Amundi Social Bonds

Annual Impact Report 2022

Fund data from 30/11/2021 to 30/11/2022
Market data as of 31/12/2022

Trust must be earned

Amundi
ASSET MANAGEMENT

Disclaimer

All figures reflecting the extra-financial characteristics and social impact of the portfolio rely on the holdings as of 30 November 2022.

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The main objective of this report is to evaluate the environmental impact of the portfolio.

This report is produced by Amundi Asset Management, the portfolio manager of Amundi Social Bonds.

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1 Key figures

Amundi Social Bonds has benefited
1,456
people per €1 million invested

47%
of the impact of the portfolio relates to Employment

36%
of the impact of the portfolio relates to access to essential services such as Education and Healthcare

€6bn
invested in Social bonds at Amundi level

€6bn
invested in Sustainability bonds at Amundi level

Since 2017
Amundi Executive Committee Member of the GBP/SBP/SBG/SLBP[1]

The Green Bond Principles
The Sustainability Bond Guidelines
The Social Bond Principles
The Sustainability-Linked Bond Principles

350
social and sustainability bonds analysed in Amundi's in-house social database

2 awards won

Environmental Finance's 2022 Bond Awards Amundi Social Bonds

Amundi Fixed Income Manager of the Year 2022

1. Source: https://www.icmagroup.org/sustainable-finance/membership-governance-and-working-groups/executive-committee-and-working-groups/

2 The social bond market: a vehicle for integrating the social dimension

While the world seems on track to reach net zero emission by 2050 and the use of green bonds to finance environmental projects is well established, the fight against social inequalities and poverty reduction is still far away from the UN objectives set in 2015.

The growing inequalities pose a real threat to the global economic system and societies.

Social bonds instruments have emerged as a means to finance social needs and are becoming increasingly relevant.

They are very similar to traditional bonds, except that they raise money for financing social projects. These include health, education, affordable housing, employment preservation or food security. The cornerstone of a social bond is the transparency of the "use of proceeds".

"Social bonds instruments have emerged as a means to finance social needs and are becoming increasingly relevant".

The Social Bond Principles

In 2017, the International Capital Market Association (ICMA) published the first guidelines for issuing social bonds, aimed at supporting the development of the market for this innovative financial instrument.[2]

The Social Bond Principles (SBP) list the necessary components for a bond to be "labelled" as social, namely:

1 Which projects will they fund?

The proceeds need to be used to finance or refinance social projects.

2 Selection process/evaluation of funded projects

The process to select projects should be clear and communicated to investors.

3 Management of funds raised until deployment

The proceeds must be tracked adequately.

4 Reporting

The issuers should provide investors with an annual report on the use of proceeds.

2. *https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/*

The SBP encourage all participants in the market to use this foundation to develop their own robust practices, referencing a broad set of complementary criteria as relevant.

The social bonds are now moving from being a niche solution to a mainstream one

The global COVID crisis has shown how fragile the social infrastructure is and how important corresponding investments are.

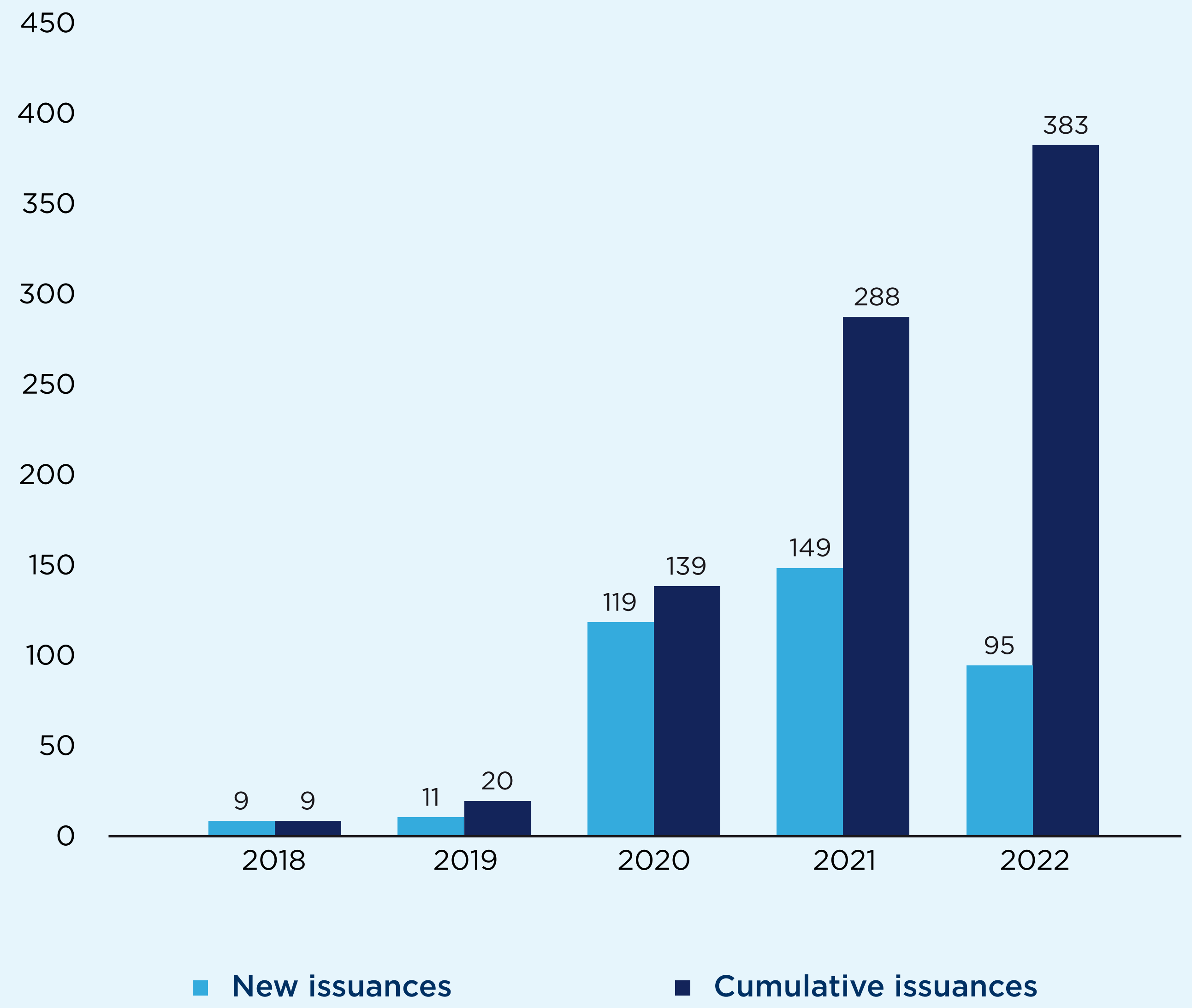
The impact of the pandemic reversed the progress of poverty reduction over the past 25 years. This reversal is being further exacerbated by rising inflation and the impacts of the war in Ukraine. Although it affects population segments all over the world, the most vulnerable were hit particularly hard, including older people, low-income people, living in precarious housing conditions, without access to running water and with poor educational opportunities. In order to counteract this, supranational and public agencies actors in particular have increasingly issued social bonds since 2020 - including, for example, the EU, which raised 100 billion euros in 2020 and 2021 as part of the SURE program[3] to finance short-time work measures.

Social bonds have experienced a spectacular development since 2020 and are now moving from being a niche solution to a mainstream one. The market totalises **€383bn** as at end Dec 2022, that represents **17%** of the Green, Social and Sustainable market.

Social bonds issuance in 2022 **(€95bn)** is down in volume versus 2021 **(-36%).** The drop of issuance is due to lower funding needs from Supranational and Agencies issuers compared to 2020 and 2021, when social bonds were part of the answer to the fight against COVID crisis.

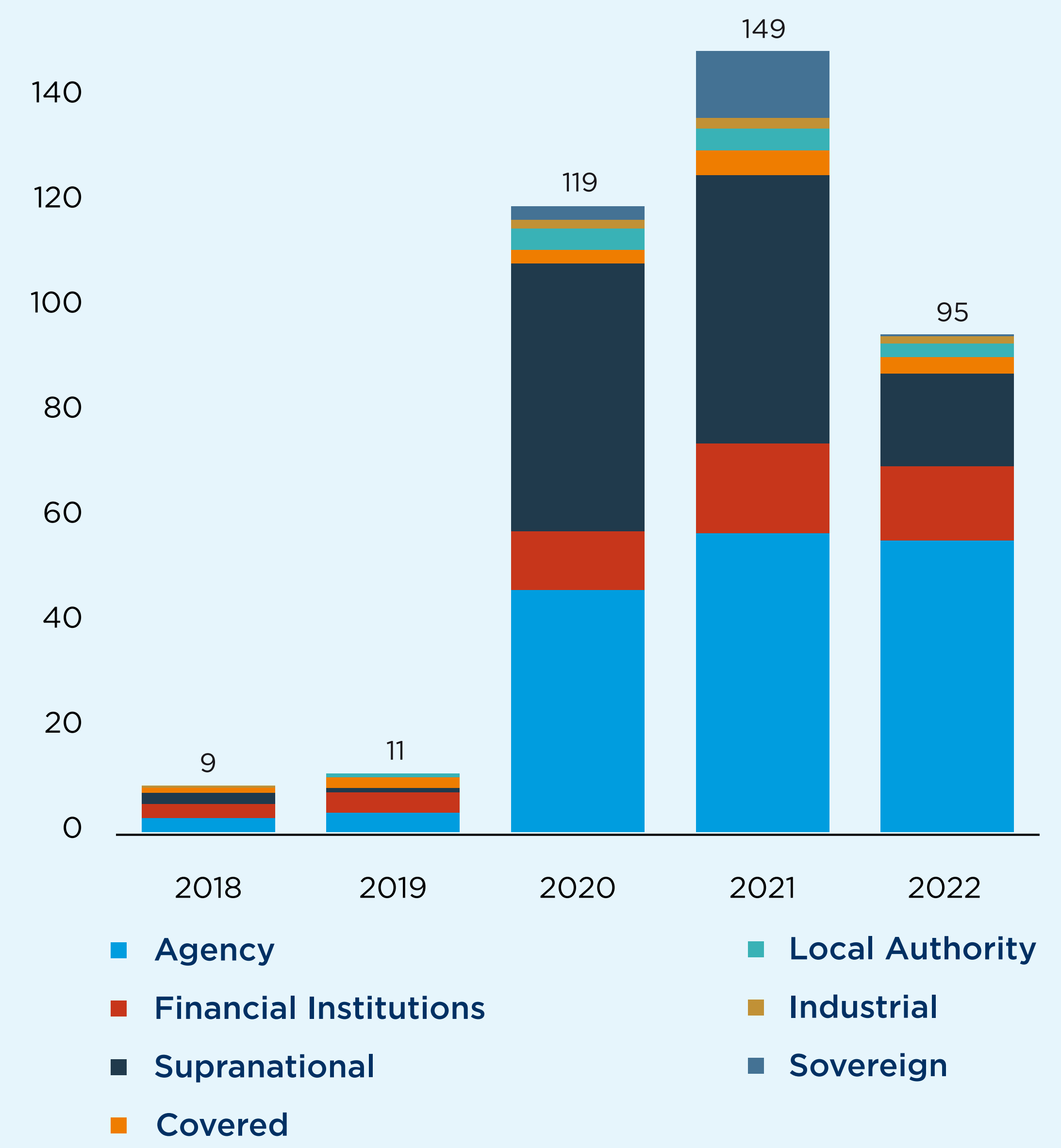
Nevertheless, social bonds are more than ever relevant instruments to meet the current challenges of soaring energy prices and food security.

