anaxis

Securing our future

Anaxis Asset Management

ANNUAL ETHICAL MANAGEMENT REPORT

16 July 2021 version

31 December 2020

The Anaxis team is committed to an economy that works for society. Management companies like ours can guide, support and sometimes even pre-empt public authorities and institutions in implementing best practices.

At Anaxis, the last two years have been devoted to defining new objectives on environmental protection, with particular attention to aquatic environments, water resources and improving public health. These objectives have taken concrete form, leading to pronounced choices on allocations.

Anaxis is also committed to reducing the carbon intensity of its portfolios by 60% between the end of 2018 and the end of 2030. We are a member of the Net Zero Asset Manager Alliance, which has the longer-term goal of becoming carbon neutral in 2050.

Our investment principles also aim to prevent the consequences of the ecological crisis on the public, especially as regards food security, health risks and forced migration.

It is futile to believe that a company can ignore these issues without jeopardising its business model. Sound management must be clear-sighted in assessing risks, then implement courageous measures to reduce their impact.

Pierre Giai-Levra

CEO

1. Introduction

This annual report as at 31 December 2020 details the integration into our investment policy of criteria relating to social, environmental and governance (ESG) goals, as well as the means put in place to contribute to the energy transition.

Anaxis is resolutely committed to reducing the ecological footprint of human activities, and to the transition to an economy that is more respectful of the environment and health, particularly in the field of energy generation. We are particularly focused on the fight against global warming, the reduction of pollution, the preservation of aquatic environments, access to resources of drinkable water and the prevention of health risks.

In order to present the most complete possible view of the importance we attach to the consequences of our investment decisions, this report covers all the items relating to the measurement of our portfolios' carbon intensity. In previous years, this was the subject of a specific report, which is no longer the case this year.

In addition, we are working on and refining our assessment of climate risks, through the analytical efforts that have been made in this area over the past twelve months.

Investors wishing to learn more about Anaxis initiatives on ethics, social responsibility and the contribution to ecological transition will find all the essential information in our ethical management procedure and in this report. Additional information can be found on our dedicated website www.anaxis-esg.com.

2. General approach

Our approach is largely based on a sector exclusion policy. It aims to exclude from the portfolios issuers belonging to sectors with the highest contributions to global warming, the most damaging impacts on the environment or the greatest health risks. The activities concerned are fossil fuel and nuclear energy, and certain polluting activities in chemicals or plastics. We also exclude weapons, tobacco and non-therapeutic GMOs.

Our sector exclusion policy is integrated seamlessly into our investment process. It is overseen by Pierre Giai-Levra, CEO of the company, and Fatima Guirrati, Head of Compliance and Internal Control.

Our sector exclusion policy is supplemented by an analysis of issuers' social responsibility and quality of governance. The management committee is responsible for how these ethical aspects are taken into account in investment decisions. This is based on the investment cases discussed on this committee.

3. Products concerned

Our ethical management policy is applied to all of our bond portfolios. These portfolios account for 94% of our assets under management. More specifically, our ethical management policy applies to the following UCITS, which are all products governed by French law:

- *Anaxis Short Duration*
- *Anaxis Income Advantage*
- *US Bond Opp. 2021*
- *European Bond Opp. 2022*
- *EM Bond Opp. 2024*
- *Diversified Bond Opp. 2025*

4. Publication of information

We inform investors on the ethical criteria taken into account in our portfolio management by means of annual reports. These annual reports are prepared in accordance with the requirements of Article 173 of the Law on energy transition for green growth (*Loi sur la Transition Énergétique pour la Croissance Verte* – LTECV). The most recent report can be viewed on www.anaxis-esg.com.

Our ethical and responsible management policy, which we call our “ESG policy”, is also available online from our website.

Additional information, for example regarding our list of exclusions or the alignment of current portfolios with our objectives, can be obtained by emailing us at info@anaxiscapital.com.

5. Risk management

Principles

Our bond management specialises in corporate debt. It is based on an in-depth analysis of issuers and seeks to build diversified portfolios, without reference to market indices. Our analysis assesses the risk compensation offered by the proposed bond securities. The expected return is compared to the various risks identified by the analysis team.

Our ethical management policy takes this into account. It identifies the points requiring careful observation according to the three areas of environment, social and governance. When they are considered significant, these risks are discussed in detail in the analysis reports which serve as support for investment decisions and for monitoring the securities in the portfolio.

Our policy therefore backs up our risk assessment. In particular, it leads us to exclude from the portfolios certain sectors particularly exposed to risks linked to energy transition, regulatory changes, legal action, technological accidents or natural disasters. Our policy also rules out activities deemed incompatible with the legitimate demands of society.

Focus on climate-related risks

Climate risks are taken into account in our investment process through the implementation of three complementary policies: sector exclusions, analysis of issuers' exposure to climate factors and assessment of their contribution to the efforts required for the transition to a sustainable economy.

Advantage of sector exclusions

Several of the sector exclusions that we impose on ourselves are directly motivated by the desire to reduce greenhouse gas emissions and encourage the transition to renewable energies. We feel that strong measures are needed and that a radical change in energy generation must be implemented without delay.

Our policy is guided by the fact that we operate mainly in the corporate bond market. We believe that new financing flows should be directed towards low-carbon energy generation, and not towards the development of additional projects in the coal or oil sectors. From the perspective of reducing the use of carbon-based energies, the gradual deleveraging of companies in these sectors seems logical to us. Our portfolios are therefore not intended to provide financial leverage to activities which it would be desirable to phase out.

For all these reasons, we exclude from our portfolios companies active in coal or oil extraction and those generating electricity from these fossil energy sources. Some of these companies have embarked on projects focused on renewable energies. Investments in these projects can only be considered if they are channelled into a subsidiary specialising in this field or when there are clear guarantees regarding the use of the sums raised, as in the case of green bonds.

Consideration of climate risks

Responsibility

The analysis of the exposure of issuers to climate factors is integrated into our investment process in the same way as more traditional financial analysis, and is conducted by our management team. This choice offers a global and summarised view of all the risks to which an issuer may be exposed, without introducing an artificial distinction between different points of view. It is consistent with an approach to bond management that favours fundamental analysis and risk management.

Financial objective

The return offered by a bond is compared to all the risks that could lead to a default, a restructuring or a fall in the price. The challenge is to obtain satisfactory remuneration for risk, given the particular positioning of each portfolio under management. Good management must therefore rigorously assess all the risks associated with an investment. Climate risks are part of this analysis, as are those associated with regulatory advances or changing customer expectations on ethical, social and environmental issues.

Our financial analysis and portfolio management team are therefore naturally led to bear sustainability risks in mind in their investment decisions. This subject is all the more important as the risks in question may be new, more frequent or more serious. They often remain difficult to evaluate, due to the transforming environment, changing standards and the heightening of various social concerns.

Ethical aspects

Within the eligible sectors, some companies are more committed than others to reducing their greenhouse gas emissions, improving the energy efficiency of their activities, or transitioning to renewable energy sources. These are important aspects that play their part in a more comprehensive assessment of issuers, alongside other criteria focused on conservation of the environment, social practices and governance. The management team incorporates these criteria into its analysis of issuers. We apply a method that consists of excluding companies which behave in a manner incompatible with our environmental goals or ethical criteria. The materiality of the environmental impact is assessed in relation to the characteristics of the sector. The decision is made by the investment committee.

Method for analysing climate risks

We believe that our portfolios have little exposure to climate risks, chiefly thanks to our fossil fuel sector exclusions and our approach based on a financial analysis that prioritises visibility and control of uncertainties. We present below an examination of the main climate risks according to the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures).

Transition risks

Policy and legal

RC1. Increased pricing of greenhouse gas emissions.

The portfolios under management have relatively little exposure to this factor, due to the systematic exclusion of high-emission sectors (coal and oil in particular). But there is room for improvement, notably due to the presence of investments in the basic materials and infrastructure sectors. What is more, the transport, tourism and leisure sectors may be affected by the introduction of environmental taxes (on air transport, for instance) or the tightening of applicable standards. Sea freight, which consumes heavy fuel oil, is also implicated.

RC2. Enhanced emissions reporting obligations.

We do not see such obligations as a risk but rather as desirable progress. We believe that the costs associated with setting up internal procedures, measurement tools and additional resources are easily offset by the expected benefits in terms of operational efficiency and competitiveness in markets subject to ever more demanding standards. In addition, the information published by companies is a valuable tool in our assessment of the investments envisaged.

RC3. Exposure to litigation.

This risk is significant in the case of companies that may be accused of causing damage to the environment or having a negative impact on public health. We analyse the risk of industrial accident, as well as the risk of violation of environmental and health standards. However, even when observing the law, a company is liable for damages generated by its products or activities, so a more comprehensive analysis is still needed. Our decision to exclude the fertiliser and pesticide sectors helps reduce portfolio exposure to the risk of legal proceedings against bond issuers. However, the portfolios do invest in the agro-food and chemicals sectors. The practices of companies in these sectors must therefore be carefully examined. Other sectors, such as mining and pharmaceuticals, are regularly blamed for the consequences of their activities or their products. Analysis of this risk must therefore be very extensive.

Technology

RC4. Substitution of existing products and services with lower emissions options.

This concern mainly applies to energy generation and transport. Excluding coal, oil and non-conventional energy sources helps reduce it substantially. Our analysis covers the automotive, transport, freight and infrastructure sectors in particular.

RC5. Unsuccessful investment in new technologies.

Our management team pays very close attention to the possibility of such technological failure. Companies issue debt to finance their activities, especially when making new investments, building factories, developing new products, taking over other companies, etc. These projects are studied in detail before any purchase decision is made and existing positions are constantly monitored. Therefore, we consider this risk to be well controlled.

RC6. Costs to transition to lower emissions technology.

