



ESG & GEOPOLITICAL SHOCKS

Swan song or phoenix in flight ?

Signatory of



Member of



Contents

-
3.
ESG editorial
4.
Our ESG philosophy
6.
Focus of the half-year
13.
Our half-yearly exclusion

14.
Monitoring the main ESG indicators for our range of open-ended funds
17.
Example analysis extra-financial on a long position
21.
Example analysis extra-financial on a short position

Editorial

ESG & geopolitical shocks : swan song or phoenix in flight ?

Richard Pandevant
Head of ESG at Exane AM



The second half of 2024 and the beginning of 2025 will have been clearly marked by the reelection of Donald Trump as President of the United States. Its ESG agenda is well known :

A strong dislike of Wind power, particularly offshore Wind power.

The desire offer its industry domestic energy that is both secure and permanently cheap.

As well as taking a step backwards on a societal agenda contested by his voters.



While the President of the United States obviously wields a great deal of power, the fact remains that there are counter-powers in the United States, as well as physical realities. The availability of cheap energy is a strong argument in favour of a

varied Energy mix. This energy mix also makes it possible to envisage an energy transition, either we have the ambition to preserve the climate, or what can still be preserved, or because sooner or later we will be faced with a decline in the availability of fossil fuels.

In Europe this time, we will have to keep an eye on the outcome of the elections in Germany, as well as on the potential impact on the energy market and other sectors. A possible ceasefire in Ukraine could also reshuffle the cards, as well as the future of ESG regulations, 2024 having turned out to be, as expected, a year of regulatory pause due to the European elections.

The new Commission is being set up with, at least that's the promise, a pragmatic approach that would change somewhat from previous approaches and could perhaps draw inspiration from what has recently been done in the United Kingdom.

Finally, following the announcement by China's DeepSeek at the end of January, the hypothesis of artificial intelligence that

would be much cheaper and, above all, much less computationally (and therefore energy) intensive is also to be taken into account.

We will therefore need study the positive or negative impact on each stock, sector by sector. This is the central theme of this ESG newsletter.

In this changing environment, theres only one watchword : stay the course !

In keeping with our philosophy, we have taken advantage of 2024 to continue deploying our ESG approach across all the funds in our range, from long/short equity funds to European and eurozone equity funds.

All our funds, which are classified as SFDR Article 8, have had a minimum sustainable investment rate of 20% since 2024. On all funds, we have more than amply complied with this requirement. At the end of this letter you will find a numerical summary of the ESG data characteristic of each of our funds. These data are included in the funds' prospectuses, which we distribute to you as standard.

Naturally, we can provide much more ESG information about our portfolios on request.

We hope you enjoy your reading ! ■

Integration

Our philosophy for integrating ESG criteria into the Funds

An integration of criteria that respects our DNA.



Since the first half of 2019, we have formalised our policy of integrating extra-financial criteria into our long-only range, starting with Exane Equity Select Europe.

Then, in 2020, this approach took concrete form in our long/short management. ESG criteria are now systematically taken into account in our investment process for 100% of the funds in our range. Exane Asset Management's ESG approach based on 3 pillars :

An INTEGRATION approach based on E, S and G risks, which respects our desire to invest in all sectors of activity, while favouring companies within each sector that best address the risks they face and know how to adapt their business models and strategies to meet these new challenges.

We believe it is essential to take into account the impact of

environmental, social and governance criteria when analysing a company, modelling its fair value and making the resulting investment decisions. A thorough understanding of ESG factors creates value in the investment process.

Exane Asset Management's portfolio managers mainly make their investment choices a fundamental analysis process based on their own selection criteria, traditional external financial analysis provided by financial intermediaries or research providers, and numerous meetings with company management teams.

These analyses are systematically supplemented by an ESG integration approach, for which the Management Company relies on :

A market benchmark in this area, **Sustainalytics**®, adopting a sectoral riskbased approach consistent with its investment philosophy ;

A proprietary tool, developed inhouse by Exane Asset 's teams, for analysing and monitoring investments according to key environmental, social and governance issues (i-ESG). This internal tool includes a battery of quantitative questions (ratings) and qualitative questions (comments) relating to ESG issues, which each sector manager must have answered, with the support of the ESG analyst, before a security can be processed, and must then be regularly updated in line with new developments and exchanges with the companies concerned.

The ratings, which must be filled in when the file is created and each time it is updated, are either ratings from 1 star to 5 stars, or binary fields

of the Yes / No type. Comments can be updated either by the sector manager in charge of the stock, or by the ESG team. In this case, an automatic information alert is sent to the manager, with a copy to the ESG team.

The main items addressed by our in-house i-ESG tool when analysing a company are :

- ESG risk ;
- Management performance in this area ;
- Our assessment of Governance, the extent to which the company takes account of environmental issues in relation to its sector the extent to which the company takes account of social/ societal issues in relation to its sector ;
- Whether ESG is taken into account in this investment, either from a performance or risk perspective ;
- Valuation vs ESG aspects ;
- Our dialogue and engagement with society.