Social bonds market: issuance volume in billion euro



Source: Amundi, Bloomberg, Data as of 31/12/2022

Social bonds: issuance by sector in billion euro



Source: Amundi, Bloomberg, Data as of 31/12/2022

> *"We believe that social bonds will continue to be a useful tool for addressing social issues. They offer an opportunity for investors to integrate the social dimension in the fixed income portfolio allocation".*

3. *SURE: European instrument for temporary Support to mitigate Unemployment Risks in an Emergency.*

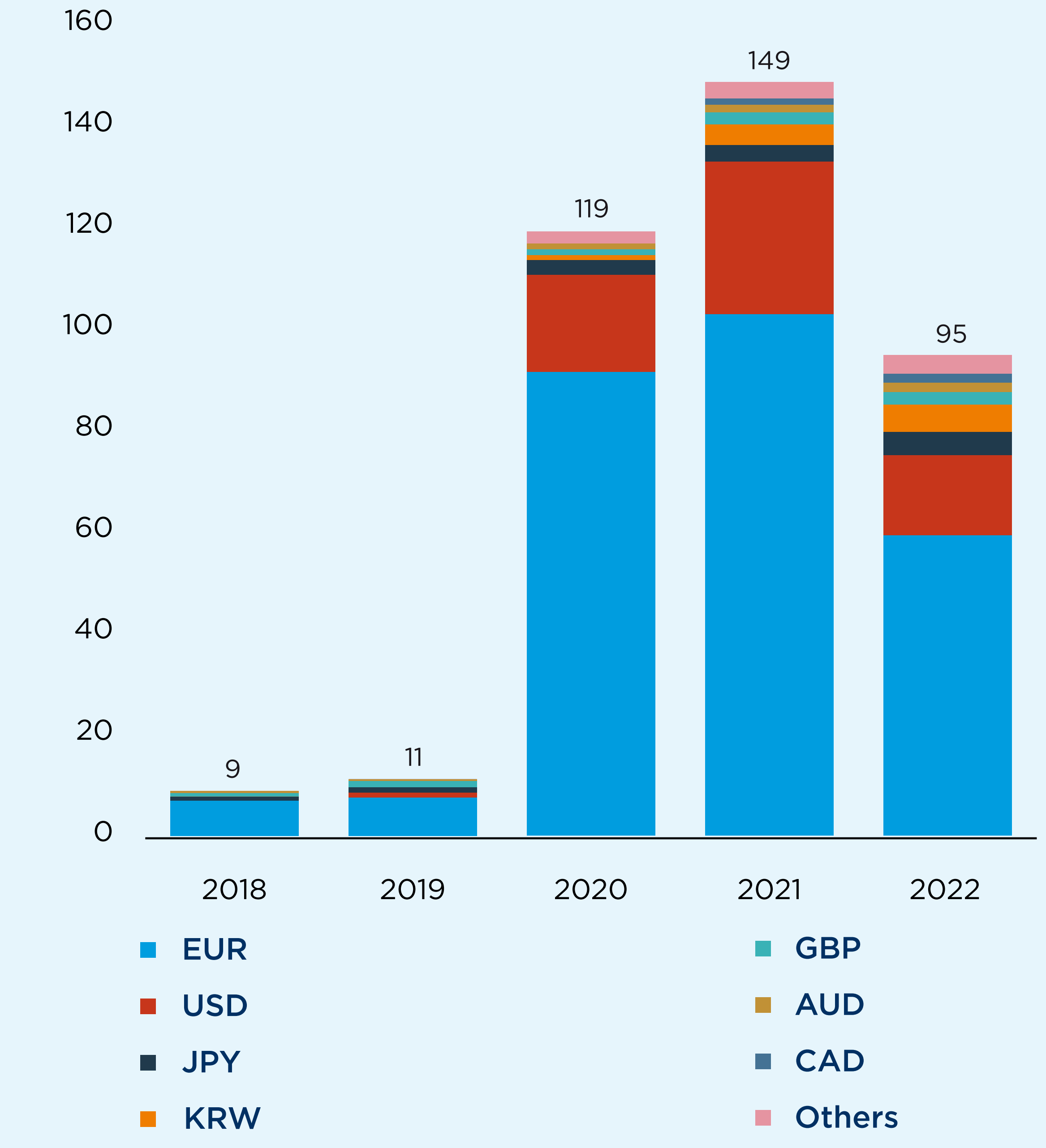
Towards more diversification

The social bond market is maturing. Even if there is still structural bias, it offers more depth and diversification.

Supranational and Public Agency still represent the most important part of the supply **(€73bn).** This can be explained by the nature of the projects financed, most often in the fields of healthcare, education or preservation of employment. Thus, this type of issuers have contributed to social market growth driven by the massive policy response to the COVID crisis. At the same time, financial institutions are gaining traction in the segment, having significantly increased their market share since 2020 and reached a volume of **€14bn** in 2022. Sovereigns **(€0.3bn)** and industrials **(€1.4bn)** remain less active in the social bond segment, as sustainability bonds seem to be more adapted to their needs, by giving the flexibility to finance both green and social projects.

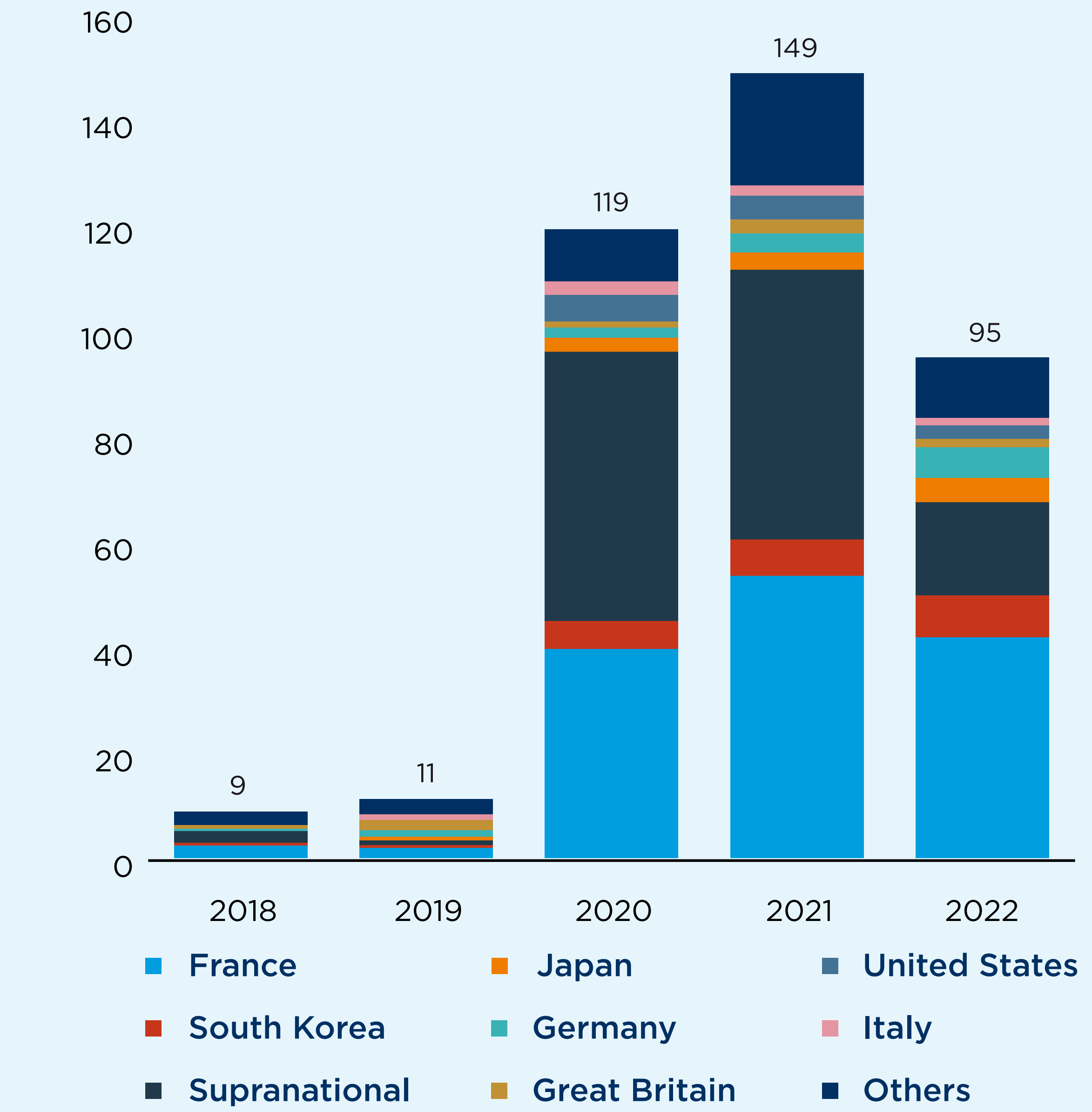
Most social bonds are issued in euro **(62%)** and US dollar **(17%)** reflecting the leadership of European countries. Within Europe, France is still leader with **€42bn** of issuance. The Asia-Pacific region, driven by Japan and South Korea, recorded an unwavering growth.