This aspect appears to us to be particularly important for the sectors mentioned above. It completes the analysis of potential substitutions by integrating into our financial models the evolution in companies' expenses and investments when they have to change their products, modify their industrial processes or reduce the carbon intensity of their purchasing (energy, materials, intermediate products, etc.).

Markets

RC7. Changing customer behaviour.

In our portfolios, this risk is mainly present in the transport, tourism and leisure sectors. It may affect air transport because of its excessive carbon dioxide emissions and extend to a reduction in travel, or a preference for local leisure activities. Cruises and long-distance journeys are particularly criticised.

RC8. Uncertainty in market signals.

It is difficult to assess this risk in a context where the fight against global warming encourages rapid adaptation of our economies. Our preference for sectors offering the most visibility protects the portfolios against excessive volatility.

RC9. Increased cost of raw materials.

In our view, the measures necessary for the transition to a more sustainable economy should not entail a significant risk of higher raw material costs. Think of the impact of more responsible policies on deforestation, and land use for sectors such as wood, paper, agriculture, livestock or ethanol as an alternative to petroleum. In addition, the need for batteries and the construction of new power generation infrastructure increases the demand for certain metals, causing price pressures.

Reputation

RC10. Shifts in consumer preferences.

We maintain a broad portfolio diversification, both across sectors and individual issuers. We believe that this method is effective at preventing the risks of a change in consumers' attitude towards a product or a company, for example due to its contribution to climate change. This general approach is supplemented by an analysis of market trends, the competitive position of the issuer, the dynamics of its sales and its margins. Consumer preferences rarely change overnight. An in-depth knowledge of the issuers makes it possible to distinguish those risks that are due to outdated strategies. However, controversies can arise as a result of events or disclosures, turning customers away from certain products.

RC11. Stigmatisation of sector.

Some sectors are the source of legitimate concerns. Several of them are excluded from our portfolios because we consider that it is unnecessary – and even harmful for the environment or public health – to finance additional investments in these sectors. Others such as air transport or sea freight are retained, but in limited proportions. Overall, according to our analysis, the risk of the stigmatisation of a sector is very low within Anaxis portfolios.

RC12. Increased stakeholder concern or negative stakeholder feedback.

This risk must be taken seriously, especially with regard to the sources of financing available to companies with high levels of debt. If a company is judged harshly because of the climate impact of its activities, it could (i) have difficulty renewing its debt with new issues on the markets, (ii) be refused loans by financial institutions applying an ESG policy, or (iii) suffer an increase in its debt burden (paying higher coupons becoming necessary to attract more reluctant or fewer investors). This risk seems to us to be well contained by our sector exclusion policy and our diversification rules.

Physical risks

Acute

RC13. Increased severity of extreme weather events such as cyclones and floods.

It is not a significant risk in our portfolios. The companies whose debt we buy are large in size, and their facilities are generally spread over many geographic locations. However, we keep a close eye on organisations that have a small number of critical physical assets (for example a mine, factory, port, hotel, ship, terminal, data centre or infrastructure).

Chronic

RC14. Changes in precipitation patterns and extreme variability in weather patterns.

Agro-food, tourism and leisure are the sectors most directly affected. There are fears of lower agricultural yields and the diminishing attractiveness to tourists of certain regions or certain services such as cruises. Our portfolios have little exposure.

RC15. Rising mean temperatures.

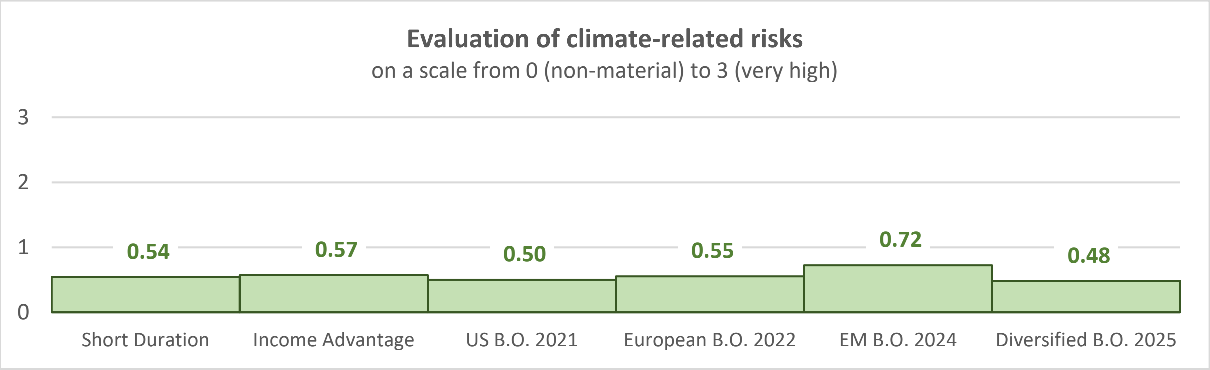
The analysis of this risk is similar to that described above. In addition, extreme heatwaves can disrupt certain businesses, slow down household consumption or have a negative impact on public health to an extent that is still difficult to assess.

RC16. Rising sea levels.

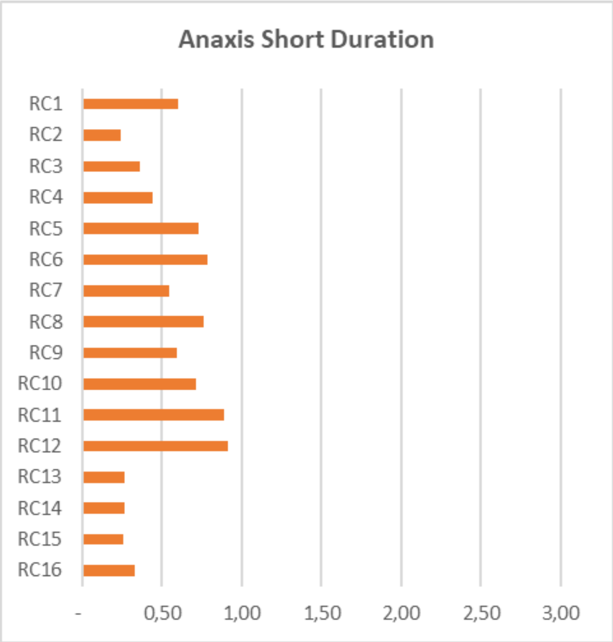
We ensure that our portfolios do not have long-term exposure to assets located in areas sensitive to a rise in sea levels, such as infrastructure or facilities by the ocean. When companies with coastal assets are considered, the bond issues in question have maturities much shorter than those where scenarios of global warming-related melting ice and expanding oceans have been taken into account. As a result, our portfolios remain immune to such disasters.

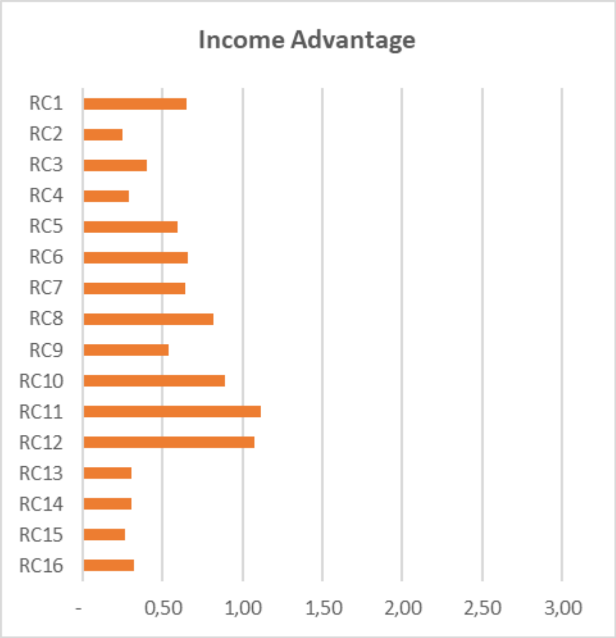
Summary of exposure to climate risks

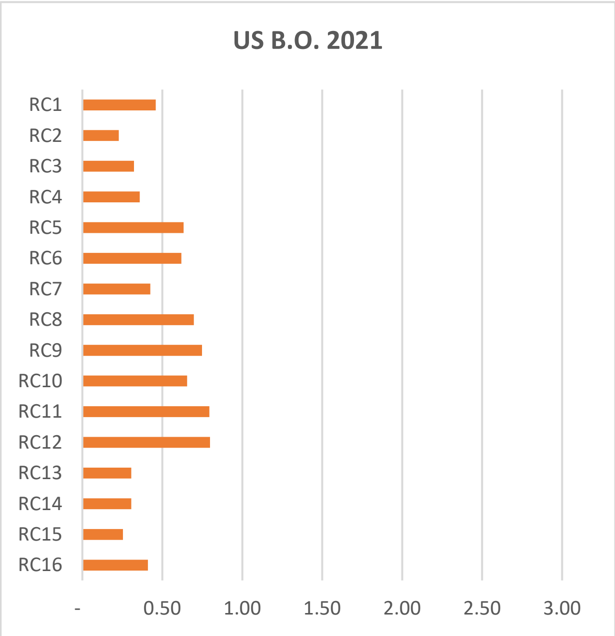
The following charts show the funds' exposure to the climate risks described above on a scale from 0 (non-material) to 3 (very high).