At 31-12-2024, our internal ESG tool covered nearly 600 securities, or more than the number of securities currently held in all our funds, due to portfolio rotation. We also use research produced by specialist brokers, as well as that produced by PRI, CDP and academic sources.

A policy EXCLUSION pragmatic and non-dogmatic : see the «AM Exclusion» article.

Our ENGAGEMENT approach takes the form of an ongoing,

documented dialogue with company management. Through direct dialogue and by taking part in market initiatives, we aim to encourage issuers to be increasingly transparent and comparable when it comes to ESG issues and the precise objectives they can set themselves for environmental, social and governance issues over the medium and long term.

Exane AM is convinced that good corporate governance allows for a better understanding of risks and an improvement in a company's performance over the medium to long term. For the management company, this implies a responsibility as an investor on behalf of third parties, which translates into the need to take account of all the financial and extra-financial factors that can influence the value of investments in its investment choices.

We therefore engage in regular dialogues with the management teams of the companies in which we invest to gain a better understanding of all these aspects. As we invest in all sectors, we are particularly keen to transparency and quantified commitments from issuers as to the progress they plan to make over the next few years, ideally backed up by scientifically measurable criteria that contribute materially to improving practices. For us, dialogue is a constructive approach, through which we seek to understand and analyse companies' issues and practices. Exane AM also supports its dialogue and engagement with issuers through market initiatives, as we have done since 2020 with CDP.

These investor coalitions have the main aim of these initiatives is to engage companies in improving their ESG practices. These initiatives include the development of tools and methodologies to facilitate the integration of ESG issues into corporate governance and asset management.

Exane AM contributes to this collaborative engagement by providing ESG expertise and logistical support.

EXANE EQUITY SELECT EUROPE Update on the SRI Label.

As part of the process of obtaining the SRI Label for our long-only fund Exane Equity Select Europe from December 2022 to 1 January 2025, we have strengthened the ESG requirements of the fund, in line with the investment philosophy that has been successfully implemented in the fund for over 13 years.

In interests of the fund's investors and to respect our sector-neutral investment philosophy, we have chosen not to opt for V3 from 1 January 2025 (the fund is therefore not eligible for the SRI Label from that date), but we will continue to apply the rules that enabled the fund to meet the requirements of the previous version of the Label.

As a result, in addition to an ESG risk rating that is consistently better than that of its benchmark MSCI Europe, and the exclusion of more than 20% of investment universe on the grounds of ESG considerations, as part of the SRI label, we monitor a certain number of indicators on the E/S/G/HR pillars, in line with our ESG policy.

On the environmental pillar, we monitor the carbon intensity of the portfolio.

On the social pillar, we monitor the indicator (provided by our data provider Sustainalytics) linked to the freedom of association, and we constantly aim to outperform the investment universe on this criterion.

On the governance pillar, we follow the indicator (provided by our data provider Sustainalytics) linked to anti-corruption policy (we believe that this element is essential in terms of business ethics) and we constantly aim to outperform the investment universe on this criterion.

Finally, on the human rights pillar, we monitor the proportion of the portfolio categorised as being on watchlist for one or more of the Global Compact principles (our exclusion policy already includes non-compliant stocks as well as stocks that are not signatories to the Global Compact). More detailed information is available in the Fund's Transparency Code. ■

ESG & SHOCKS GEOPOLITICS

SWAN SONG OR PHOENIX IN FLIGHT ?

SPECIAL FOLDER

Central focus

ESG & geopolitical shocks : swan song or phoenix in flight ?

With the beginning of the year particularly marked by geopolitics, the return of Donald Trump to the Presidency of the United States, a new Commission in Europe and surprising - and potentially disruptive - announcements in technology, particularly artificial intelligence, we wanted to take a step back and ask ourselves, together with our sector experts, about the business, financial and ESG consequences of the following elements :

- Election of Donald Trump to a 2nd term as President of the United States of America
- The potential entry into force of new customs duties
- DeepSeek : artificial intelligence's «Sputnik moment» ?

ELECTION OF DONALD TRUMP

Initially, the re-election of Donald Trump, and above all his conditions, were experienced more as a relief for two types of reasons :

First of all, from an institutional point of view. As election result could not be contested, there was no period of institutional disorder, as had been feared, and the handover of power took place calmly.

Then there were the financial markets. Although American President very quickly - and in a deliberately spectacular fashion - signed dozens of presidential orders, these were essentially concerned with societal issues (immigration, diversity) and the absence of protectionist customs measures in the very first days reassured the financial markets, creating a more favourable landscape for business.

For Damien Dierickx, managing analyst in charge of Industry and Automotive at Exane AM, in industry, pro-business and deregulation policies are likely to

sustain business.

There is a risk for companies exposed to IRA subsidies, such as renewables, electric vehicles and batteries. The reduction in public spending through the DOGE should also call for vigilance with regard to companies dependent on public commandates. In the aerospace/defence sector, what will happen in Ukraine and the Middle East ? What future for NATO ? In any case, the United States will more investment from Europeans to ensure their own defence.

