STATE STREET GLOBAL ADVISORS

ESG Approach applied to FDC SICAV Paris Aligned Global Equities – Indexed:

State Street Sustainable Climate World Equity Strategy

Introduction

State Street Global Advisors has developed a deeply researched equity climate strategy. Our climate-aware investment process seeks to enable investors to improve their portfolio's carbon profile and reduce climate risk, while maintaining target returns.

The ***State Street Sustainable Climate World Equity Strategy*** adopts a systematic mitigation and adaptation approach that targets Paris-aligned reductions in carbon emissions and reallocation of capital towards companies benefiting from low-carbon technologies. The strategy targets the most ambitious goals stemming from the landmark 2015 Paris Agreement – including limiting climate change to the 2º Celsius warming scenario relative to pre-industrial levels – and is designed for investors that are seeking to prepare their portfolios for the transition to a low carbon economy.

The strategy is managed by State Street Global Advisors' Global Equity Beta Solutions (GEBS) team and leverages multiple ESG metrics and best-in-class data providers and portfolio optimization tools to construct and implement portfolios in a risk-efficient, cost-efficient manner. It is designed to be a low-cost means of achieving market beta while also meeting specific climate objectives and delivering long term risk, return and diversification characteristics broadly in line with the parent index, MSCI World.

Investment Philosophy

There are two primary investment concepts underlying our Sustainable Climate and ESG investing philosophy.

Firstly, we believe climate change poses multiple risk and opportunities in investment portfolios today and that it can have a material impact on the long term value creation of public companies. Increasingly, climate-related risks such as physical risks (rising sea levels, droughts, floods, increased temperatures etc) and transition risks (economic and business model risk associated with new carbon pricing) are a growing source of financial risk in capital markets. Climate change and the transition to a low carbon economy also creates investment opportunities. This includes investments in green energy and companies that are building climate resiliency into their business models. We believe investors should incorporate both mitigation and adaptation approaches in their portfolios to reduce physical, economic and regulatory climate risk over different timescales.

Secondly, we understand that, due to both fiduciary and competitive pressures, investors are unwilling to risk significant performance deviations from the broader market, and nor are they able to support high costs.

Supported by these underlying principles, the Strategy provides a low-cost means of achieving market beta whilst also meeting specific climate objectives. At the same time, it allows for a capital reallocation away from high polluters (by way of current emissions and potential future emissions as measured by fossil fuel reserves) and towards companies that may benefit from low carbon technologies and may be more resilient to the physical risks posted by climate change. We expect the investment strategy will profit from the expected actions taken by investing in companies that are minimizing carbon emissions, and from the investments required to adapt to climate change already underway.

Investment Objective

The strategy seeks to achieve long term capital growth in line with the MSCI World Index, subject to delivering on climate and risk objectives.

We believe in an investment approach that incorporates both mitigation of greenhouse gas emissions, and adaptation to the future impacts of climate change. These are complementary approaches to reducing climate risks and correspond with asset owners' need to balance short and long-term risks and opportunities.

The strategy deploys capital towards multiple dimensions of climate investing;

- ***Climate Mitigation*** aims to reduce the flow of heat-trapping greenhouse gases into the atmosphere and increase exposure to new energy and green companies.

- ***Climate Adaptation*** to increase exposure to companies working proactively to minimise their exposure to actual or expected physical, economic and regulatory impacts of climate change. This includes companies benefitting from low carbon technologies and demonstrate preparedness for the inevitable risks posed by climate change.

- ***Screening**** excludes companies involved in activities related to: Controversial Weapons, ESG controversies, UNGC Violators, Swedish Ethical Council Exclusions, Thermal Coal, Arctic Drilling and Oil Sands Exploration.

*Additionally, the strategy will also screen out securities that are part of FDC's exclusion list.

The Strategy aims to achieve the following objectives in relation to five climate categories utilised in the portfolio construction process:

Objectives	**Minimize** Carbon Emission Intensity	**Minimize** Fossil Fuel Reserves	**Minimize** Brown Revenues	**Maximize** Green Revenues	**Build** Resilient Portfolio
Metrics and Unit	Carbon Intensity ***Direct+First Tier Indirect**** (tonnes CO2e/USD mn)	Fossil Fuel Total Reserves CO2 Emissions (m tonnes)	Percentage of Brown Revenue (%)	Percentage of Green Revenue (%)	Adaptation Score on climate change preparedness
Definition	Greenhouse gas emissions over which the company has direct control, or derives from direct suppliers, divided by revenue in US dollars.	Total embedded GHG emissions for the company in that financial year.	Percentage of revenues from "brown" sectors,** extractive sectors with high embedded carbon emissions, as classified by Trucost	Percentage of revenues from green or low-carbon technology products/business, as classified by FTSE Russell system	1. Position on Climate Change 2. Greenhouse Gas Reduction Action Plans
Data Source	S&P Trucost	S&P Trucost	S&P Trucost	FTSE Russell	ISS Oekom
Constraints***	Minimize	-90%	-90%	+300%	Improve