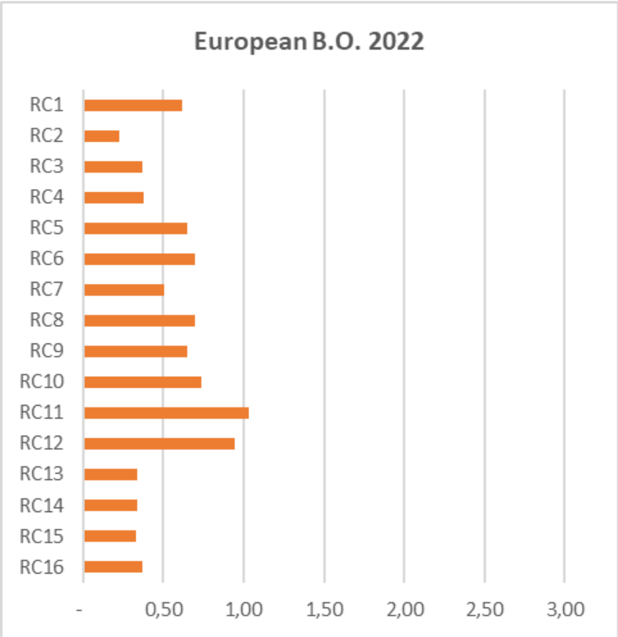


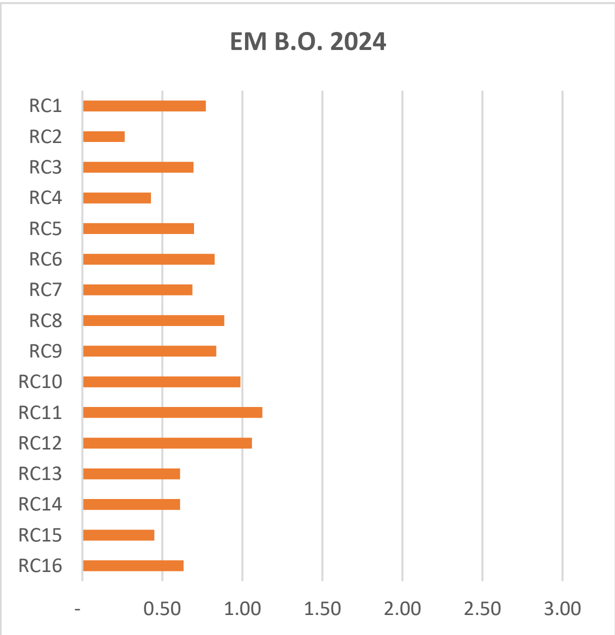
RC1	Increased pricing of greenhouse gas emissions.
RC2	Enhanced emissions reporting obligations.
RC3	Exposure to litigation.
RC4	Substitution of existing products and services with lower emissions options.
RC5	Unsuccessful investment in new technologies.
RC6	Costs to transition to lower emissions technology.
RC7	Changing customer behaviour.
RC8	Uncertainty in market signals.
RC9	Increased cost of raw materials.
RC10	Shifts in consumer preferences (reputation).
RC11	Stigmatisation of sector.
RC12	Increased stakeholder concern or negative stakeholder feedback.
RC13	Increased severity of extreme weather events such as cyclones and floods.
RC14	Changes in precipitation patterns and extreme variability in weather patterns.
RC15	Rising mean temperatures.
RC16	Rising sea levels.

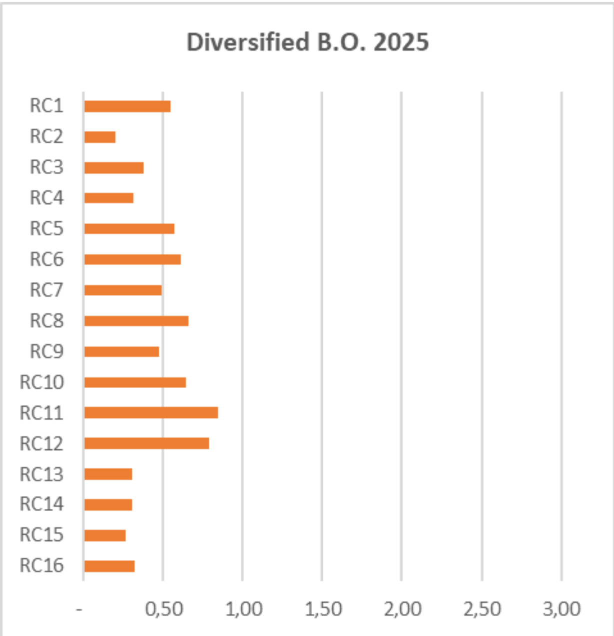

Anaxis Short Duration
RC1
RC2
RC3
RC4
RC5
RC6
RC7
RC8
RC9
RC10
RC11
RC12
RC13
RC14
RC15
RC16
-
0,50
1,00
1,50
2,00
2,50
3,00


Income Advantage
RC1
RC2
RC3
RC4
RC5
RC6
RC7
RC8
RC9
RC10
RC11
RC12
RC13
RC14
RC15
RC16
-
0,50
1,00
1,50
2,00
2,50
3,00


US B.O. 2021
RC1
RC2
RC3
RC4
RC5
RC6
RC7
RC8
RC9
RC10
RC11
RC12
RC13
RC14
RC15
RC16
-
0.50
1.00
1.50
2.00
2.50
3.00


European B.O. 2022
RC1
RC2
RC3
RC4
RC5
RC6
RC7
RC8
RC9
RC10
RC11
RC12
RC13
RC14
RC15
RC16
-
0,50
1,00
1,50
2,00
2,50
3,00


EM B.O. 2024
RC1
RC2
RC3
RC4
RC5
RC6
RC7
RC8
RC9
RC10
RC11
RC12
RC13
RC14
RC15
RC16
-
0.50
1.00
1.50
2.00
2.50
3.00


Diversified B.O. 2025
RC1
RC2
RC3
RC4
RC5
RC6
RC7
RC8
RC9
RC10
RC11
RC12
RC13
RC14
RC15
RC16
-
0,50
1,00
1,50
2,00
2,50
3,00

6. Methodology

Sector exclusions

Main criteria

The exclusion of an issuer is decided on the basis of its business sector. A list of undesirable sectors has been drawn up to reflect the commitment of Anaxis to a more sustainable economy that takes into consideration the need to protect our environment. Our exclusion policy pays particular attention to aquatic environments. It also seeks to improve public health. Sectors excluded include coal and petroleum industries, nuclear and fossil fuel power generation, plastic packaging, fertilisers, pesticides, weapons, tobacco and non-therapeutic GMOs. Further information on the sectors excluded and the reasons for these choices is available online at www.anaxis-esg.com.

Exclusion thresholds

The exclusion criterion applied is the percentage of turnover attributed to undesirable sectors or directly related activities. A threshold is set at 20%. As such, issuers that generate over 20% of their turnover in sectors on the exclusion list cannot be included in bond portfolios managed by Anaxis.

In the case of suppliers whose products are not very specific and are open to various applications, we retain a threshold of 50% of turnover generated with customers belonging to excluded sectors (except in specific cases of services contributing to safety, risk control, environmental protection or public health, for example).

Our sector exclusion policy also includes measures for the elimination of non-conventional weapons. In this particular case, there is no degree of tolerance. Any company involved, even marginally or indirectly, is excluded from our portfolios.

Methodology

Our sector exclusion methodology consists of evaluating the percentage of turnover from the targeted activities. Given the distinctive character of our investment management, this threshold is generally assessed on a consolidated basis at group level because such issues are often brought out by financing vehicles or holding companies.

In the case of controversial weapons, our exclusion policy covers companies directly or indirectly controlling another company involved in this business line, for example if they hold a majority of voting rights, are a reference shareholder or exercise significant economic influence.

UN Global Compact principles

Organisation

Anaxis takes into consideration the extent to which companies comply with their social responsibility. We are careful not to invest in securities issued by companies in serious violation of any of the ten principles of the United Nations Global Compact. Cases identified by our analysts are submitted to the management committee and brought to the attention of our Compliance and Internal Control Officer in order to determine, through collegial consultation, whether an issuer's exclusion is justified. An exclusion is decided for a specific period, after which the case is reviewed and the exclusion lifted or extended.

Methodology

The analysis and monitoring of issuers includes the review of precise and complete documentation so that the information collected about any breaches of ethical standards committed by these issuers is taken into account in investment decisions. This documentation uses independent sources to supplement the information published by the companies themselves. It draws on reports from financial research firms Lucror Analytics, CreditSight and Spread Research, where applicable. When it is considered necessary to form an impartial opinion, the offending company is contacted to obtain its comments and information on the corrective measures that have been taken.

A company is excluded if the facts gathered are deemed morally unacceptable. Our focus is on breaches of fundamental ethical principles. Therefore no offsetting is made between the different criteria (for example through the use of an average score); efforts made on renewable energies do not "compensate" for an infringement of labour law.

Governance

We analyse the quality of the issuers considered according to governance criteria. This analysis takes into account our status as creditor and focuses on the following fields:

- Transparency and quality of information
- Respect for the interests of the various stakeholders
- Fulfilment of commitments
- Absence of excessive risk-taking
- Long-term vision
- Integrity

These general principles are stated specifically to reflect our type of management. We carefully examine aspects such as:

- Publication of full and accurate information on a regular basis
- Coherence of the strategy
- Availability of executives for discussions with investors
- Principles guiding financial policy and financial leverage objectives
- Existence of adverse or unforeseen actions with respect to creditors
- Management of credit rating with agencies
- History of the issuer's behaviour on defaults or restructuring
- Alignment of interests among directors with those of other stakeholders
- Conflicts of interest
- Separation of roles, titles and independence of directors
- Management of social conflicts
- Consideration of ESG risks in the management of the company's activities
- Possible implications in corruption cases or controversies

Additional criteria may be taken into account during the bond analysis phase, depending on each particular case. This flexible and pragmatic approach is based on a thorough understanding of each investment case. It allows for greater discernment in the analysis and highlights more clearly the important points requiring special attention.

Information used

As regards our information sources, we use the companies' annual reports and other official publications, bond issue prospectuses, the research papers of external financial analysts, the analysis reports provided from subscriptions to the independent research companies CreditSight, Lucror Analytics and Spread Research, as well as news and non-financial material available in the Bloomberg database and in the financial press. We also take part in numerous meetings with company executives.