For Saad Alami, analyst and manager of software and IT services, while this election is unlikely to have a significant effect on IT services, it could have an effect on the technology sector via the possible difficulties on obtaining H-1B visas for foreigners employed in the sector.

We can envisage a reduction in the number of H-1B visas granted and an increase in requirements for employers.

Richard Pandevant, Head of ESG at Exane AM, adds that in a context of in a country where the 'S' in ESG is often limited to a company's ability to attract talent, and in a highly competitive global industry, this may not be entirely neutral. According to Jean-François Roussel, managing analyst responsible for in the banking and financial services sector, the prevailing perception is that the new administration will be more flexible when it comes to regulation, which means more capital for US banks and is proving positive for their valuations.

As a result, European banks will face more competition from US players in their domestic markets especially as the US banks' ESG regulatory obligations are likely to be much less of a guide than those of their European counterparts !

On the specifically environmental front, for Emilien Guilbaud, ESG analyst at Exane AM, the United States' second withdrawal from the Paris Climate may be seen as a

major setback, but there is good reason to be more nuanced on the subject : the IRA's flagship measures will continue and the Republican States are the main parties involved in the negotiations biggest beneficiaries of these green investments.

What's more, the other countries remain engaged in their careers of decarbonisation, this election should not stop the train to slow it down. He added that, in terms of governance, a little-discussed but important point is the appointment on 20 January 2025 by President Donald Trump of Mark Uyeda, a Republican member of the Securities and Exchange Commission (SEC), as acting chairman of the agency, succeeding Gary Gensler at the head of the SEC. Gensler has already publicly criticised the requirements for companies to publish climate-related data, and is a proponent of the duality between ESG criteria and fiduciary duty. This could widen the gap between Europeans and Americans on extra-financial reporting and complicate the work of analysts.

Richard Pandevant, adds that Mark Uyeda seems to be favouring a more pragmatic, where the market rather than regulation, determines ESG best practice.

It stresses the importance avoiding a «politicisation» of these criteria and argues for greater transparency and flexibility in the way companies respond to ESG expectations. Here again, the gap with Europe could lead to friction, even if the newly elected European Commission has publicly vowed to be more pragmatic than in the recent past.

INTRODUCTION OF NEW CUSTOMS ?

The situation changed abruptly at the very end of January and

the beginning of February with the an-customs duties products from China, but also Canada and Mexico, which are nonetheless part of NAFTA, the free trade area established under George W. Bush (père) in 1992.



At the time of writing, Europe and the UK have not yet been targeted, but the pressure mounts quickly, fair hearing the outbreak of war commercial.

According to Jean-François Roussel, this is obviously a negative for «usual suspects». This means that for companies such as BBVA, HSBC and the US, it is not just a question of the «best in class» countries of China and Canada, but also Mexico to a lesser extent Santander. For Damien Dierickx, there is a specific risk for part of the industry relocated to Mexico (e.g. lorries) and all manufacturers who used to pass through Mexico to re-import goods of Chinese origin.

The industry will have to increase its tariffs to compensate and/or put pressure on suppliers (as under «Trump 1»...). Similarly, in the aerospace/defence sector : The civil aviation supply chain is dependent on production in Mexico and will have to increase its prices to manufacturers. For the automotive industry, its diagnosis is more drastic : the supply chains and production models simply cannot hold a 25% cost shock. Finally, in the area of

transport, we need to check whether future tariff policies will have an impact on the volume trade in goods around the world, thus confirming the end of the link between GDP and world trade.

From a social point of view, Emilien Guilbaud points out that it is hard to see how a spiral of tariffs could result in anything other than higher costs for American consumers, which would in effect against Donald Trump's electoral base.

Excessive confidence in the United States of America ? This comes at a time when The United States dominates the international equity markets, with over 70% of the MSCI World composed of US companies. This situation is largely due to the undivided domination of technology, with the famous «Magnificent Seven». In the field of artificial intelligence in particular, American companies have succeeded creating a story of high barriers to entry. Most of these companies operate in markets with strong positive feedback, of the «winner takes all». It was therefore understood that to have access to the Artificial Intelligence, you needed the components, the data centres and the compulsory hours of calculations that only these players could provide, and therefore at the price they set. But that was before an announcement from China !

«THIS IS THE IA'S SPUTNIK MOMENT»

In these conditions, the announcement by China's DeepSeek of the launch of DeepSeek R1 was like a bombshell ! While it is possible obtain results that are virtually similar to those of the How can we justify the valuation levels reached certain US technology stocks? On announcement, the US technology sector suffered, with Nvidia seeing its market

capitalisation evaporate by nearly 600 billion US dollars in a single session. European stocks also suffered in terms of sympathy, as Schneider Electric, both because of the data centre theme and probably also because, like some stocks, it was over-consumed and held by many (too many ?) investors, particularly in ETFs or 'theme' funds. The slightest disappointment in the US technology sector will therefore have a knock-on effect.



(Marc Andreessen, co-developer in 1993 of Mosaic, the first graphical web browser)

For Pierre-Alain Labat, Manager in charge of the Technology sector at Exane AM, DeepSeek's advances are accelerating the «commoditisation» of LLMs (Large Language Models) and the questioning of their monetisation.