Social bonds: issuance by currency in billion euro

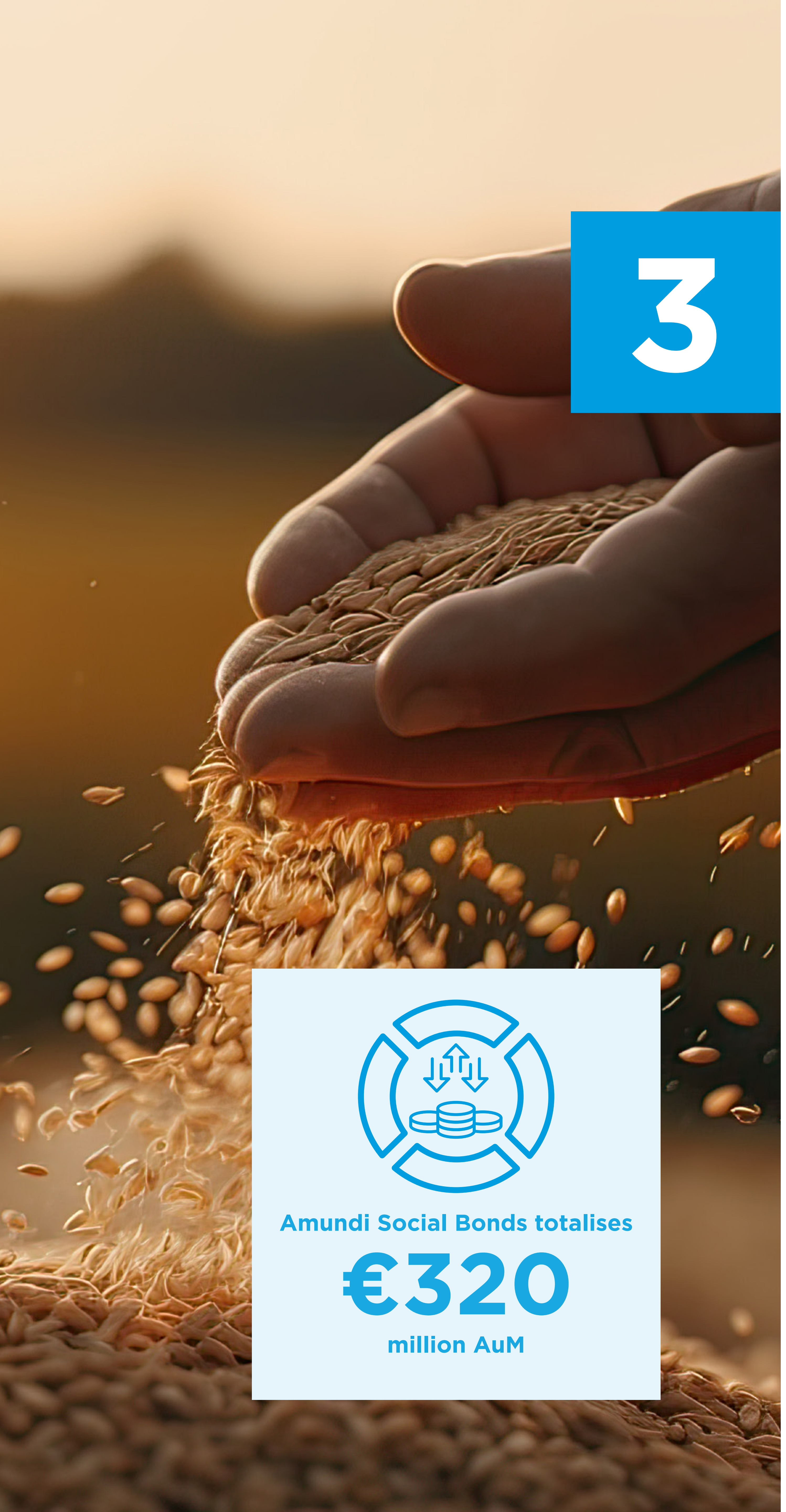


Source: Amundi, Bloomberg, Data as of 31/12/2022

Social bonds: issuance by country in billion euro



Source: Amundi, Bloomberg, Data as of 31/12/2022



3 The fund:
Amundi Social Bonds

Amundi Social Bonds, launched in November 2020, offers the opportunity to address some of the major global social challenges of our time, by investing in social bonds.

The Investment team favors a broad and inclusive vision of all societal issues when selecting the bonds. Among the eligible social project categories – fully in line with the Social Bond Principles (SBP) of ICMA and the UN SDGs - the investment team does not have a preferred category, but wants to address global social issues and their related social impact.

The United Nations Sustainable Development Goals (UN SGDs)[4] are a universal call for action to promote prosperity while protecting the planet.

The 17 Goals were adopted by all UN Member States in 2015, as part of the 2030 Agenda for Sustainable Development. Ending poverty must go hand-in-hand with strategies that build economic growth and address social needs, such as: education and health, while tackling climate change.

Amundi Social Bonds totalises

€320

million AuM

"A more socially balanced world is critical in order to address the climate challenge."

4. *https://sdgs.un.org/goals*
   https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp

The SBP provide high-level categories for eligible social projects in recognition of the diversity of current views and of the ongoing development in understanding of social issues and consequences.[5]

Examples of target populations include, but not limited to, those that are:

1. Living below the poverty line
2. Excluded and/or marginalised populations
3. People with disabilities
4. Migrants and/or displaced persons
5. Undereducated
6. Underserved, owing to a lack of quality access to essential goods and services
7. Unemployed
8. Women and/or sexual and gender minorities
9. Aging populations and vulnerable youth
10. Other vulnerable groups (as a result of natural disasters)

The Social Bond Principles

Social project categories include, but are not limited to, providing and/or promoting:

Affordable basic infrastructure

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

Affordable housing

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

Access to essential services

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

Employment generation

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Food security & sustainable food

2 ZERO HUNGER

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Socio-economic advancement

1 NO POVERTY

5 GENDER EQUALITY

5. Source: *https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf*

Our philosophy and approach

- Amundi Social Bonds invests in **Social bonds** that comply with the **SBPs** (Social Bonds Principles) and that have an ESG score above E on a scale ranging from A to G (A being the best rating and G the worst) based on Amundi proprietary ESG ratings.

- As diversification, the fund may invest in traditional bonds or Sustainability Linked-Bonds (SLB) presenting high standards in terms of social practices (S score above D on a scale ranging from A to G).

  Sustainability-Linked Bonds (SLBs) are any type of bond instrument for which the financial characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives.

- The investment team invests in high quality issuers (Investment Grade) with a leeway to invest in high yield and emerging market debt (Max 15%).

- Amundi is a recognised market leader with more than 30 year-experience in Fixed Income market, solid track record on sustainable bond solutions since 2013.

- All projects financed by the fund are aligned with the **UN Sustainable Development Goals (SDGs).**

SUSTAINABLE DEVELOPMENT GOALS

- Amundi Social Bonds is labelled Towards Sustainability by the Central Labelling Agency (Belgium label) and FNG (German label).

Sustainable Investment Objective ARTICLE 9

Amundi Social Bonds is classified **Article 9** under SFDR. From 1 January 2023, according to the majority interpretation by the industry, Article 9 funds whose objective is sustainable investment and/or carbon emissions reduction must only invest in Sustainable Investments (excluding cash and hedging).

TOWARDS SUSTAINABILITY

The **Towards Sustainability** Label encourages financial institutions[6] to offer qualitative sustainable products, to ensure a quality standard of socially responsible and sustainable financial products, and to mainstream its principles towards traditional financial products.

FNG-LABEL 2023

The **FNG Label** is the quality standard for sustainable investment funds in German-speaking countries. The holistic approach of the FNG seal is based on a minimum standard. This includes transparency criteria[7] and the consideration of labour and human rights, as well as environmental protection and the fight against corruption as summarised in the globally recognised UN Global Compact.

6. *https://towardssustainability.be/*
7. *https://fng-siegel.org/*

Impact Investing

Amundi has developed an impact framework to define impact investing and organise impact strategies according to the intensity levels of impact investing.

Impact refers to the positive social and/or environmental externalities expected from investments (the "why" or an "outcomes" approach). Impact investments are investments made with the intention to generate positive, measurable, social and environmental impact alongside a financial return. Impact investing entails very specific features (intentionality, additionality, and measurability) that are not part of the standard set of ESG or responsible investing criteria.

According to this approach, Amundi Social Bonds is classified **Investing WITH Impact** and entails the three specific features:

1

Intentionality

The fund aims to finance social projects and generate a positive and measurable social impact by investing exclusively in social bonds. You can find out more throughout the document, as it is at the core of the fund's philosophy.

2

Measurability

The number of beneficiaries per €M per year is the key indicator for reporting the impact of the fund investments.

The fund also tracks how the proceeds of each social project are used by location, type of project and targeted population.

3

Additionality

The ESG team engages with issuers to improve social bond reporting practices.
This element is described in more detail in section 7 (engagement policy).

The engagement campaign is organised around 3 pillars:

- Thematic engagement
- Contextual engagement
- On-going engagement

Portfolio: ESG footprint

ESG considerations are integrated throughout the investment process. This encompasses credit, ESG and pure social bond analysis.

The quality of the issuer is a key variable when it comes to both selecting bonds and evaluating their premiums. Issuers are assigned an ESG rating with grades for each of the three components E, S and G. Taking this into consideration, the portfolio management team aims to:

- Verify that the issuer of social bonds has taken ESG issues into account
- See how the issuer positions key ESG factors relating to its sector in its marketing material
- Identify and assess the risks of controversy
- Go beyond the ESG footprint of the issuer and assess the link between the projects financed by social issuances and the company's ESG/ social strategy.