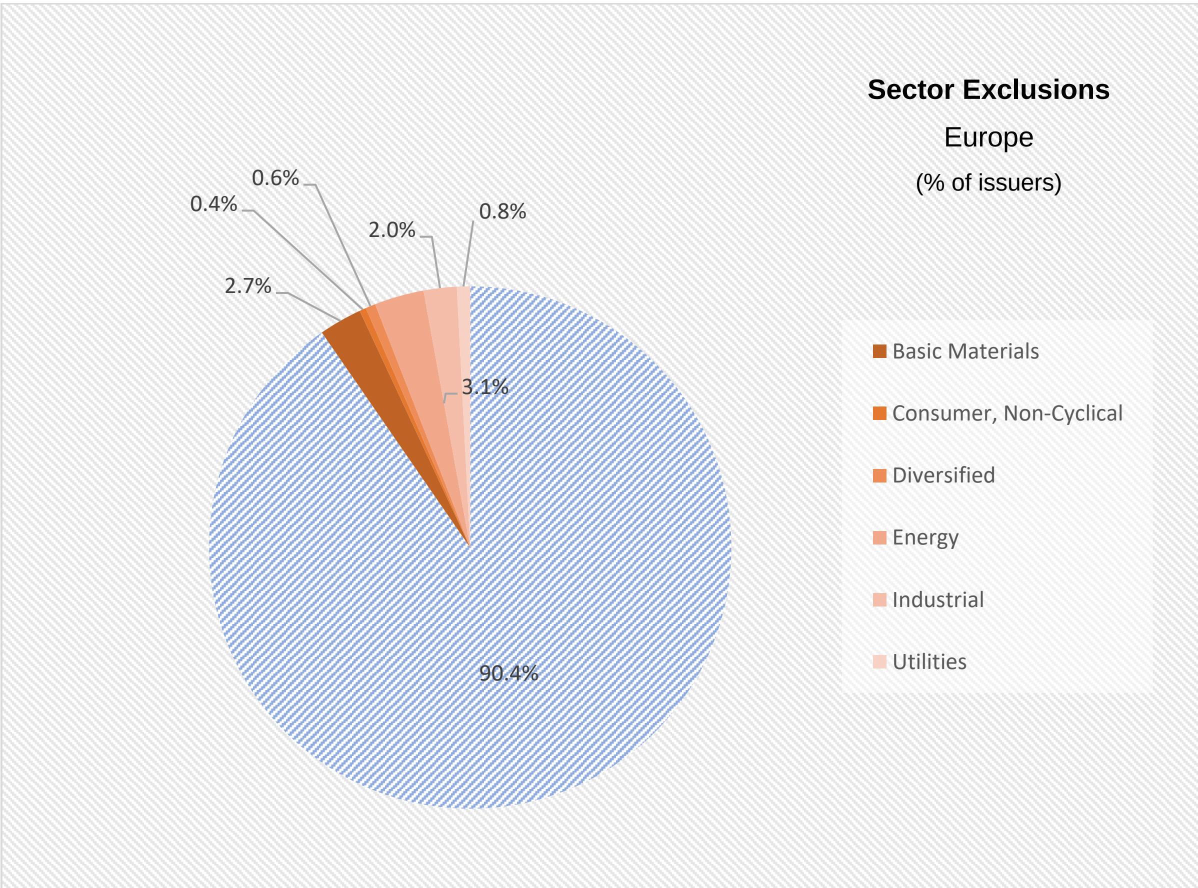
7. Integration into our investment process

Impact on the investment universe

As an indication, we measured the impact of our sector exclusion criteria on an investment universe made up of bond issues from non-financial companies, denominated in euros or dollars, and with a credit rating between B- and BB+ from Standard & Poor's. We found the following results.

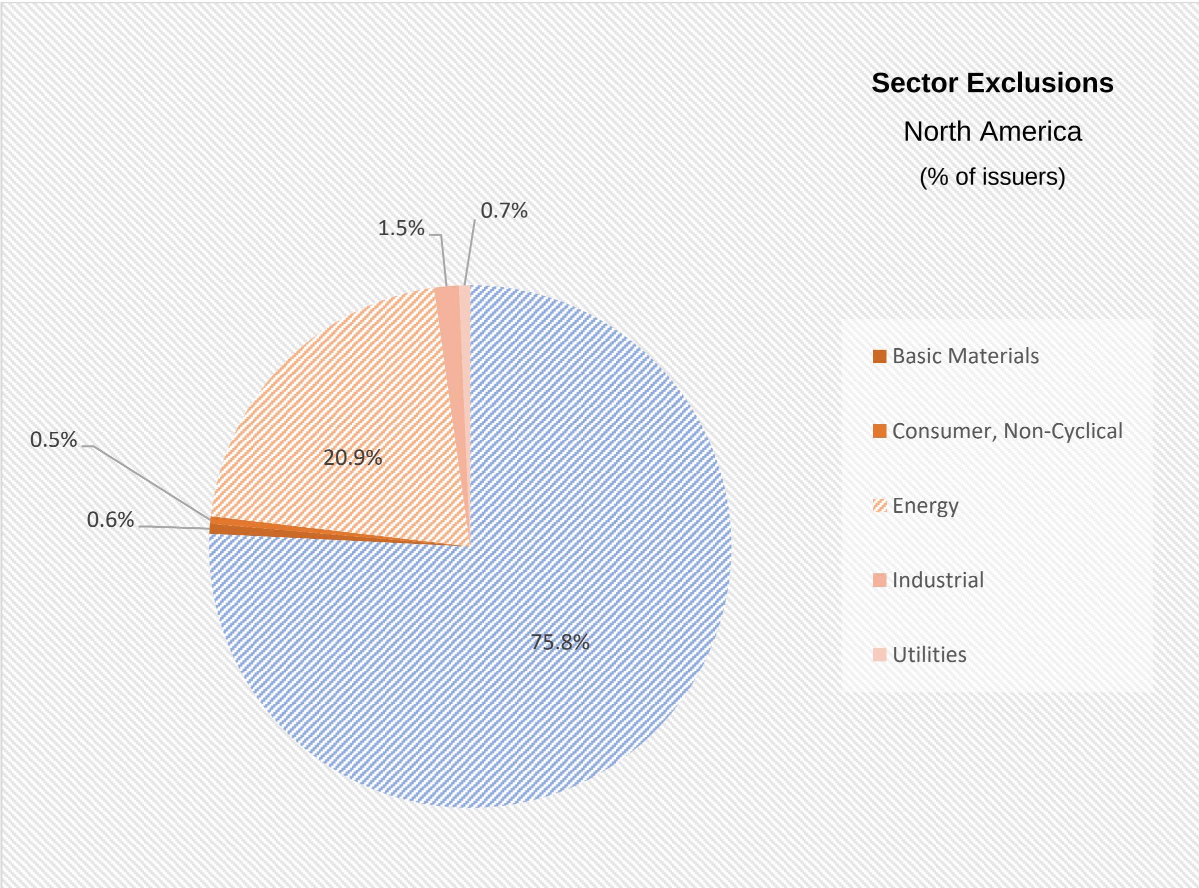
Universe of European BB/B-rated securities in euros, excluding financials

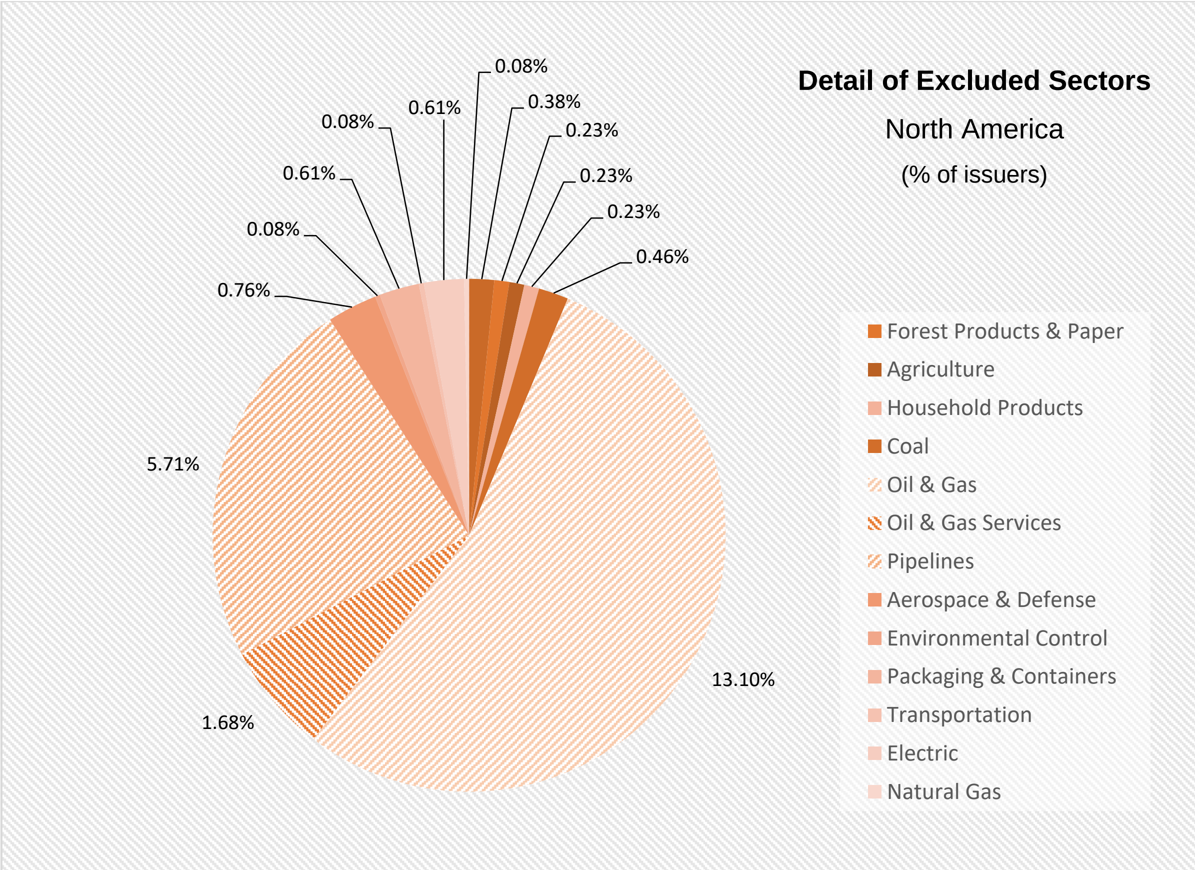
- Number of issuers 442
- Percentage of excluded issuers 9.6%