The drastic reduction in the cost of AI could stimulate demand and speed adoption, but relevant applications still need to be developed. While most cloud services have confirmed a further sharp increase in their. While we expect to see a significant increase in investment by 2025, the return on these investments remains to be demonstrated and their future trajectory seems less certain after DeepSeek. On the other hand, we believe that the opportunities for software and service providers have been strengthened.

For Saad Alami, players such as DeepSeek could play a crucial role in modifying demand hyperscalers, thanks to more efficient management of their energy consumption in their infrastructure.

Faced with growing demand, these companies are increasingly turning to nuclear power, looking for a stable, low-carbon source to power their data centres. With the help of technologies like DeepSeek, hyperscalers could revise their energy demand projections downwards.

For Jean-François Roussel, if this reduction in cost is real, it will enable financial services players to benefit more from low-cost IT services, which can be a major advantage for them. Incrementally positive for banks (less expensive investments and potential cost reductions, branch closures, etc.). Similarly, for Damien Dierickx, reducing the cost of access to high-performance artificial intelligence could help to develop autonomous vehicles faster and more cheaply. On the ESG, Emilien Guilbaud points out the advantages and disadvantages of the emergence of DeepSeek.

Firstly, we remain very cautious about the real energy gains announced, and secondly, this development is not likely to escape Jevons' paradox. If AI is cheaper and uses less energy, will be more AI. What's more, we expect the US to further restrict exports state-of-the-art semiconductors to China in order to maintain its lead in the field.

For Richard Pandevant, the stakes are immense : of the 10000 data centres in the world, a third of which are located in the United States and, although they currently account for 4% of the world's US electricity consumption in 2023, this figure could rise to 12% by 2028, according to a report commissioned by the US Department of Energy.

In conclusion, 2025 looks set to be a year of upheaval in the world on many fronts : geopolitical, regulatory, technological and, by

extension, economic and social. financials. ESG will not be spared, and more than ever, we will maintain our pragmatic and proactive approach, in line with our DNA as fundamental managers, and within the framework of a sector neutrality that seems to us more judicious than ever.

We will therefore continue to analyse all developments on a sector-by-sector basis, and to discuss with you in a transparent way the lessons we draw from them for the management of our portfolios and the deployment of our ESG approach. ■

The contributors to this half-yearly focus are

Richard Pandevant
Head of ESG at Exane AM



Pierre-Alain Labat
Manager specialising in the technology sector



Damien Dierickx
Manager specialising in the industrial and automotive sectors



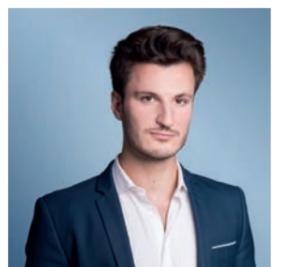
Jean-François Roussel
Manager specialising banking and services financial



Saad Alami
Manager specialising in software



Emilien Guilbaud
ESG Analyst at Exane AM





ESG Exclusions

Our half-yearly exclusion

The Management Company has chosen to exclude certain investments. The list of prohibited securities for each fund made up of three exclusion lists linked to ESG issues.

this activity exceeds 10% of sales.

A second list exclusions derives from the OFAC sanctions list

The first list of prohibited values has been drawn up on the basis of extra-financial criteria and covers

From this list, the Management Company excludes stocks from 32 prohibited countries. Lastly, for some funds in the range, a third list is drawn up every six months on the basis an internal analysis of the ESG characteristics of the companies.

- Controversial weapons under the Ottawa and Oslo Conventions, the Biological and Chemical Weapons Conventions and the convention on certain conventional weapons covering incendiary weapons ;
- The production of tobacco, gambling and pornography when the sales generated by these activities exceeds 10% of turnover ;
- Values that do not comply with the principles of the Global Compact, according to our extra-financial data provider Sustainalytics.

This third list is discretionary and constructed sector by sector, in line with our investment philosophy.

This list is reviewed every six months by the ESG team and checked by the Compliance Department. For the Exane Ceres Fund, additional sector exclusions have been established in relation to high carbon intensity : the energy, oil, mining and utilities sectors are thus excluded, unless individual exceptions are validated by our internal analysis.

Lastly, for all the long/short equity funds in the range, securities in our investment universe linked to coal extraction are excluded from the securities that can be invested in a long position if the income generated by

At 31 December 2024, the funds concerned by the above ESG exclusion rules represented 100% of the assets managed by Exane Asset Management. ■

Below is a summary of impact of EG exclusion phase on the authorised ESG risk quality each fund, compared with the initial investment universe.