"By investing in Amundi Social Bonds, everyone can participate in financing global social projects without sacrificing returns"

Average ESG Rating	B-
Average ESG "social" Rating	B-

ESG Criteria

The criteria are non-financial metrics used to assess the ESG practices of companies, national governments and local authorities:

E for environment (including energy and gas consumption levels, and water and waste management)

S for social/society (including respect for human rights, and health and safety in the workplace)

G for governance (including independence of the board of directors and respect for shareholder rights)

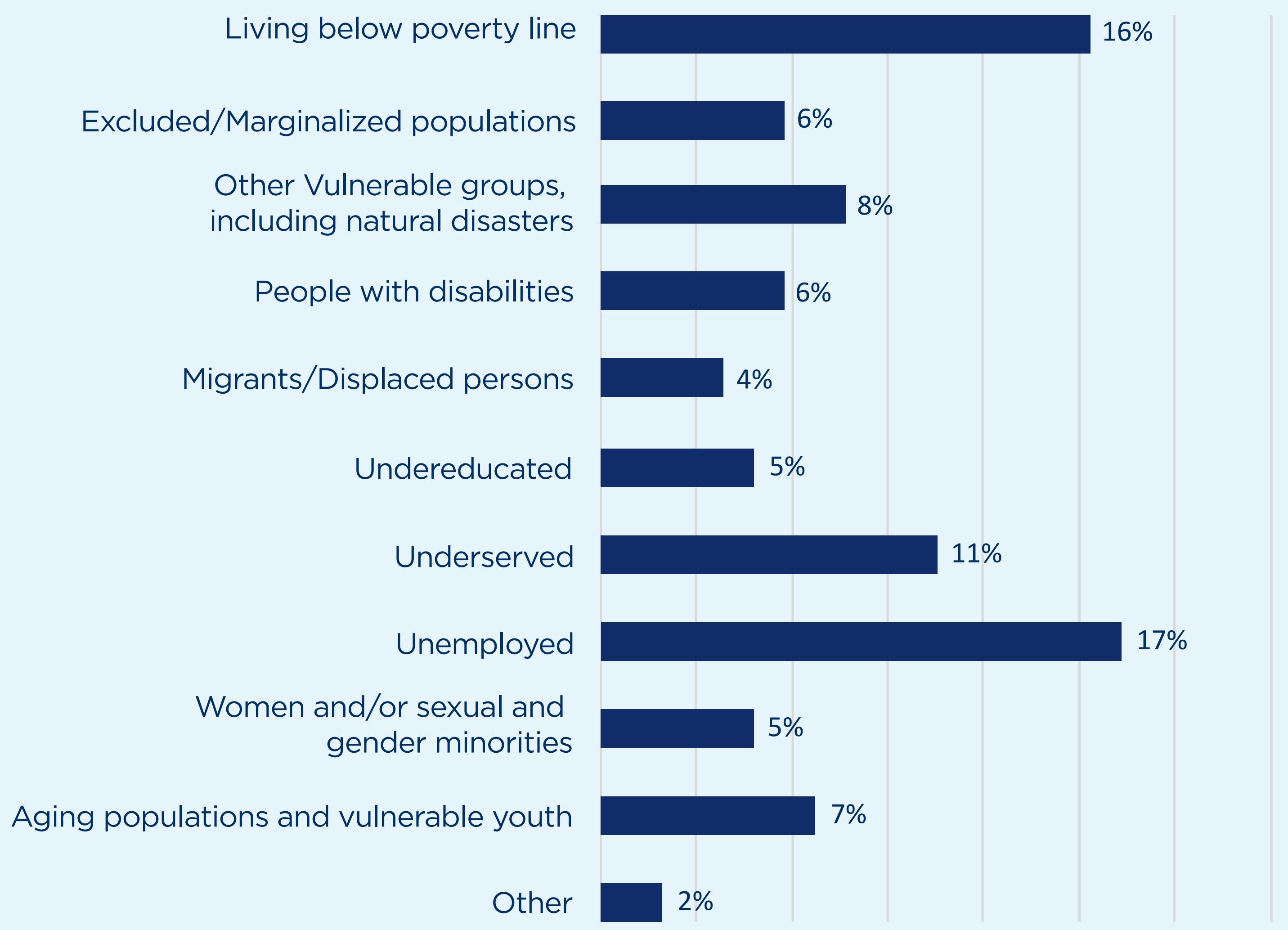
+ A B C D E F G −

Rating scale from A (best score) to G (worst score)

Use of proceeds: project allocation

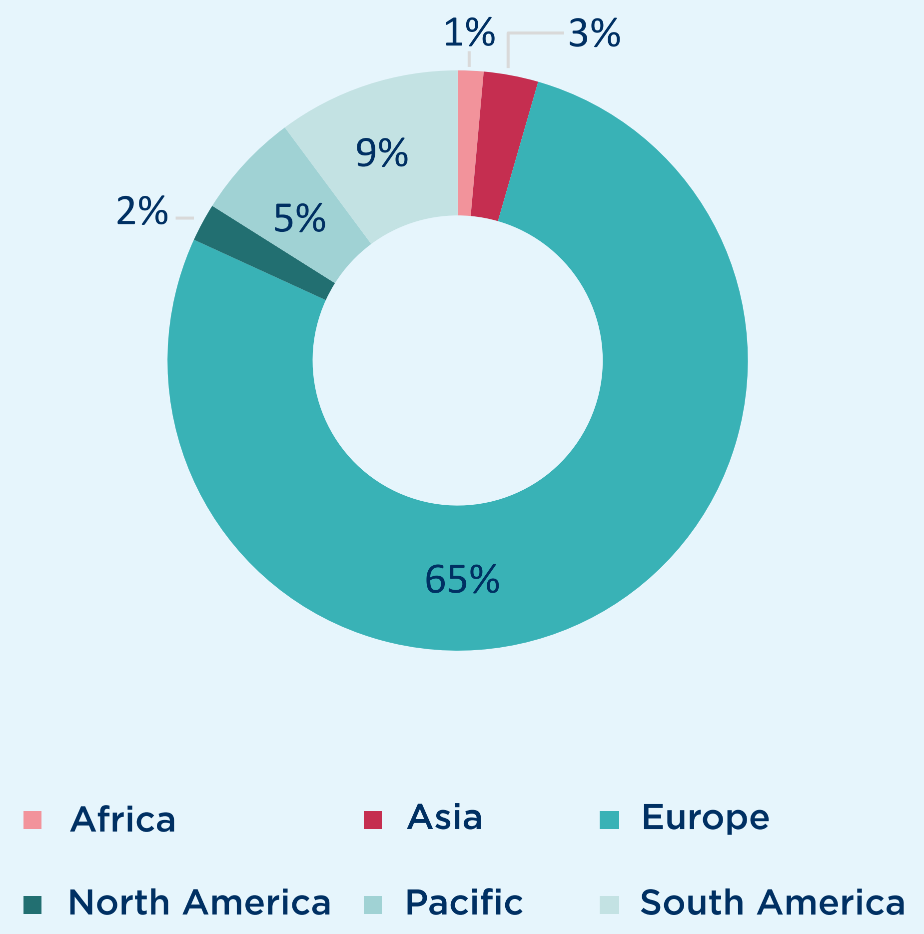
The following data come from the social bond framework disclosed by the issuer (pre-issuance data), which in most cases includes multiple projects:

Social Projects: Breakdown by target population



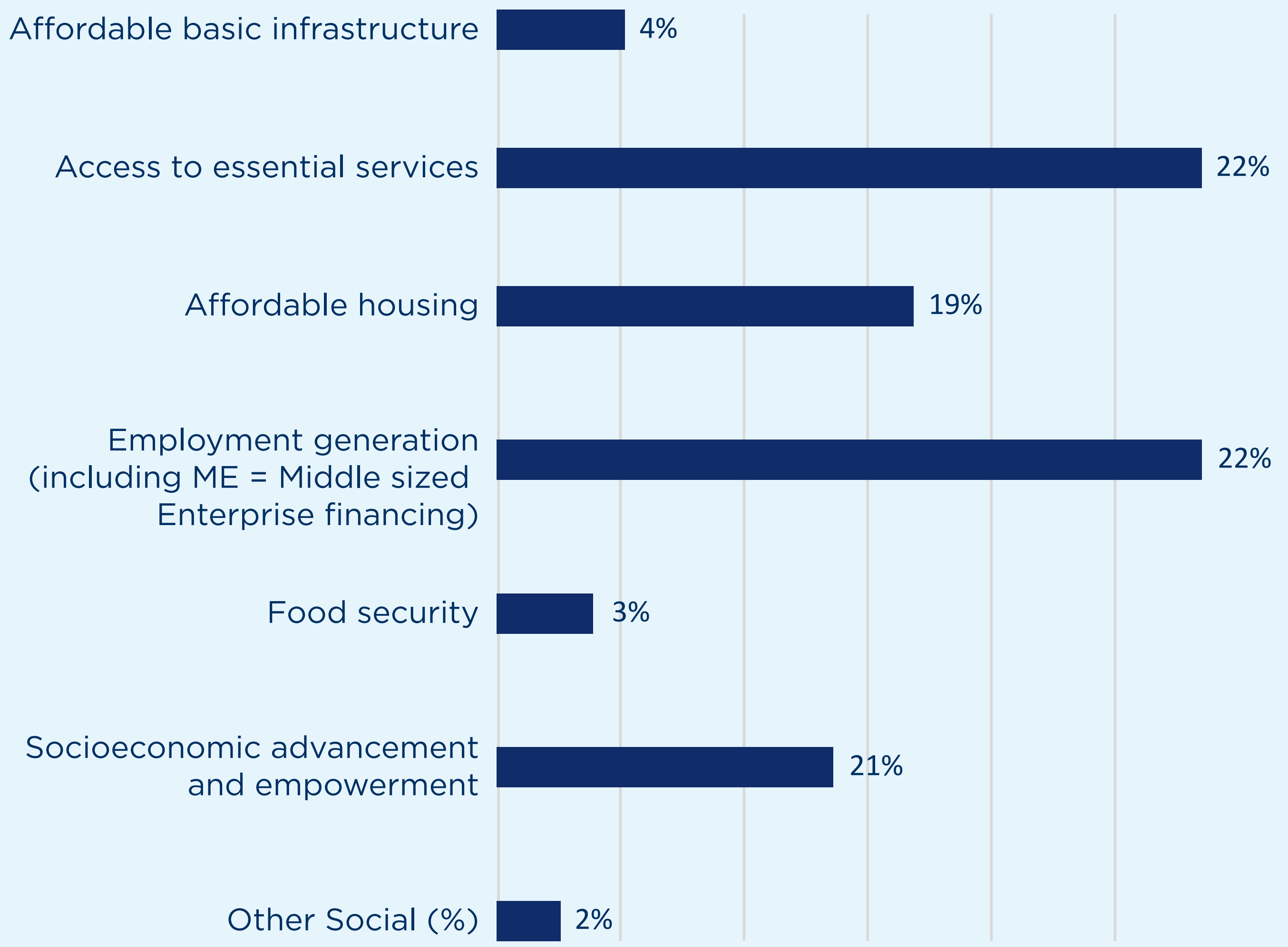
Source: Amundi. Data as of 30/12/2022

Social Projects: Breakdown by geographical area



Source: Amundi. Data as of 30/12/2022

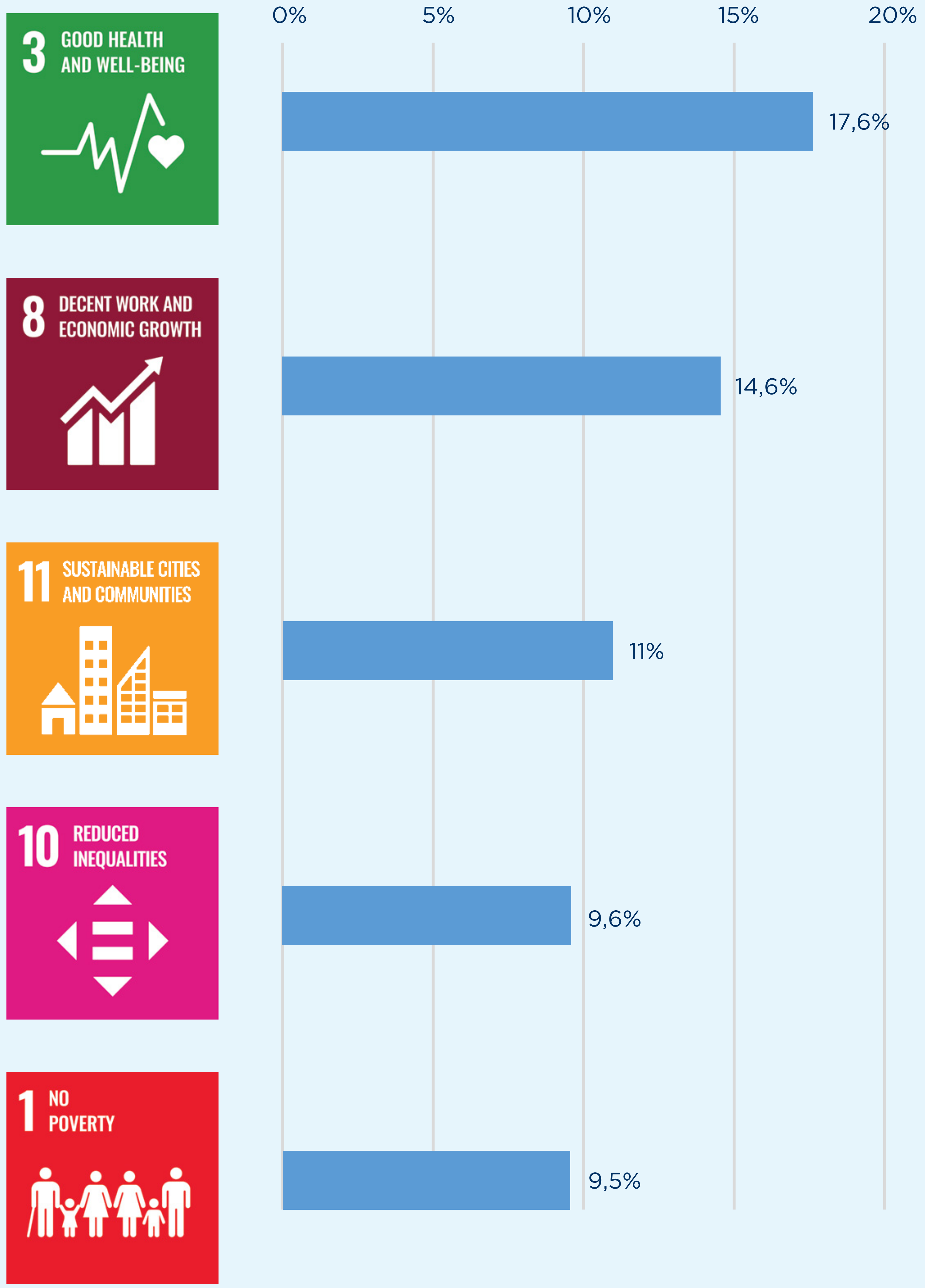
Social Projects: Breakdown by category



Source: Amundi. Data as of 30/12/2022

Portfolio: Top 5 contribution to SDGs

All projects financed by Amundi Social Bonds are aligned with the UN Sustainable Development Goals (SDGs). Amundi Social Bonds covers almost all the Goals and focuses on the five sustainable themes: SDG3 to ensure healthy lives, SDG8 to promote an inclusive economic growth and decent work for all; SDG11 to make cities and human settlements safe and sustainable, SDG10 to reduce inequality and SDG1 to end poverty.



Source: Amundi. Data as of 30/12/2022

4

Annual Social Impact

We collected all the reports from the issuers included in the Amundi Social Bonds fund as of November 30th 2022 and looked at the the key indicators above?

We drew the following figures from the portfolio holdings:

	In the portfolio Wght%[8]	In the portfolio #bonds
Social Bonds	65%	75
Sustainability Bonds	25%	45
Social & Sustainability Bonds Total	90%	120
Bonds which should have to report already t+12m[9]	64%	88
Of which:		
Bonds reported	57%	75
Bonds not reported	2%	3
Bonds reported without clear impact indicators	5%	10

Despite the demanding 12 months cut, we notice the very low number of issuers not complying with their reporting engagement (2% of the portfolio). Nevertheless, we were not able to include data for 10 bonds because of the lack of clear impact data. We will engage with issuers failing to deliver the desired format of impact data to see whether they can add this information in the next reporting release. For the missing reports, we will also engage with issuers to collect them and make sure they understand it will trigger disinvestment should they do not answer and comply with the reporting requirement.

8. *We computed the weights in the portfolio*
9. *We assumed that the social issuer should have published the report within 12 months after the bond's issuance.*

a. Results

Estimated Portfolio impact

We have chosen the **number of beneficiaries,** which is the most common social indicator. Amundi Social Bonds has benefited **1,456 people** per €1 million invested. Assuming that non-reported social bonds have a similar impact than social bonds that already reported (57% of the AUM), we estimate that Amundi Social Bonds has benefited **2,554 people** per €1 million invested (rebased).

1,456 people
per €1 million invested

Social impact by project categories

The following list, in line with the SBP project categories, encompasses the most commonly used types of projects supported, or expected to be supported, by the social bond market.

Employment Generation and Access to Essential Services still represent a prominent share.

Employment Generation

Including programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises.

47%
portfolio impact allocation

2,847
jobs have been created or preserved with the help of this portfolio per €1 million invested

32 bonds
have been used to calculate the impact

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Access to Essential Services

Access to essential services is mainly composed of projects targeting Education, Healthcare, financing and financial services, digitalisation.

Financial services & digitalization

1%
portfolio impact allocation

2,605
people have benefited from this portfolio per €1 million invested

6 bonds
have been used to calculate the impact

Healthcare

26%
portfolio impact allocation

77,939
people have benefited from this portfolio per €1 million invested

35 bonds
have been used to calculate the impact

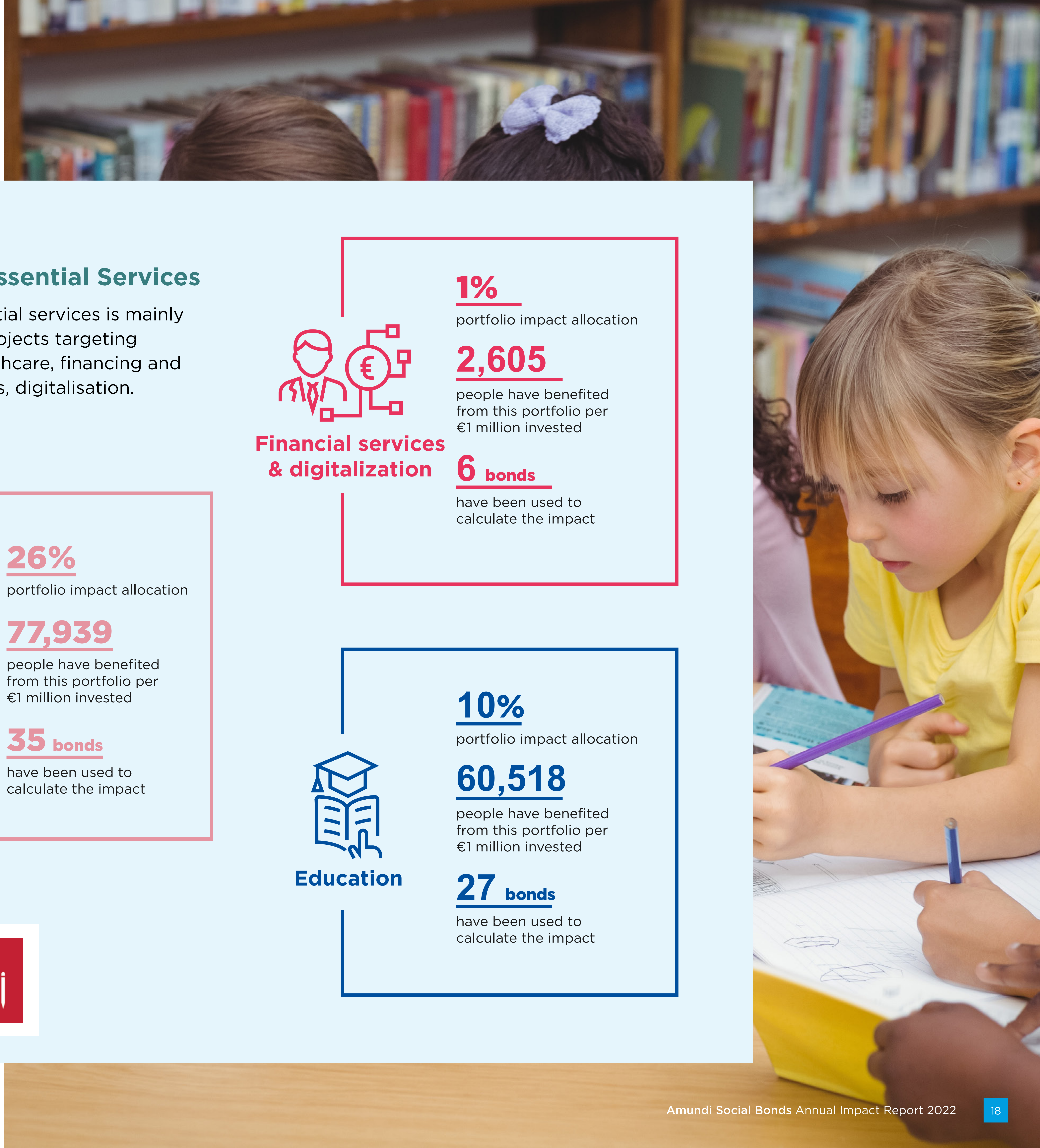
Education

10%
portfolio impact allocation

60,518
people have benefited from this portfolio per €1 million invested

27 bonds
have been used to calculate the impact

3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION



Affordable housing

8%
portfolio impact allocation

8,376
people have benefited from this portfolio per €1 million invested

27 bonds
have been used to calculate the impact

Socioeconomic advancement and empowerment

(e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality)

5%
portfolio impact allocation

26,877
people have benefited from this portfolio per €1 million invested

30 bonds
have been used to calculate the impact

Food security and sustainable food systems

(e.g. physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers)

2%
portfolio impact allocation

12,633
people have benefited from this portfolio per €1 million invested

12 bonds
have been used to calculate the impact

Access to affordable basic infrastructure

(e.g. clean drinking water, sewers, sanitation, transport, energy)

1%
portfolio impact allocation

5,667
people have benefited from this portfolio per €1 million invested

3 bonds
have been used to calculate the impact

The data are rebased on the bonds with impact data (57%) and computed in terms of number of beneficiaries.

b. Methodology

Given the breadth of project categories and the diversity of the targeted population, we have developed an internal methodology to assess the portfolio impact through several steps.