Source: SSGA, December 2021.
*Note that this is different from Scope 1+ Scope 2 Carbon Intensity.
**Bituminous Coal and Lignite Surface Mining, Bituminous Coal Underground Mining, Crude Petroleum and Natural Gas Extraction, Drilling oil and gas wells, Natural Gas Liquid Extraction, Support activities for oil and gas operations, Tar Sands Extraction, Coal Power Generation, Natural Gas Power Generation, Petroleum Power Generation.
**Optimization constraints for the world exposure. Subject to change depending on other portfolio constraints and risk levels at time of optimization.

Investment Process

1. Start with the Right Universe

We incorporate a set of screens that are aligned with our climate risk mitigation management objectives. While screening may sound relatively simple, it requires significant judgement and methodological choices. Much like our approach to ESG scoring and Climate metrics, our screening approach leverages data from multiple providers. Our inhouse screening process, called the State Street Point of View (POV), combines this data with our ESG expertise to provide exclusion lists across different areas of ESG, Climate and reputational concern. Screened companies are removed from the starting universe before we construct the portfolio. Our approach is attentive to the impact on tracking error of excluded securities.

We utilise three sets of exclusions* based on product involvement and prescriptive regulatory screens, which we update on a quarterly basis:

Climate Related Exclusions	Thermal Coal
	Arctic Oil & Gas
	Oil Sands
ESG and Reputation Risk Related	**UN Global Compact Violators** Provide universal principles on human rights, labour, environment and anti-corruption
	Controversial Weapons/Armaments Screen companies involved in production and distribution of weapons that have disproportionate and indiscriminate impact on civilians
	Severe ESG Controversies
Based on Prescriptive Regulatory Screen	**Swedish Ethical Council** Focused on influencing companies to operate in a more sustainable way by acting to bring about positive change in companies associated with violations of international conventions on environment and human rights

*Additionally, the strategy will also screen out securities that are part of FDC's exclusion list.

2. Source Quality Data

Following a robust research and due diligence examination of close to 30 data providers, SSGA has built an open architecture platform which provides access to best in class ESG and climate data providers to measure a range of metrics. We have currently selected the following data providers for the Strategy:

- **S&P Trucost** for carbon emission intensity, fossil fuel reserves and brown revenues
- **FTSE Russell** for green revenues
- **ISS ESG** for adaptation score

3. Design for Optimal Outcomes

We utilise a mitigation and adaptation framework to rebalance the portfolio towards companies that will achieve our stated objectives, in order to maximise impact.

↓	**Reduce Exposure** to companies with high carbon intensity and exposure to embedded emission from fossil fuel assets.
↑	**Increase Exposure** to companies generating revenues from low-carbon opportunities.
↑	**Increase Resiliency** by targeting companies that are positioned to benefit from the transition to the low-carbon economy.

In order to balance the strategy's multiple objectives, we use optimisation for portfolio construction, which allows for a more efficient trade-off between the climate objectives, diversification, trading costs and portfolio risk. Optimisation can explicitly address implementation challenges like liquidity, and control for characteristics like turnover and transaction costs. At the same time, it allows constraints to be applied at the sector, country and stock level to ensure the portfolio remains broadly aligned to the parent index. These ESG and climate objectives as well as constraints are targeted at each quarterly rebalance.

4. Balance for Risk-Adjusted Return

We balance the portfolio to target the highest expected risk-adjusted return, given the desired constraints. The Strategy's optimisation parameters are calibrated by our Global Equity Beta Solutions research team. We model the portfolio based on the following specifications:

Objective	Minimise Portfolio Carbon Intensity
Tracking Error	<=1%
Liquidity	20% of 60-day MDV buy or sell max
Holdings	Active Weight: +/-2% vs benchmark (grandfathered to 2.5%) Maximum Weight: 10x benchmark weight
Sector/Country/Currency	+/-1% vs benchmark
Turnover	10% two-way quarterly (soft constraint)
Fossil Fuel Reserves	<= 90% vs parent index
Brown Revenue Score	<= 90% vs parent index
Green Revenue Score	>= 300% vs parent index
Adaptation Active Exposure	>= 0.25 (Z-score) vs parent index

Improvements subject to change depending on other portfolio constraints and risk levels at time of optimization.

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