	% EXCLUSION ESG	ESG RISK EXCLUDED VALUES	ESG RISK INVESTMENT UNIVERSE	ESG RISK LONG PORTFOLIO (31-12-2024)
Exane Equity Select Europe	20,0%	27,1	19,6	18,6
Exane Equity Select Focus Euro	14,8%	26,0	17,0	16,7
Exane Pleiade	12,1%	32,2	20,3	18,0
Exane Overdrive	5,6%	31,4	20,3	17,6
Exane Ceres	16,4%	25,0	20,3	16,9

Sources : Exane Asset Management. Data 31/12/2024

Monitoring of the main ESG indicators for our range of open-ended funds

Long/Short Equity Funds

On this page you will find the average values over 2024 of the ESG indicators set out in the prospectus for the main open-ended funds in our range (excluding funds of funds).

EXANE PLEIADE	EXANE OVERDRIVE	EXANE CERES	EXANE ZEPHYR
ESG ANALYSIS COVERAGE RATE			
99,7%	99,8%	99,9%	99,8%
RATES SUSTAINABLE INVESTMENT	RATES SUSTAINABLE INVESTMENT	RATES SUSTAINABLE INVESTMENT	RATES SUSTAINABLE INVESTMENT
31,7%	34,5%	28,4%	35,3%
IMPROVEMENT ESG RISK SCORE (LONG PORTFOLIO)			
-2,2 VS INVESTMENT UNIVERSE	-2,7 VS INVESTMENT UNIVERSE	15,7 VS 19,1 FOR THE MSCI EUROPE	-2,5 VS INVESTMENT UNIVERSE
		CARBON INTENSITY (TCO2/CA IN \$M)	
		78,4 VS 96,2	

Monitoring of the main ESG indicators for our range of open-ended funds

Long Only Equities Fund

EXANE EQUITY SELECT EUROPE

EXANE EQUITY FOCUS EURO

COVERAGE RATE THROUGH ESG ANALYSIS

COVERAGE RATE THROUGH ESG ANALYSIS

100%

100%

INVESTMENT RATE DURABLE

INVESTMENT RATE DURABLE

36,1%

34,0%

ESG RISK IMPROVEMENT SCORE

ESG RISK IMPROVEMENT SCORE

18,8 VS 19,1 FOR THE MSCI EUROPE

17,1 VS 17,2 FOR THE MSCI EMU

Sources : Exane Asset Management, Sustainalytics, CDP. ESG Score : ESG Risk Score Sustainalytics. Carbon intensity in ToeqCO2/CA in \$m based on scopes 1 & 2. The investment universe for long/short funds is defined as a group of 1,700 stocks made up of the 1,400 largest European caps and the 300 largest North American caps. For long/short portfolios, scores are calculated on long portfolios.



Example of non-financial analysis of a **long position**

DSV



Company	DSV A/S
Analysis sector	Transport
Country	Denmark

EXTERNAL DATA



Climate change	A-
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ESG Risk Score	12,9
p.i. Sector	21,5
Max. controversy	Category 1
Governance	68,7

INTENSITY GHG

T CO2 eq./sales	12,9
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Our ESG risk assessment



DSV operates in a low-risk sector in terms of controversy, but is under strong pressure from both regulators and investors in terms of decarbonisation. The Transport and Logistics sector accounts for 20% of global CO2 emissions

With regard to the announcement of the JV between DSV and NEOM, there are ESG risks inherent in the project. The aim is to manage the supply chain, develop and invest in transport and logistics assets and infrastructure, and transport and deliver goods and materials to NEOM.

DSV will hold a 49% stake in the JV. However, the information provided on the deal was minimal and relatively opaque. This contrasts with DSV's normal transparency.

Exane AM believes that DSV is likely to come under the spotlight as a result of its involvement in the project. Indeed, the Saudi government is repeatedly criticised for its repeated human rights violations, the imprisonment of project protesters and the environmental cost of the project. The EU's «Fit-for-55» objective of a 73% reduction in the sector's emissions by 2050 (compared with 1990) is therefore a real challenge, given that this is the only sector in Europe to have seen its net emissions increase over the last 3 decades.

ESG performance relative to the sector



SubIndustry at 21, DSV is best in class according to Sustainalytics. However, we consider that the JV with NEOM is detrimental to DSV's performance because of the many ESG risks hanging over the project and the ongoing controversies.

Our assessment of the company's governance



Some KPIs : Independence of the Board : 88%. Women on the Board : 38%. Presence of ESG KPIs in the remuneration of Executive Management : Yes (20% of the LTI), What about the STI ? Material controversies : No.

Risk associated with the JV with NEOM : Saudi Arabia has already launched major projects without completing them, such as the Kingdom Tower, construction of which began in 2013 but was halted in 2018 due to political problems in the country.

So, in addition to the financial risk of a USD 10 billion investment, the political risk of the NEOM project is also high regional geopolitical instability, etc. The year 2024 was also marked by the first negative announcements, notably the reduction of The Line from 170km to 2.4km and the sudden resignation of NEOM's CEO.

Is ESG (at least partly) a criterion in the choice of this stock (long or short) ?

YES

DSV inevitably benefits from its position as a 'light-asset' company. The company is also highly rated by the various providers, and we appreciate the quality of its sustainability reporting.

Are there any ESG issues that make you question this investment ?