STEP 01

We collected all the reports from the issuers included in Amundi Social Bonds as of November 30, 2022 and looked at the indicators mentioned in the section above. We drew the following figures from the portfolio holdings:

90% (1) Social & Sustainability Bonds	64% of which should have reported (2)	57% of which have reported
120 bonds	**88 bonds**	**57 bonds**
		7% of which have not reported or unclear reportings
		4 bonds

STEP 02

We calculated the impact of each bond for 1 million euro disbursed (1).

Impact indicator = number of beneficiaries

(1) *Impact* =

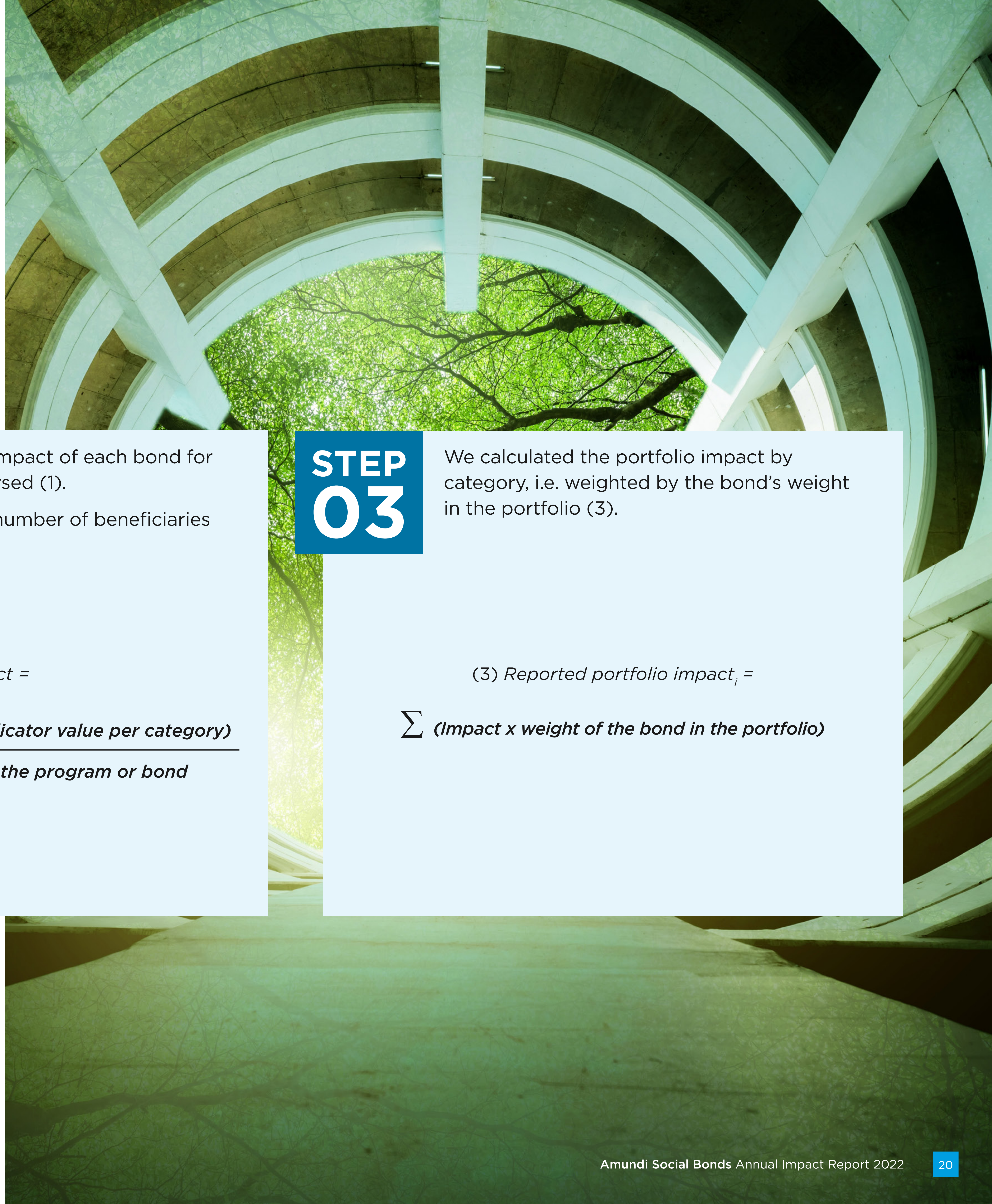
$$\frac{\textit{(\% of disbursement*Impact indicator value per category)}}{\textit{Total amount allocated to the program or bond}}$$

STEP 03

We calculated the portfolio impact by category, i.e. weighted by the bond's weight in the portfolio (3).

(3) *Reported portfolio impact*$_i$ =

$$\sum \textit{(Impact x weight of the bond in the portfolio)}$$



5 Going forward

a. Key impact indicators

We identified different recurrent key impact indicators for each category.

The data collected allows us to report on the categories, however, due to the variety of indicators, we tried to standardise figures by setting one main impact indicator: # of beneficiaries by M€ invested.

In addition, during this review, we noted the dispersion of impact results within a category. In order to illustrate the significant dispersion in some sectors and compare the results, we calculated the cost per beneficiary.

	Affordable housing	Employment	Healthcare	Essential Services Education	Essential Services Finance & digitalization	Access to basic infrastructures	Socioeconomic advancement and empowerment	Food security & sustainable food systems
Number of bonds	27	32	35	27	6	3	30	12
Main KPIs	■ Building/ renovation of housing ■ Provide allowances to alleviate the burden of loans/rents	■ number of job created or retained	■ Building & renovation of hospitals/Elderly care homes ■ Number of stays ■ Provide treatments against diseases such as Covid or rare diseases	■ Building & renovation of infrastructures ■ Providing of equipment and loans	■ New access to internet	■ Access to water, public transport, sport, culture	■ Loans to minorities, population at risk of poverty, protection against violence or gender equality, inclusion of migrants	■ Loans to farmers for equipment ■ Food kit
Dispersion (K EUR/beneficiary)	0,58/315	0,27/106	0,03/1369	0,02/43	0,54/47	0,16/1	0,03/53	0,35/106
Drawbacks	■ Hypothesis on the number of people per household depending on the country	■ part time jobs inflates the number of beneficiaries	■ Need to convert some beds on number* of stays to get a number* of beneficiaries ■ Vaccines inflate the number* of beneficiaries due to low unit cost	■ High difference of cost between a renovation, and a book for example	■ Small number of bonds	■ Small number of bonds	■ Include a large variety of projects and population	

Analysis of the allocation showed the largest category to be Employment generation.

47% of the impact of the portfolio is related to Employment generation, 26% to Healthcare and 10% to Education.

The results are aligned with the allocation per categories and target population reflecting the post pandemic scenario. During this period, institutions and banks were committed to supporting the workforce and the economic resilience, but we are beginning to see a broader variety of categories come into play. It is explained by the important increase of reported bonds that broaden the categories and diluted the importance of COVID-19 bonds reporting in our impact report.

Portfolio: impact contribution and allocation

47%
Employment Generation

26%
Healthcare

10%
Education

b. Focus on Quality Education

"Quality Education" lies at the heart of improved living conditions and sustainable development. An estimated 84 million children and young people will still be out of school and approximately 300 million students will lack the basic numeracy and literacy skills necessary for success in life(10). To achieve SDG4, education systems must be re-imagined, and education financing must become a priority national investment.

The portfolio contribution to "Education" has increased from 5% last year to 10%.

We will focus on the SDG #4 "Quality Education" to explain how we analyse the contribution of our social bonds to this objective.

This category can include a wide variety of projects, such as teacher training or basic school infrastructure (drinking water, sanitisation facilities, IT equipment or disability adapted structure).

In most cases, the money spent benefits a very large number of people.

The vast majority of the bonds contributing to this category do it by financing different projects, with very different investment costs, that will normalize the number of beneficiaries as a whole. It is in fact quite rare to see a bond only focusing on one education project, which could skew the results in one way or another.

Thanks to a high commitment, issuers are able to translate into a number of beneficiaries, some very different projects.

Source 10. SDG Goals, UN Statistics Division 2023

REPORTING IMPACT CASE STUDY

Comunidad de Madrid

For example, the issuer "Comunidad de Madrid" defines its expenditures related to education as projects, including but not limited to:

- Construction of schools/education centers
- Acquisition of equipment
- Finance hospital classrooms
- Finance educational and integration programs for minorities/disabled people
- Finance subsidised school transport service
- Develop and maintain public universities
- Provide financial support to university students

While apparently complicated to evaluate, the issuer has been able to identify that the 73M€ allocated have helped 434,114 vulnerable students. Therefore, we can estimate that each million invested has benefited 5,932 students (434,114/73), or said otherwise, an amount of 168€ has been spent for each beneficiary.

It is also important to emphasise that not all projects can be converted into a precise number of beneficiaries, or at least without making strong assumptions, which means that in some cases the total number of beneficiaries will be divided by the full amount, when only part of the amount has been used for projects.

As a consequence, the number of beneficiaries per million invested can sometimes be underestimated.

6

Case study:
The example of sustainability bonds in a pure social strategy

Sustainability bonds follow the ICMA sustainability guidelines, which refers to the social and green bond principles. Issuers convey transparency on the allocation of the proceeds as well as the selection process, the management of proceeds and impact estimates or reporting.

They (re)finance a combination of both social and green projects eligible according to the Social Bond Principles (SBP) and Green Bond Principles (GBP).

Some projects financed by sustainability bonds may integrate both climate and social dimensions.

For instance, financing rolling stock may address both social inclusion and climate targets (green mobility). Since the beginning, Flemish community has communicated on the twin goals of its sustainability program without preferring one over the other. Region Ile de France is also underlying the green and Services, whose mission is to foster affordable housing via several actions, includes energy efficiency criteria in the financing of new buildings or refurbishing of old ones to provide an energy cost-efficient solution for low income households. Investors should value such sustainability programs, especially in the light of Do No Significant Harm (DNSH) regulatory requirements.

Nevertheless, the question of eligibility arises in the context of a pure strategy.

A simple rule is to refer to the issuer main goal or the expected breakdown by SDG / ICMA project categories. With such a rule Region Ile de France is considered as eligible to green strategies (90% of projects are green and the issuer's first intention is climate) when most sustainability bonds issued by regional governments are eligible to our social strategy, their usual split being around 2/3 social and 1/3 green.

