held in the portfolio about their CO2 strategy and assess the extent to which they comply with the 2°C pledge established during the Paris Climate Agreement. The results of this engagement are detailed in our 2019 Engagement Report.

Furthermore, as a signatory of the Carbon Disclosure Project, METROPOLE Gestion has adopted the Non-Disclosure Campaign, a collective engagement campaign targeting companies not responding to information requests from the CDP. This engagement is designed to improve the transparency of climate change information communicated by companies.

We measure the **carbon footprint of the METROPOLE Euro SRI portfolio** by carbon intensity (tonnes of CO2 per million of turnover) as measured by the CO2 emissions per 1 million euros of turnover generated by the companies held. The provided measurements are based on data published by the companies, or otherwise rely on those collected by the CDP; they include scope 1 and scope 2 emissions.

As of the 31/12/2019, the carbon footprint of METROPOLE Euro SRI was 179.5 tonnes CO2 equivalent per million euros in revenue, compared to 240.8 for its benchmark.

These data are the outcome of the investment process, noting that METROPOLE Euro SRI has no predetermined carbon footprint target. Nevertheless, the list of METROPOLE Gestion exclusions applied to the entire range of mutual funds excludes in particular mining companies that generate more than 30% of their revenue through coal production and energy-producing companies more than 30% of whose production comes from coal.

Lastly, we calculate 4 performance indicators annually for METROPOLE Euro SRI, one of them being the portfolio's CO2 emissions, in order to evaluate the impact of our investments over time.

These results can be found in our impact report, published annually and available on our website, for the METROPOLE Euro SRI sub-fund. The 2019 report will be published on our website in the first quarter of 2020.

2018 Impact report:

<http://www.metropolegestion.com/documents/show/695/eng>

4- Our engagement

In addition to the risks companies face in these areas, we believed it was essential to encourage them to improve by adopting a responsible and sustainable approach to growth. We therefore apply a best-in-class and best effort methodology, engage with the companies from the very outset, integrate these criteria in the exercise of our voting rights and maintain direct dialogue with them.

Since its founding, METROPOLE Gestion has always believed that exercising voting rights on behalf of our clients forms an integral part of establishing a dialogue with the companies, encouraging them to develop their ESG practices. Over the years we have also observed companies increasing propensity to give full consideration to shareholders' votes and to establish dialogue with their investors.

The analysis of resolutions and the implementation of votes are monitored by the METROPOLE Gestion fund management team with the support of the analytics firm ISS.

Voting Policy: http://doc.metropolegestion.fr/pdf/Voting_Policy.pdf

Our report on exercising voting rights for the year 2019 will be available on our website in the 1st quarter of the year 2020.

In addition to exercising voting rights, the fund management team of METROPOLE Gestion has always maintained dialogue with the companies in which it invests on behalf of its clients, by meeting not only the companies' CSR managers but also their CEOs and CFOs in order to assess their commitment to the sustainable development of their company. Over and above the process of direct dialogue with the companies, more recently METROPOLE

Gestion commenced an annual process of thematic dialogue covering specific topics that are addressed by each company that is met. Lastly, through the auspices of the CDP (Carbon Disclosure Project), METROPOLE Gestion engages with companies within the framework of collective engagement designed to exert greater influence over their activities, notably in terms of their climate action.

Engagement policy: http://doc.metropolegestion.fr/pdf/MG_Engagement_Policy.pdf

Our engagement report for the year 2019 will be available on our website in the 1st quarter of the year 2020.