YES

We believe that the sea freight division, which benefited from the rise in freight prices in 2023 and 2024 should see its margin continue to fall as tensions in the Red Sea ease.

In addition, Trump's recent announcements and his rhetoric concerning trade with China in particular are likely to hurt the sector and therefore DSV if the threats are carried out. Transpacific trade, which accounts for nearly 20% of volumes in the maritime and air divisions, is particularly likely to suffer.

At current valuations, do you see upside or potential risk in taking ESG issues into account ?

✓ ✓ ✓ ✓ ○

We are following the US administration's announcements on trade very closely, because more protectionism and tariffs are negative for carriers. We do not believe that the increase in tariffs could benefit carriers due to an increase in other words, «increased complexity». Lower volumes would lead to lower profitability. On the other hand, a lack of commercial tension could lead to a positive rerating.

Have we initiated a dialogue and/or engagement with the company on ESG issues identified ?

NO

Not yet, but we plan to engage them regarding the various surveys showing social problems on the NEOM site.

How do you rate the company's response to environmental issues, relative to its sector ?

✓ ✓ ✓ ○ ○

The EU's 'Fit-for-55' target of a 73% reduction in the sector's emissions by 2050 (compared with 1990) is therefore a real challenge, given that this is the only sector in Europe to have seen its net emissions increase over the last 3 decades.

Every player has a role to play, and DSV aims to be a Best-in-Class in this respect. Its decarbonisation targets are among the most ambitious in the sector : 50% reduction in GHG emissions in S1&2 by 2030 vs 2019. 30% reduction in GHG emissions in S3 by 2030 vs 2019. Achieving zero emissions

The short and medium-term objectives have been validated by SBTi. However, DSV operates with a very light asset model, as it does not own the ships and aircraft in which its goods are transported. As a result, a large proportion of the company's emissions are linked to subcontracted freight, i.e. S3. DSV is extremely dependent on its subcontractors adopting sustainable fuels and technologies

In addition, the fall in emissions in the S3 since 2019 (-35% by the end of 2024) is deceptive, as it is mainly due to a fall in volumes in all modes of transport. Logically, these emissions should therefore continue to rise in the coming years, threatening the S3 target for 2030.

In addition, several ESG risks weigh on the company's objectives : the air freight segment should continue to grow with the recovery in demand, while remaining more profitable in terms of gross margin (22%) than the road transport division (19%).

This segment, which accounts for 32% of revenues for FY24, could be impacted by additional regulations governing which goods can be transported by air, more expensive CO2 emissions under the EU ETS (EUR 83/t CO2 by 11/02/2025) or changes in customer preferences.

JV risk : NEOM has strong environmental objectives, with a commitment to a 100% renewable energy mix and 95% land conservation. However, fossil fuels account for 99% of Saudi Arabia's current energy mix (source : IEA) and the use and delivery of low-emission fuels remains a challenge.

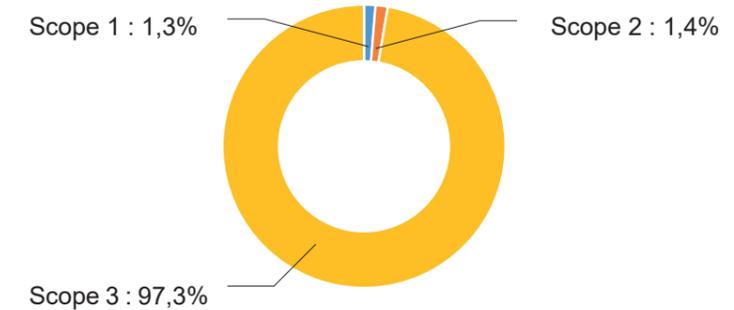
How do you rate the way social/societal issues are taken into account in relation to your sector ?

✓ ✓ ✓ ✓ ○

JV risk : Ensuring high labour standards and the absence human rights abuses for DSV can be difficult in Saudi Arabia, due to the country's regulatory structure.