Given the development of the green bond market and the requirements of labels, a sustainability bond should need a high threshold of projects with a climate target to be included in a green bond strategy. Whereas for a younger social strategy, a majority a projects geared towards social projects could be eligible.

The sustainability market is driven by supranational issuers representing **45%** of volumes issued. Multilateral Development Banks (MDB) are historical issuers of "sustainability" bonds. While having a highly valuable contribution in setting the requirements and helping the standardisation of the sustainability market within the ICMA organisation, they often have kept their proper approach, considering themselves as pure players (that is not questionable). Their categories of projects may differ from the ICMA ones, the reporting could be difficult to use properly (multi-years program, extensive list of projects...) or even they have not disclosed a framework under the ICMA requirements while having recourse to all ICMA features.

Unfortunately, this may prevent us from investing in their bonds, as the SBP compliance is mandatory for the Amundi Social Bond fund. Fortunately, after discussing with several of them, some understood how important it is for the investor community and made the effort to align to the ICMA standards.[10]

The Inter-American Development Bank (IDB), a pioneer in the realm of social bonds, has been working for decades to improve lives in Latin America and the Caribbean to fund programs in three prioritised areas: Education, Youth, and Employment (EYE).

We mention in this report how the engagement with IDB leads us to enlarge our participation from the small EYE bond program to all their sustainability bonds.[11]

The Council of Europe Development Bank (CEB)[12], is another example of a player exclusively focused on social issues that provided a social framework aligned with the SBP from the very beginning of the expansion of the market (social inclusion bond programme).

10. *https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf*
11. *https://www.iadb.org/en/idb-finance/investors/eye-bond-program*
12. *https://coebank.org/en/*

7 Engagement Policy

a) Where we stand in 2022

We continue to engage with issuers on a bilateral basis on their reporting practices and in the meantime we are questioned by some issuers to give our feedback on their reporting practices. This on-going dialogue is a win-win process as the issuer provides useful information for all investors and we have ready-to-use data.

The purpose of engagement remains to support confidence through expanded transparency from issuers.

Our engagement campaign is organised around three areas:

1. **The thematic engagement is related to reporting practices:** encourage issuer to use common template such as ICMA's harmonised framework or our internal Green, Social and Sustainability (GSS) guidelines with the aim of increasing harmonisation and transparency.

2. **Contextual engagement is related to all kind of issues that could emerge:** controversies or further explanation needed on figures reported by issuers.

3. **Ongoing engagement is related to missing reports:** when the issuer did not report on due date or KPIs are missing, we remind him about the commitment he took when he issued his sustainable bond.

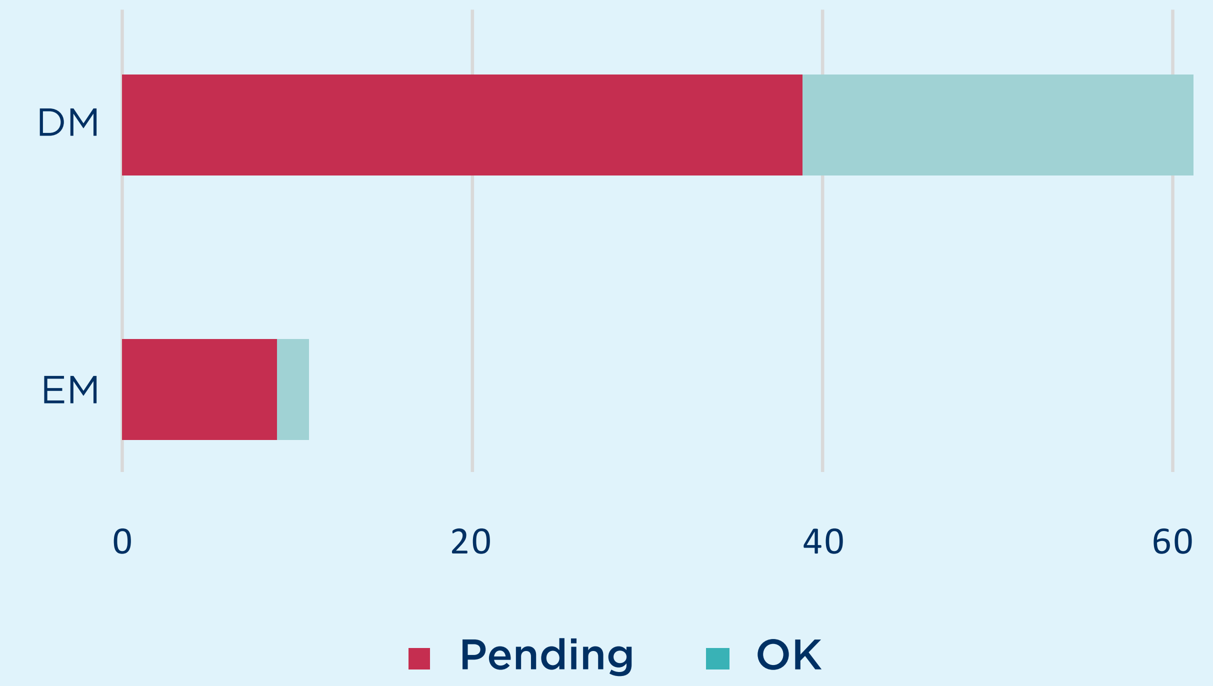
We have had several worthwhile engagements during the year with issuers interested by investors' feedback and striving for improved reporting practices.

IDB Inter-American Development Bank

Inter-American Development Bank Invest is a very good example as MDBs deal with big portfolios of projects and do not always report on a friendly basis for Investors.

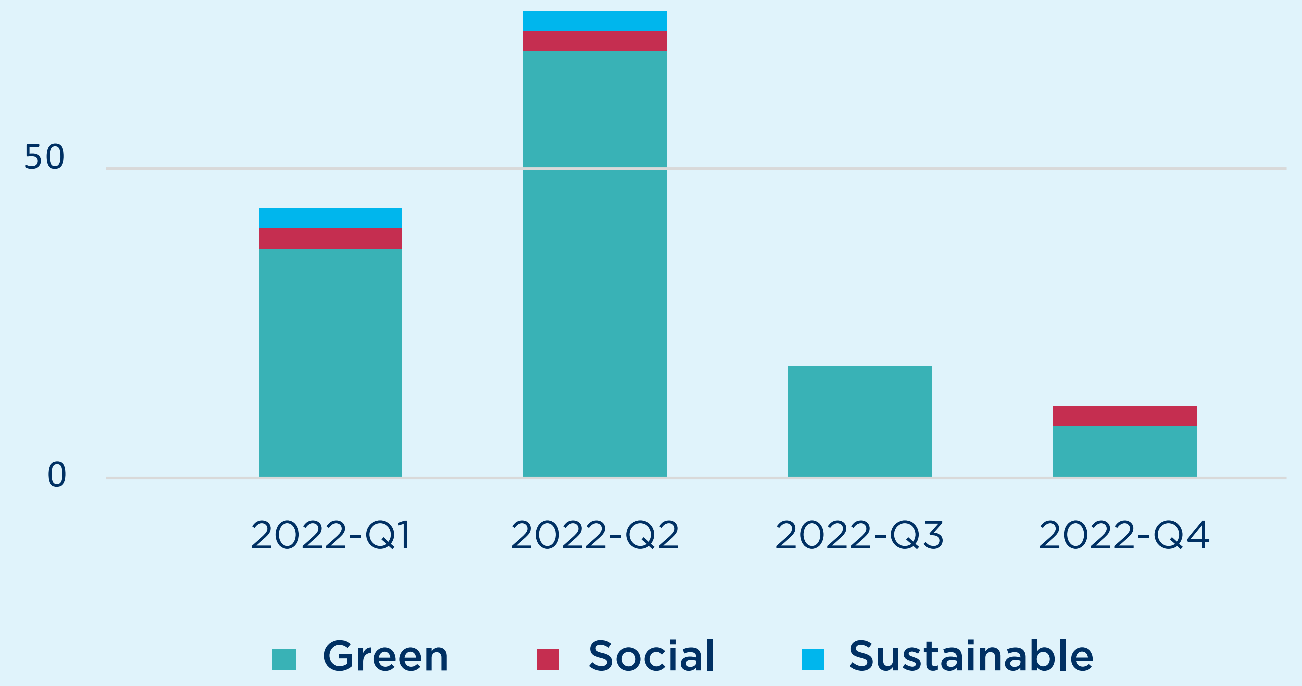
To report on our engagement actions, we have **developed a dedicated tool** whose objectives is to track and report (below statistics) on our actions.