Universe of North American BB/B-rated securities in dollars, excluding financials

- Number of issuers 995
- Percentage of excluded issuers 24.2%

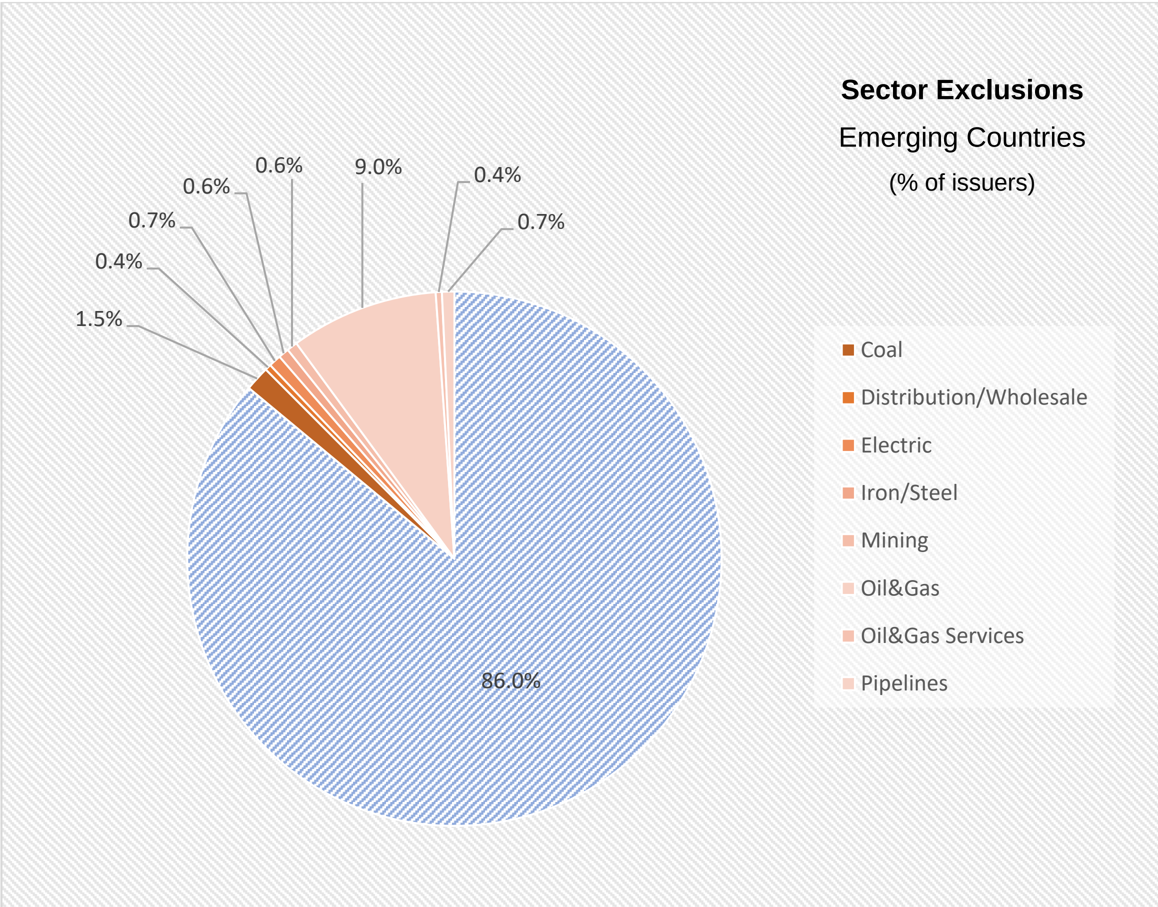




Our sector criteria are broad in scope. They exclude a significant portion of the investment universe available to corporate bond investors, in line with our ambition to contribute towards a massive redirection of financing flows. The following page contains a more specific focus on issuers from emerging countries offering bonds denominated in dollars.

Universe of emerging BB/B-rated securities in dollars, excluding financials

- Number of issuers 214
- Percentage of excluded issuers 20.1%



Impact on portfolio allocation

Portfolio convergence objective

Our criteria have been defined with the aim of combating global warming, preserving natural environments and reducing health risks. The portion of portfolios allocated to securities that do not comply with our sector exclusion policy was significantly reduced during 2020. Our goal is to achieve full compliance by the end of this year.

Portfolio compliance

As at 31 December 2020, the residual percentages in non-compliant activities are relatively low. They do not exceed 1.7%, as shown in the summary table presented below, which also shows the change over 18 months.

Fund name	**Non-compliant part**		
	End of 2020	**End of 2019**	**End of June 19**
Anaxis Short Duration	***1.56%***	*6.86%*	*12.07%*
Anaxis Income Advantage	***0.00%***	*4.35%*	*6.78%*
US Bond Opportunity 2021	***0.44%***	*5.30%*	*9.73%*
European Bond Opportunity 2022	***1.47%***	*3.91%*	*5.85%*
Anaxis Bond Opportunity EM 2024	***0.54%***	*4.87%*	*7.65%*
Diversified Bond Opportunity 2025	***1.64%***	*2.84%*	*8.83%*

Consistency of investment management

Our ethical management policy is integrated seamlessly into our investment process. Our approach favours issuers offering good visibility. It aims to build robust portfolios, with low exposure to exogenous risks or those difficult to control (fluctuations in raw material prices, regulatory changes, legal action, climate hazards, industrial accidents).

As such, we believe that our ethical management policy strengthens the quality of our portfolios by better taking into account the factors of uncertainty and enhancing the balance between risks incurred and expected return.

8. Green part

The green part of the portfolios is the percentage invested in companies which, according to our analysis, contribute directly to the reduction of greenhouse gas emissions, generate electricity from renewable sources, participate in the circular economy, fight against waste, limit pollution, protect natural environments or ensure the security of the water supply while respecting the environment and biodiversity. These activities must account for more than half of total turnover. Across all of our assets under management, the green part represents **4.80%** of positions.

Fund name	**Green part as of end of 2020**
Anaxis Short Duration	***4.90%***
Anaxis Income Advantage	***6.07%***
US Bond Opportunity 2021	***4.83%***
European Bond Opportunity 2022	***3.74%***
Anaxis Bond Opportunity EM 2024	***7.44%***
Diversified Bond Opportunity 2025	***5.76%***

9. Greenhouse gas

Background

This section summarises the intensity of greenhouse gas emissions linked to the business activities of the companies in our portfolios. We have calculated the intensity of each of our six bond funds under management. The figures published in this report provide a simple, concrete overview of our commitment to fostering the transition to a sustainable economy, with a particular focus on our contribution to the fight against climate change, the acidification of the oceans and the disruption of ecosystems.

This fight affects not only the natural world, but human societies too. We face greater risks as a direct result of global warming, including receding coastlines, storms, droughts, human migration, lower agricultural yields and the depletion of fish stocks. Reducing greenhouse gas emissions is essential if we are to mitigate global warming and prevent harmful consequences for people and planet alike. If it seems as though progress has been made, this is an illusion. All of the hard work has yet to be done.

As a function of global GDP, the carbon intensity of energy-related human activities fell by 2.4% in 2019, continuing the trend of a 1.5% annual decrease over the period 2000-2019, according to a study entitled *The Net Zero Economy Index 2020* by PricewaterhouseCoopers. However, given GDP growth, volumes of greenhouse gas emissions rose by 0.5% that year in absolute terms. IPCC figures suggest that the carbon intensity of the global economy must fall by 7.7% per year in order to achieve the Paris Agreement target, which seeks to limit global warming to 2°C by the end of the century. Our efforts would need to deliver an annual decrease of 11.7% to limit global warming to 1.5°C.

Methodology

Scope

We use three different scopes to calculate greenhouse gas emissions. These scopes are used by the companies to report their annual emissions.

Scope 1	Direct emissions from sources held or controlled by the company.
Scope 2	Indirect emissions linked to the energy consumption (electricity, heat, steam) required to manufacture the products or provide the services offered by the company.
Scope 3	**Upstream** Emissions resulting from the manufacture of purchased goods and raw materials. **Downstream** Emissions resulting from the use of the products by clients.

Volumes

Several different greenhouse gases must be taken into account for their environmental impact. The main gas emissions we measure are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). Other gases resulting from industrial processes, such as halogenated hydrocarbons, can also have a significant greenhouse effect. However, it is estimated that carbon dioxide and methane are responsible for 74% and 17%, respectively, of the climate impact of gas emissions linked to human activity.

We aggregate various types of gas emission by converting the volumes into their CO_2 equivalent. To that end, we consider the greenhouse effect caused by the gas in question. Methane, for example, has a greenhouse effect 25 times as powerful as that of CO_2. As such, the volumes of methane released into the atmosphere are multiplied by 25 before they are added to CO_2 emissions. The results are expressed in tonnes of CO_2 equivalent (t CO_2e).