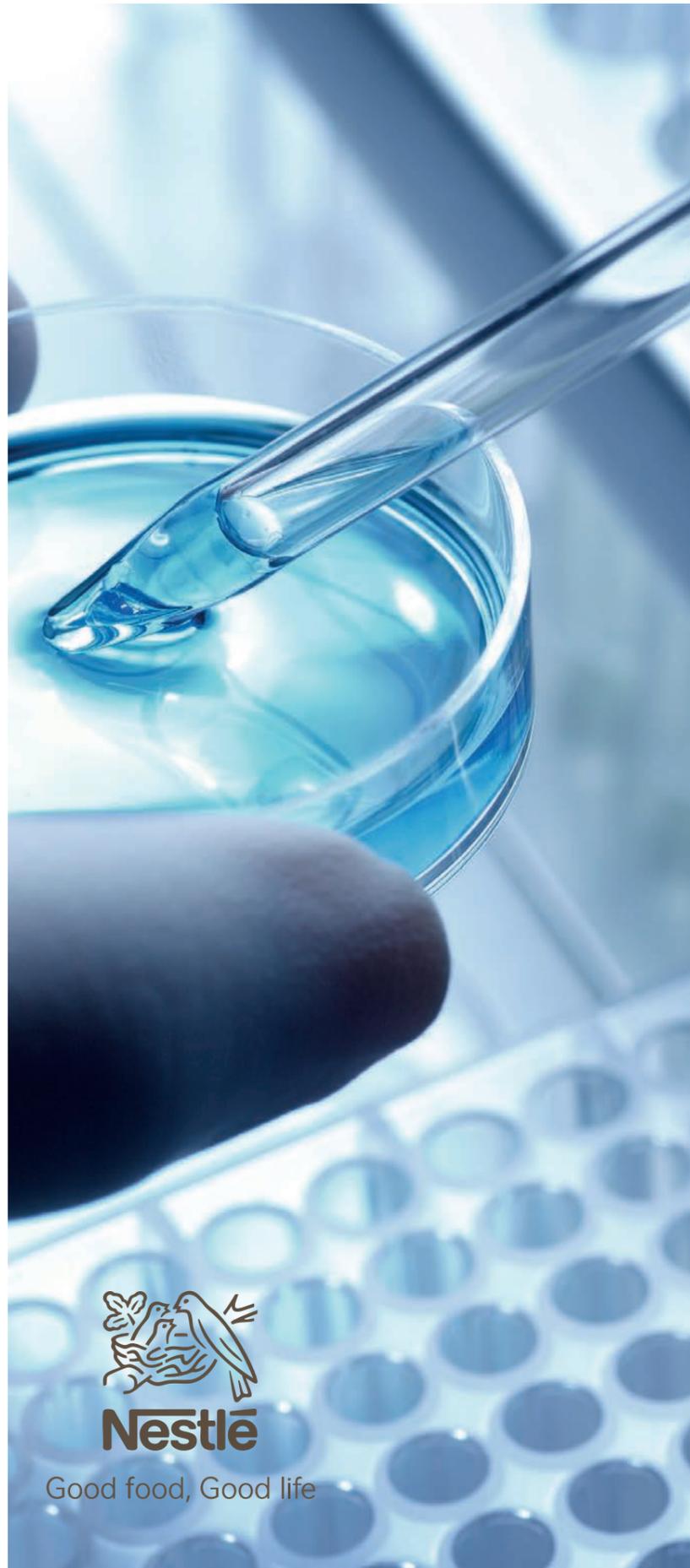
Exane AM expects an increase in the Lost Time Incident Frequency Rate (LTIFR) and in worker fatalities (employees and subcontractors). DSV has announced that the JV will not be consolidated in its financial reports. However, the delayed operations will start in 2025 and financial and sustainability reporting will be published from FY25.

Breakdown of GHG emissions by Scope in 2024



Breakdown of GHG emissions by mode of transport in 2024





Nestlé

Good food, Good life

Example of a non-financial analysis of a **short position**

NESTLÉ



Company	NESTLE
Analysis sector	Consumer goods
Country	Switzerland

EXTERNAL DATA



Climate change	A
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ESG Risk Score	22,7
p.i. Sector	33,7
Max. controversy	Category 3
Governance	70,1

INTENSITY GHG

T CO2 eq./sales	38,9
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Our ESG risk assessment



Nestlé's size (€96bn turnover), as the leading company in the agri-food sector, with 273k employees, means that the Group has a particular responsibility in responding to today's major ESG challenges: efficiently feeding a growing population in a sustainable way and offering consumers access to a balanced and diversified diet.

Nestlé is vulnerable on the issues of plastic pollution and controversies related to its product ranges. Its transition will be CAPEX intensive and it has not escaped a growing number of recent controversies.

ESG performance relative to the sector



More exposed than average due to its exposure to bottled water. Although the recent sale of the Nestlé North America Waters business should help to improve the Group's overall ESG profile, recent controversies surrounding the pollution of certain sources (notably Perrier, with the destruction of 2 million bottles following bacterial pollution) are reopening the debate on the company.

According to the Anses, the health quality of Nestlé mineral water is not guaranteed. This poses a real problem of trust, as the company does not seem to have been proactive in its communication on the subject.

Our assessment of the company's governance



Very good management. Structures in place to manage related risks. Separation of the roles of CEO and Chairman. However, the independence of the Chairman, Paul Bulcke, is limited insofar as he is the former CEO of Nestlé (from July 2015 to December 2016).

Some metrics : Board independence : 87%. Board feminisation: 33%. Presence of ESG KPIs remuneration : Yes (15 of the STI & 20% of the LTI).

Material controversies on the subjects of: Deforestation. Water pollution. Plastic pollution. Deceptive marketing practices.

Products hazardous to health (E.Coli, sugar, etc.)

Is ESG (at least partly) a criterion in the choice of this stock (long or short) ?

YES

In part, we believe that Nestlé will eventually reposition its portfolio towards less ESG risky categories. Examples of this repositioning are the sale of the bottled water business in North America and the development of vegetable protein brands.

Are there any ESG issues that make you question this investment ?