Intensities

Annual emissions are expressed as a function of each company's turnover. This ratio, referred to as "CO_2 intensity", indicates the volume of gas emitted into the atmosphere resulting in EUR 1 million of sales. Certain sectors are more intensive than others. For example, Anaxis estimates that the telecoms sector's carbon intensity for scopes 1 & 2 is 37 t CO_2e/€m whereas the figure for airlines is 1,032 t CO_2e/€m. These are sector-wide estimates. Actual figures may vary widely from one company to the next.

Another way to measure CO_2 intensity is to express each company's annual emissions as a function of its stock market capitalisation (rather than as a function of its turnover). Intensity can then be interpreted as the volume of greenhouse gases associated with an investment of EUR 1 million in the company. This approach is relatively intuitive for equity investors, but it is harder to apply to bonds. It is entirely dependent on the company's financial strategy. It is possible to overcome this issue by using the company's value, which we define as its market capitalisation + debt + available cash. The company's value is a better reflection of its economic reality in that it demonstrates how much money is actually invested in its activities.

Given that few bond issuers publish their greenhouse gas emissions, we have to estimate missing data using figures published by companies with comparable business activities.

The method whereby emissions are expressed as a function of the company's turnover gives good results when the following conditions are met: these companies have similar products, their manufacturing processes are similar, their sources of energy are similar, and their retail prices are similar. However, carbon intensity to company value ratios can be more variable because they depend on the share price, which in turn is a function of growth, profits, etc.

Data sources

Where possible, we use data reported by the companies themselves. These figures are typically published on an annual basis. Unfortunately, a substantial proportion of corporate bond issuers, not all of which are listed companies, do not provide information on their greenhouse gas emissions. In such cases, we have analysed the company's business sector and used the sector's median intensity.

Intensities are more relevant than volumes. However, there may be distortions linked to a company's size, turnover, national standards and individual performance. The sector-based classification used represents a compromise between the need to categorise companies' business activities as precisely as possible and the need to have enough examples within each sector. Ultimately, we divided the companies among 69 business sectors.

Where figures had not been reported by the company, we felt that it was preferable to use medians rather than means. Medians are less sensitive to extreme values and errors. The median figure splits the companies in the sector into two equal groups: those that published lower figures and those that published higher figures.

When figures were available for 2019 but not for 2020, we used the 2019 figures without assuming progress of any kind or a downward trend in individual emissions

Availability of data

If we consider the composition of the portfolios under management, emissions figures for scopes 1 & 2 could be obtained for approx. a quarter of the companies, as shown in the following table:

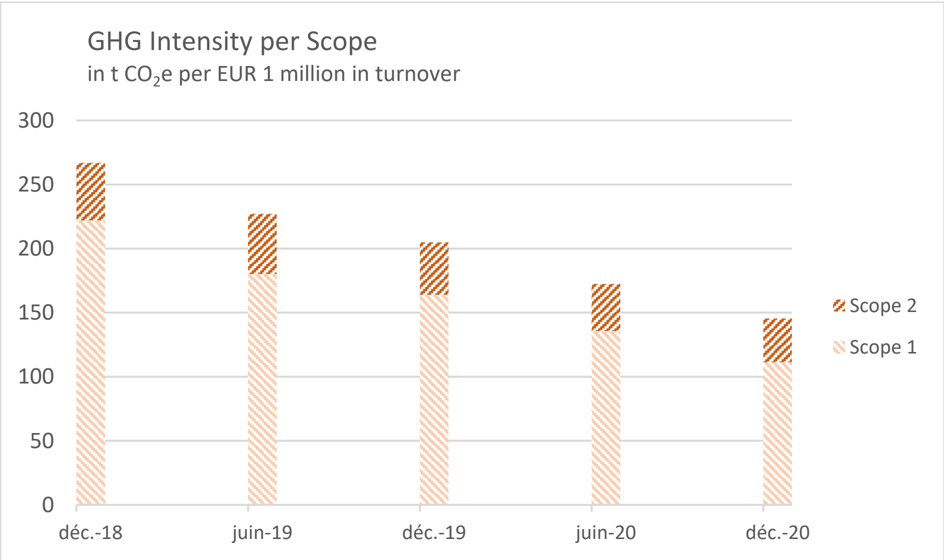
Percentage of portfolios invested in bonds
issued by groups that publish data
on their greenhouse gas emissions

Fund name	End of 2020	End of June 2020	End of June 2019
Anaxis Short Duration	***44%***	*27%*	*28%*
Anaxis Income Advantage	***25%***	*23%*	*40%*
US Bond Opportunity 2021	***38%***	*33%*	*26%*
European Bond Opportunity 2022	***25%***	*23%*	*18%*
Anaxis Bond Opportunity EM 2024	***44%***	*34%*	*40%*
Diversified Bond Opportunity 2025	***22%***	*25%*	*20%*

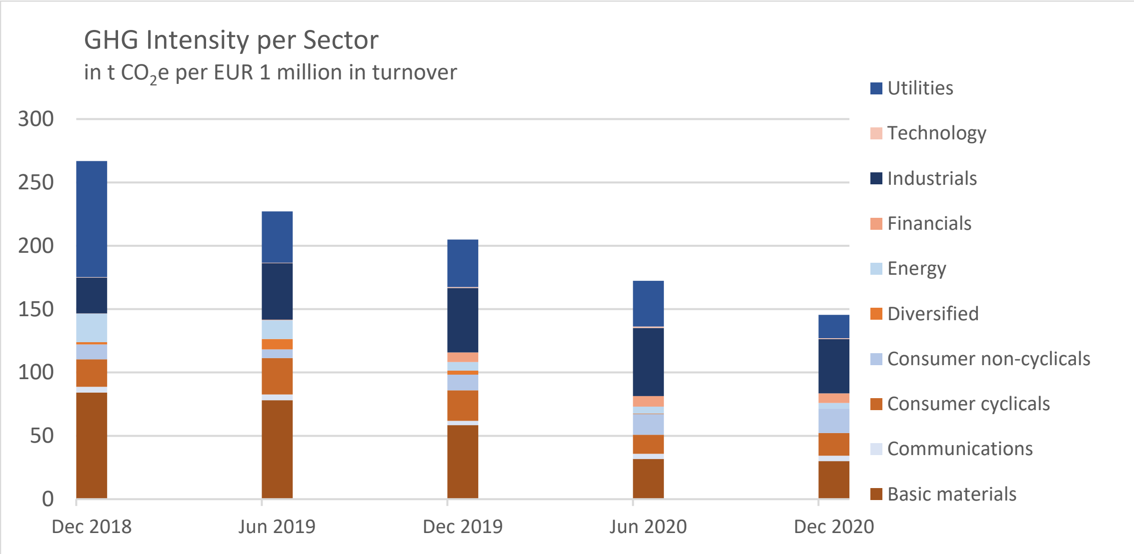
Results

The management policy adopted by Anaxis has allowed us to significantly reduce the greenhouse gas emissions linked to the portfolio's bond investments. Deciding to exclude particularly polluting business sectors took us much of the way towards this goal.

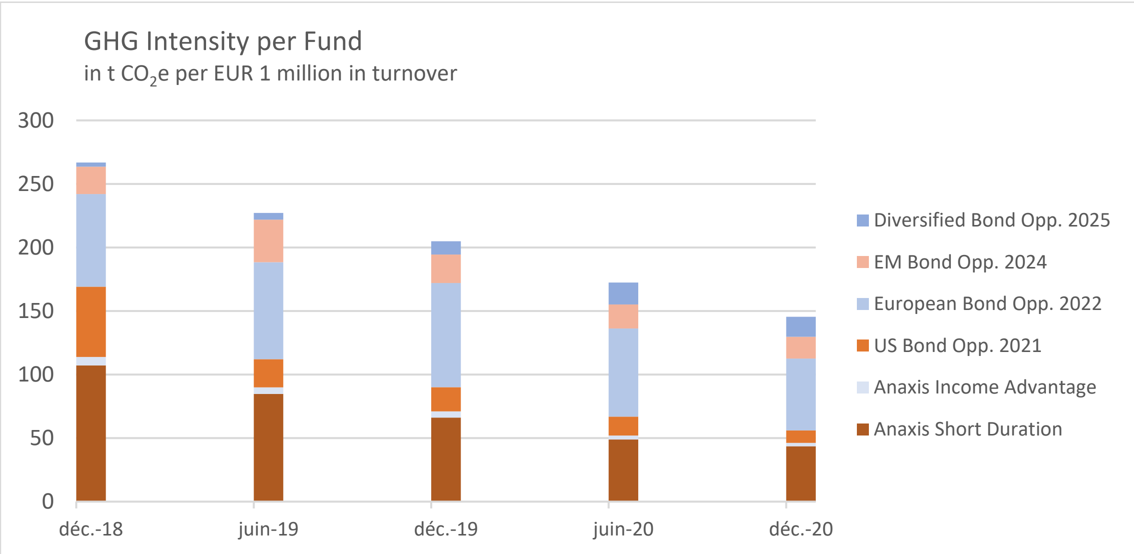
Below we show the level and changes in the direct CO_2 intensity of our bond funds. Viewed collectively, and weighted as per their AUM, the estimated CO_2 intensity of our funds has fallen significantly in two years, having dropped from 266.9 to 145.5 tonnes of CO_2 equivalent per million euros of turnover. This corresponds to an average decrease in carbon intensity of **26.2% p.a**.



The scope of direct emissions from sources held or controlled by the company (scope 1) accounts for 77% of the emissions linked to the positions in the portfolio. This is also the area where the greatest progress has been made (-29.2% compared to -12.8% for scope 2). We note that this reduction is largely due to the infrastructure and basic materials sectors, as shown in the graph below.



This third graph shows the contributions of the funds to the overall intensity of our bond investment activity. The figures take into account both individual fund intensities and the size of their assets under management.