Several recent scandals have cast a shadow over Nestlé, with the bottled water business under the spotlight and the NGO Public Eye also criticising the company for the presence of added sugars in infant food in low-income countries. At the same time, a coalition of shareholders has called for the company to be more transparent about the sale of its high nutritional value products.

On Thursday, a judge in Paris decided investigate two complaints lodged by Foodwatch association for «deception» against Nestlé and Sources Alma for their possibly illegal treatment of their mineral waters, opening up a case that could cast a shadow over the political authorities. We'll be keeping a close eye on what happens next.

At current valuations, do you see upside or potential risk in taking ESG issues into account ?

We believe that Nestlé has the size and the portfolio to take advantage of the new underlying trends, particularly alternative proteins and vegetarian and vegan food. Although the underlying trend is impacted by controversy, the Group's general repositioning healthier, lower-emitting categories reinforces our position.

Have we initiated a dialogue and/or engagement with the company on ESG issues identified ?

Not yet, but we plan to engage them in the various surveys and controls on bottled water.

How do you rate the company's response to environmental issues, relative to its sector ?

Disposal of spring water in North America : this business was one of the main ESG thorns in the side of the Swiss group. Activities in North America were particularly sensitive due to several controversies surrounding the exploitation of springs in California. In particular, Nestlé, through its Arrowhead brand, is accused of being part of the cause of the water crisis in California. Nestlé operated the Strawberry Creek spring in the San Bernardino forest.

Nestlé has a short, medium and long-term decarbonisation trajectory via a reduction in GHG emissions across all scopes of respectively : - 25% by 2025 vs 2018, - 50% by 2030 vs 2018 and zero net emissions in 2050. This roadmap, launched in 2020, is validated by SBTi for short and medium-term objectives of Nestlé's emissions are concentrated in S3, with dairy and livestock ingredients the largest source emissions - dairy products alone account for a third of total emissions. Nestlé is multiplying initiatives in conjunction with NGOs to develop pilot farms testing low-carbon and regenerative agricultural practices.

Exane AM appreciates the fact that Nestlé is one of the only companies in the sector to explicitly highlight the CAPEX required for its transition : by 2020, the company has committed to allocating : More than CHF 1.5 billion to the supply of high-quality recycled plastics. An additional CHF 3.2 billion by 2025 to combat climate change, including CHF 1.2 billion to support more regenerative agricultural practices. This should result in a significant margin of less than 1% in the medium term. This is the price we have to pay to avoid future major controversies.

On packaging, Nestlé is committed to : 100% reusable, compostable or recyclable packaging by 2025. Reduce the use of virgin plastic by 33% by 2025 compared to 2018. This topic is visible in Nestlé's materiality matrix as being key, but the company is exposed to issues related to plastic packaging, mainly through its bottled water division (c.5% of FY21 group sales). This division is also under the spotlight due to the increasingly persistent controversy over the presence of microplastic in bottled water. Nestlé is ranked as the third biggest emitter of plastic pollution in the world, behind Coca Cola and PepsiCo...

Nestlé is also highly dependent on palm oil and its derivatives, accounting for between 1% and 5% of its raw materials expenditure, and 61% to 70% of its revenues depend on palm oil, based on the Group's total sales.

The company is very transparent about its palm oil sourcing, with 96% of volumes coming from sources assessed as free from deforestation. It is interesting to note, however, that the objective set in 2010 of «0 products linked to deforestation by 2020» has been pushed back to 2025.

YES



NO



Nestlé has also been temporarily suspended from the RSPO for breaches of the organisation's code of conduct and failure to report progress. Nestlé is also often criticised by NGOs for its links with deforestation in areas with sensitive ecosystems. This poses high reputational risks and negative impacts for the company and highlights that Nestlé's supply chain management programmes, which are considered robust, may require further review and strengthening.

On a positive note, Nestlé is a member of several initiatives and coalitions such as the Consumer Goods Forum Forest Positive Coalition, the Cocoa and Forest Initiative and the Tropical Forest Alliance». Engagement to be planned with Nestlé on this subject.

How do you rate the way social/societal issues are taken into account in relation to your sector ?



Feeding a planet of 9 billion people. The challenge of meeting the protein needs of a growing population means developing alternatives to meat, which consumes a lot of water and emits a lot of GHG. The emergence of alternative proteins, for the moment mainly in developed markets, represents an opportunity for the Group. Nestlé has developed several ranges internally, but has also made several acquisitions in the plant-based sector. Notably SWEET EARTH in September 2017.

However, pure plant based is still a very small part of the Group (<1%, UBS, 2020) but is enjoying very strong growth. Launch of an action plan in January 2022 on achieving decent incomes in the cocoa supply chain. Nestlé is aiming for full deployment by 2030. This action goes beyond due diligence and risk management (particularly child labour) and is based on a holistic approach.

Risk of misleading advertising and stricter regulations concerning the benefits of infant milk in preventing certain allergies (NAN HA) for two reasons: questionable scientific validity, benefits questioned by the WHO in particular. Exploitation of regulatory grey areas for the marketing of these milks (tightening of legislative frameworks in the UK and EU).

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