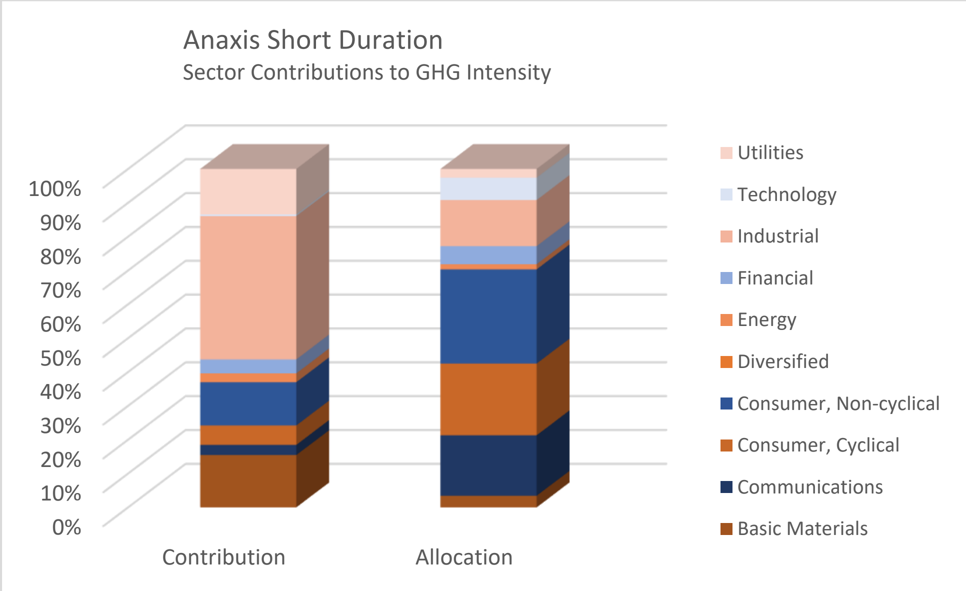


The following pages provide details on the greenhouse gas intensity of each of the bond portfolios under management.

Anaxis Short Duration

Greenhouse gas intensity of the portfolio
in tonnes of CO_2 equivalent per EUR 1 million in turnover

Scope	**End of 2020**	**End of 2019**	**End of 2018**
Scope 1	*105.3*	*129.4*	*249.6*
Scope 2	*33.2*	*34.3*	*49.1*
Total	**138.5**	**163.7**	**298.7**

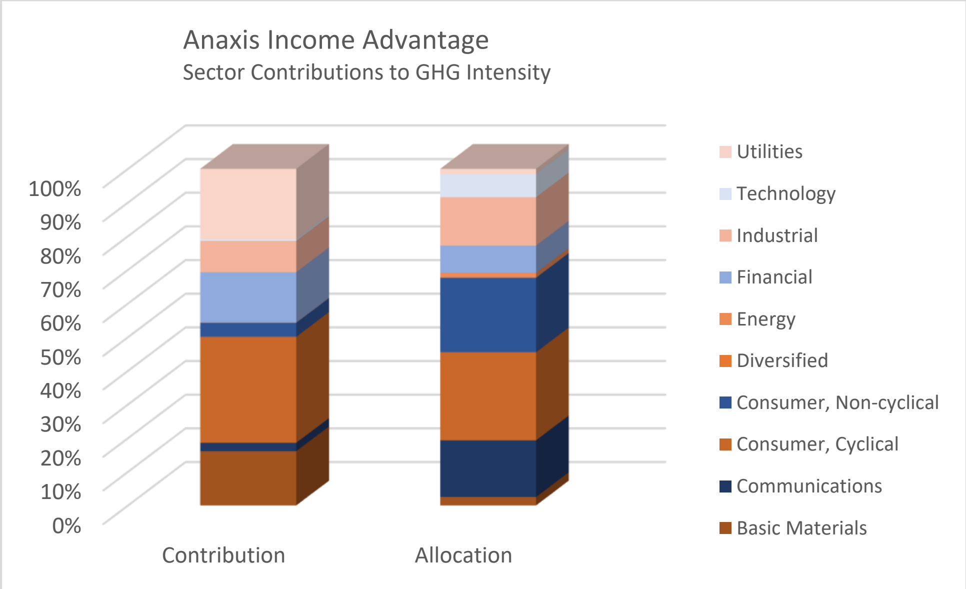


ANAXIS SHORT DURATION		**Contribution to portfolio intensity**			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO2 e	in %	in t CO2 e	in %
Basic materials	3.3%	16.1	15.3%	5.3	16.0%
Communications	17.3%	0.7	0.6%	3.5	10.6%
Consumer cyclicals	20.5%	2.3	2.2%	5.6	17.0%
Consumer non-cyclicals	26.9%	10.8	10.3%	6.9	20.8%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.5%	3.4	3.3%	0.2	0.6%
Financials	5.2%	3.8	3.6%	1.9	5.8%
Industrials	13.2%	51.5	48.9%	7.1	21.5%
Technology	6.4%	0.2	0.2%	0.5	1.4%
Utilities	2.5%	16.5	15.6%	2.1	6.4%
TOTAL	**96.6%**	**105.3**	**100%**	**33.2**	**100%**

Anaxis Income Advantage

Greenhouse gas intensity of the portfolio
in tonnes of CO_2 equivalent per EUR 1 million in turnover

Scope	**End of 2020**	**End of 2019**	**End of 2018**
Scope 1	*111.0*	*125.1*	*115.4*
Scope 2	*27.1*	*29.6*	*28.6*
Total	**138.1**	**154.7**	**144.0**

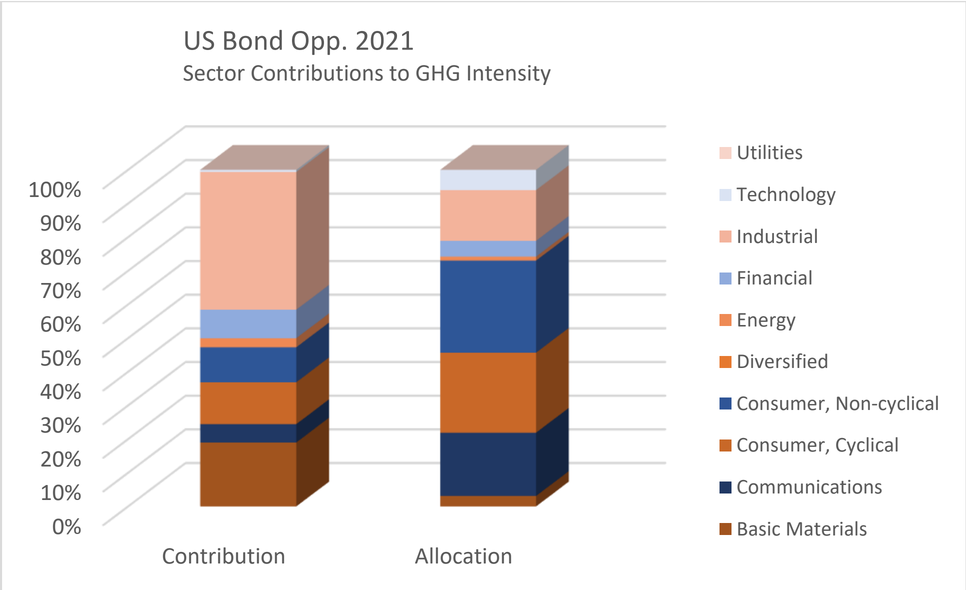


ANAXIS INCOME ADVANTAGE		**Contribution to portfolio intensity**			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO2 e	in %	in t CO2 e	in %
Basic materials	2.4%	18.5	16.7%	3.8	13.9%
Communications	16.2%	0.4	0.4%	3.0	11.1%
Consumer cyclicals	25.2%	36.2	32.6%	7.3	26.8%
Consumer non-cyclicals	21.3%	3.0	2.7%	2.7	10.1%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.4%	0.0	0.0%	0.1	0.2%
Financials	7.8%	16.8	15.1%	3.9	14.4%
Industrials	13.8%	7.8	7.1%	5.0	18.4%
Technology	6.6%	0.1	0.1%	0.6	2.2%
Utilities	1.5%	28.1	25.3%	0.8	3.0%
TOTAL	**96.2%**	**111.0**	**100%**	**27.1**	**100%**

US Bond Opp. 2021

Greenhouse gas intensity of the portfolio
in tonnes of CO_2 equivalent per EUR 1 million in turnover

Scope	**End of 2020**	**End of 2019**	**End of 2018**
Scope 1	*70.7*	*84.2*	*93.5*
Scope 2	*26.9*	*31.9*	*44.7*
Total	**97.6**	**116.1**	**138.2**

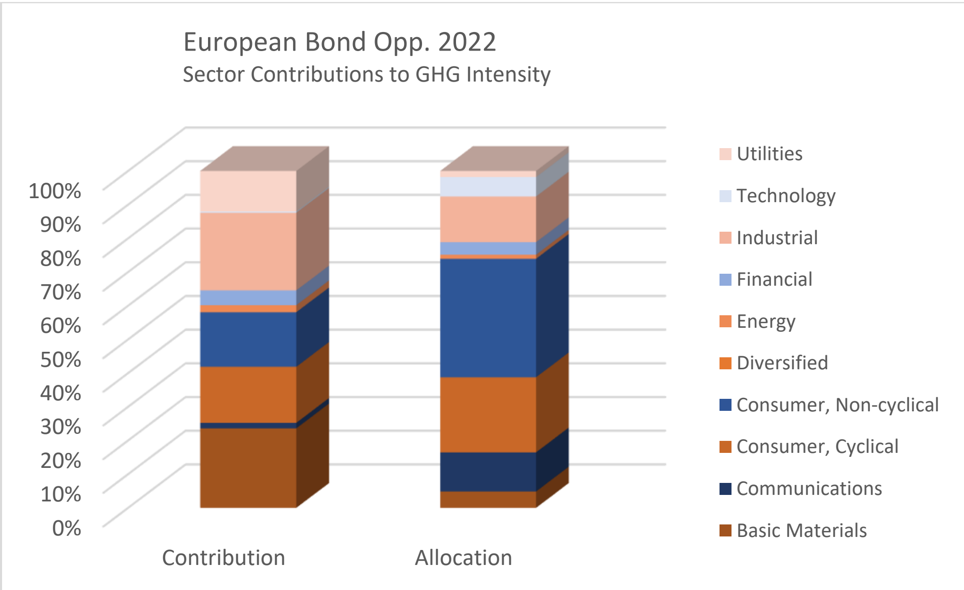


US BOND OPP. 2021		**Contribution to portfolio intensity**			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO2 e	in %	in t CO2 e	in %
Basic materials	3.1%	14.4	20.4%	4.2	15.4%
Communications	18.7%	0.7	0.9%	4.7	17.4%
Consumer cyclicals	23.6%	5.9	8.3%	6.2	23.2%
Consumer non-cyclicals	27.2%	5.2	7.3%	5.0	18.5%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.2%	2.6	3.7%	0.1	0.2%
Financials	4.7%	6.4	9.1%	1.8	6.8%
Industrials	15.0%	35.5	50.2%	4.5	16.6%
Technology	6.0%	0.1	0.2%	0.5	1.9%
Utilities	0.0%	0.0	0.0%	0.0	0.0%
TOTAL	**99.4%**	70.7	**100%**	26.9	**100%**

European Bond Opp. 2022

Greenhouse gas intensity of the portfolio
in tonnes of CO_2 equivalent per EUR 1 million in turnover

Scope	**End of 2020**	**End of 2019**	**End of 2018**
Scope 1	*118.3*	*149.5*	*148.2*
Scope 2	*35.6*	*38.3*	*46.4*
Total	**153.9**	**187.8**	**194.6**

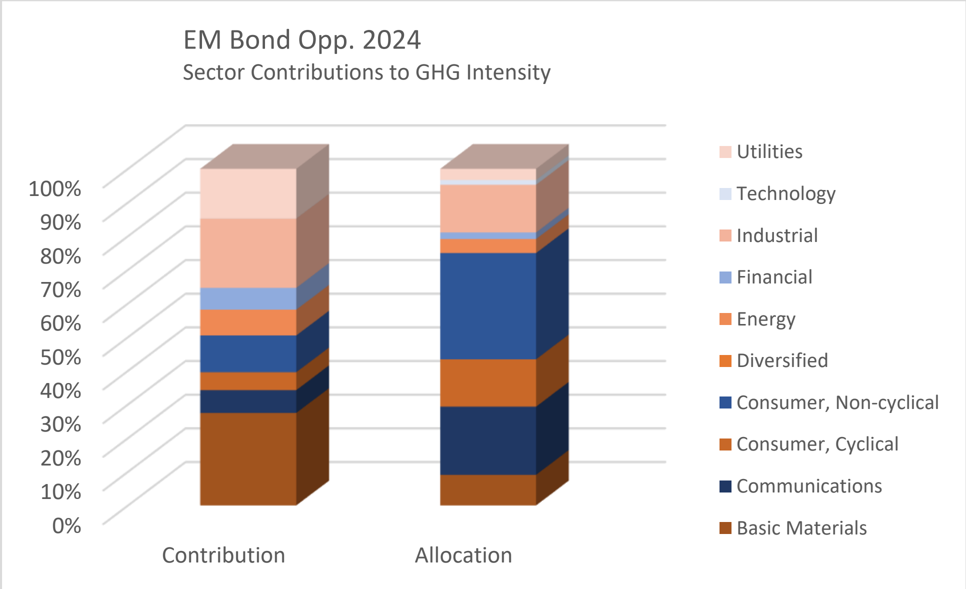


EUROPEAN BOND OPP. 2022		**Contribution to portfolio intensity**			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO2 e	in %	in t CO2 e	in %
Basic materials	4.8%	28.3	23.9%	8.1	22.6%
Communications	11.4%	0.3	0.3%	2.2	6.2%
Consumer cyclicals	22.0%	21.5	18.2%	4.1	11.5%
Consumer non-cyclicals	34.7%	15.3	12.9%	9.7	27.2%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.2%	3.1	2.6%	0.1	0.4%
Financials	3.7%	5.3	4.5%	1.5	4.1%
Industrials	13.4%	27.7	23.4%	7.8	21.9%
Technology	5.7%	0.1	0.1%	0.5	1.4%
Utilities	1.8%	16.8	14.2%	1.6	4.6%
TOTAL	**98.5%**	**118.3**	**100%**	**35.6**	**100%**

EM Bond Opp. 2024

Greenhouse gas intensity of the portfolio
in tonnes of CO_2 equivalent per EUR 1 million in turnover

Scope	End of 2020	End of 2019	End of 2018
Scope 1	*157.6*	*198.6*	*309.8*
Scope 2	*51.9*	*53.1*	*57.6*
Total	**209.6**	**251.7**	**367.4**

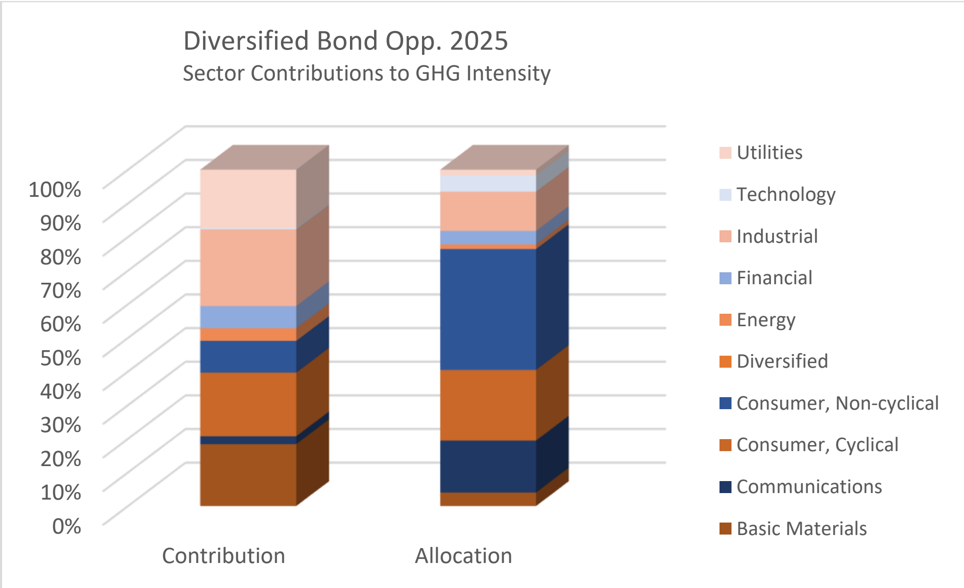


EM BOND OPP. 2024		**Contribution to portfolio intensity**			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO2 e	in %	in t CO2 e	in %
Basic materials	8.1%	39.6	25.1%	17.9	34.6%
Communications	18.0%	0.6	0.4%	13.6	26.2%
Consumer cyclicals	12.5%	7.3	4.6%	3.9	7.4%
Consumer non-cyclicals	28.0%	15.8	10.0%	7.1	13.7%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	3.7%	14.4	9.1%	1.7	3.2%
Financials	1.7%	11.6	7.4%	2.0	3.9%
Industrials	12.6%	39.4	25.0%	3.8	7.4%
Technology	1.2%	0.0	0.0%	0.1	0.2%
Utilities	3.0%	28.9	18.3%	1.9	3.6%
TOTAL	**88.7%**	157.6	**100%**	51.9	**100%**

Diversified Bond Opp. 2025

Greenhouse gas intensity of the portfolio
in tonnes of CO_2 equivalent per EUR 1 million in turnover

Scope	**End of 2020**	**End of 2019**	**End of 2018**
Scope 1	*108.2*	*124.7*	*115.5*
Scope 2	*27.2*	*34.1*	*34.4*
Total	**135.4**	**158.8**	**149.9**



DIVERSIFIED BOND OPP. 2025		**Contribution to portfolio intensity**			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO2 e	in %	in t CO2 e	in %
Basic materials	4.0%	19.6	18.1%	5.3	19.5%
Communications	15.4%	0.4	0.4%	2.8	10.2%
Consumer cyclicals	21.0%	21.8	20.1%	3.8	14.0%
Consumer non-cyclicals	35.9%	7.2	6.7%	5.6	20.6%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.4%	5.0	4.6%	0.1	0.5%
Financials	4.0%	6.9	6.4%	2.0	7.3%
Industrials	11.7%	25.2	23.3%	5.7	21.1%
Technology	4.8%	0.1	0.1%	0.5	1.7%
Utilities	1.7%	22.0	20.4%	1.4	5.1%
TOTAL	**99.9%**	108.2	**100%**	27.2	**100%**

10. Objectives and commitments

Anaxis has committed to reducing greenhouse gas emissions, in line with the spirit of the Paris Agreement. As a management company making investment choices, our desire is to help protect the environment and public health. On this, Anaxis has declared a specific target by setting for itself a trajectory that entails reducing the carbon intensity of our bond portfolios by 7.5% per year between 2018 and 2030, in accordance with IPCC recommendations.

To go the extra mile and successfully transition to a carbon-neutral economy as regards greenhouse gases, companies must build a carbon strategy into their development plan and be in a position to demonstrate their progress by publishing precise figures. That’s why Anaxis is a member of the Institutional Investors Group on Climate Change (IIGCC), and supports the Net Zero Asset Managers initiative aimed at ensuring that investment portfolios are carbon neutral by 2050. Furthermore, Anaxis is a member of the Task Force on Climate-related Financial Disclosures (TCFD). Our aim is to take collective action to ensure that companies release specific and transparent data on climate-related issues.

Anaxis Asset Management

9, rue Scribe

75009 Paris, France

info@anaxiscapital.com

www.anaxis-esg.com