Split EM/DM by Status



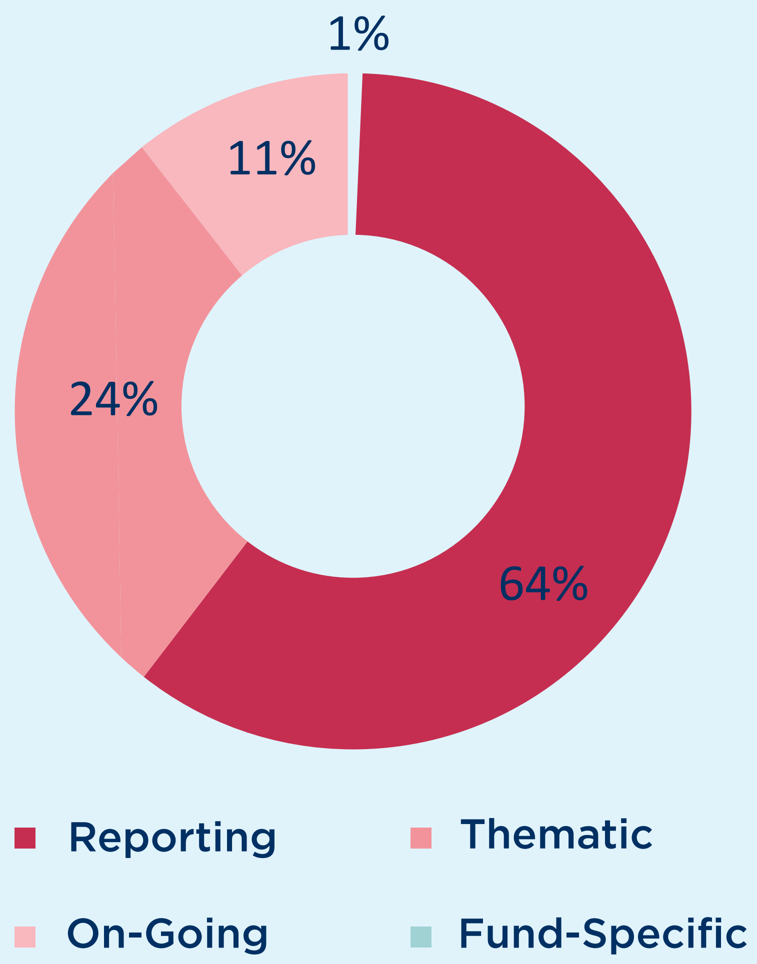
Source: Amundi ESG Research

2022 - Number of engagements



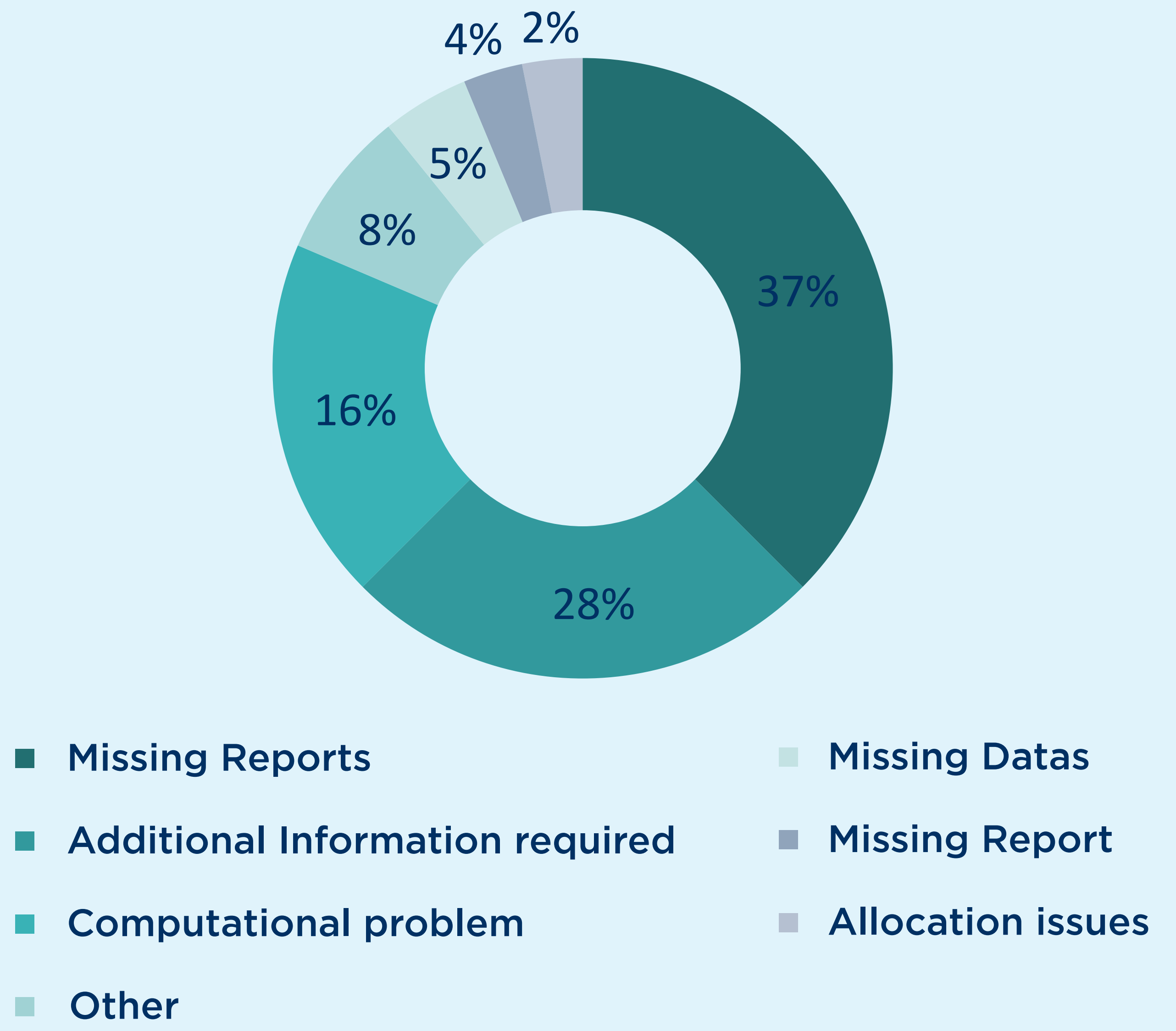
Source: Amundi ESG Research

Split by Type



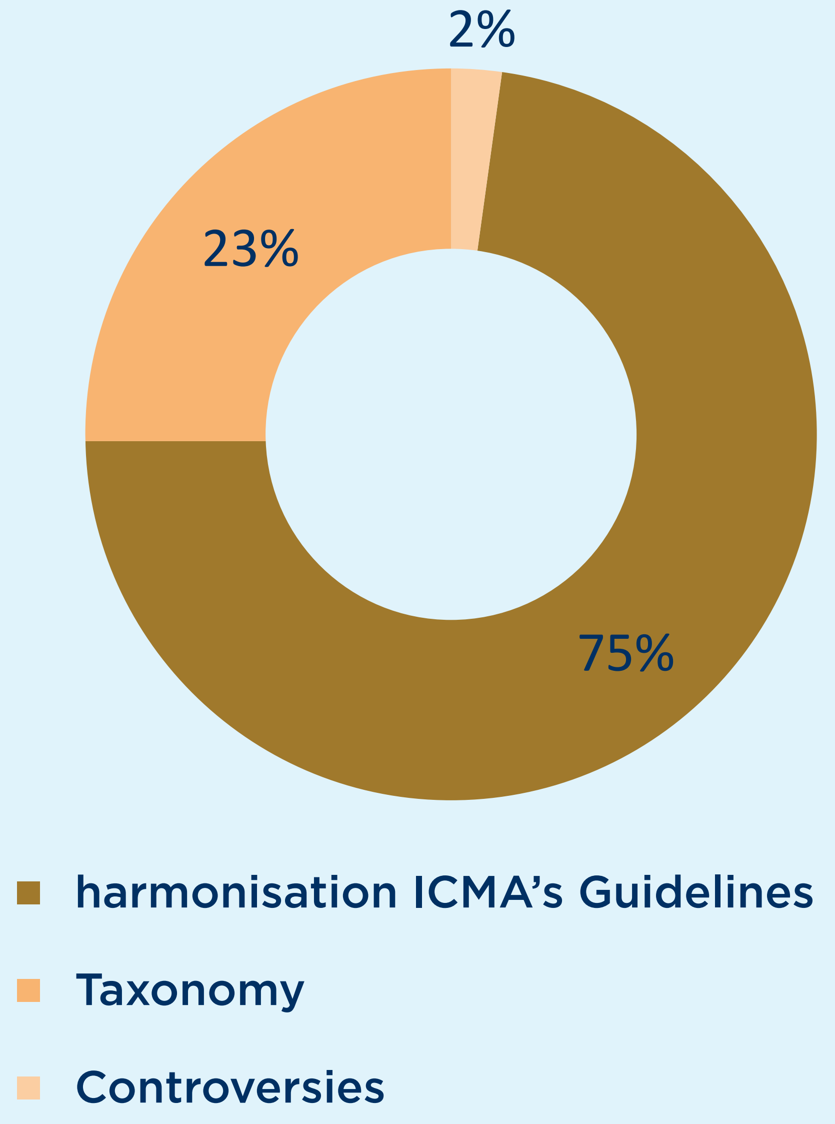
Source: Amundi ESG Research

Split by Rationale



Source: Amundi ESG Research

Split by Theme



b) Engagement Case study: IDB Invest

IDB Inter-American Development Bank

The Inter-American Development Bank (IDB or IADB) is an international institution established in 1959 owned by its member countries. These members include 26 borrowing member countries and 22 non-borrowing member countries. The five largest members by shareholdings (with their share of total voting power) are the United States (30.0%), Argentina (11.4%), Brazil (11.4%), Mexico (7.3%) and Japan (5.0%).

The mission of IDB is to improve lives in Latin America and the Caribbean, by contributing to the acceleration of the process of economic and social development of the regional member countries.

The Bank's objective is to achieve economic and social development in a sustainable, climate-friendly way. IDB Invest is the private sector arm of the IDB group and finances projects to advance clean energy, modernise agriculture, strengthen transportation systems and expand access to financing.

As it is the case for most of MDBs, reporting on sustainable activities may turn out to be difficult given the hundreds of projects that needs to be encompassed. We started to engage with IDB in 2021 as we had difficulties to have a clear view on sustainable bonds allocation (no clear link between bonds issued and projects developed, no clear link with SDGs, target populations, no split between green/social categories ...). In 2022, we continued the dialogue with IDB Invest and met with them several times. As we had already raised all our issues to IADB, it was easier to explain to IDB Invest what we were expecting from their allocation and impact report.

Specifically, we raised the following points with IDB that are important for us in terms of data:

- The issuer of the sustainability bond should display the split between green and social projects. This breakdown helps us to assess the eligibility for some of our funds / strategies that focus on green or social topics.
- The classification of projects by ICMA's categories helps us to compare the bond with the rest of the market and get* some statistics at the fund level.
- The issuer must be specific on impact data communication:
  - The issuer should indicate if the data are calculated on a pro-rata basis or for the whole project, as we need pro-rata data; if the data are ex ante or ex post. Ideally, we would like to have both ex-ante data before project development (i.e. the estimation of the future output of the project) and ex-post data (once the project is completed).
  - A comparison of the two sets of data would help to point out the projects that missed their target and help the issuer to set a remediation plan.
- The issuer should also assess the DNSH feature of the projects financed. An environmental certificate or third party assessment would be appreciated.
- Alignment with the EU taxonomy is also important as our funds / strategies have to communicate on it.
- An Excel file that gathers all information is more than valued.

During the last quarter of 2022, IDB released its first allocation and impact reporting.

We were positively surprised as the issuer took into account most of our remarks. This lead to a quality reporting, well above average. IDB Invest even went beyond our recommendations, as they were able to provide data that we have never seen in other reporting such as the very useful amount allocation per target population or SDG.

The reporting gives us a clear view of the portfolio allocation between green and social categories.

Allocation is made according to ICMA's categories and importantly, they are displayed in total amount and percentage. The amount is useful to calculate impact data per million invested:

Socioeconomic advancement and empowerment	$799M	67.5%
Employment generation and programs to alleviate unemployment from socio-economic crises	$257M	21.7%
Access to essential services	$113M	9.5%
Affordable basic infrastructure	$9M	0.8%
Food security and sustainable food systems	$6M	0.5%

92.1%	$387M	Renewable energy
4.8%	$20M	Energy efficiency
3.1%	$13M	Sustainable water and wastewater management

2021 - Allocation

100% FUNDS ALLOCATED

$421M	26%	GREEN
$1,184M	74%	SOCIAL

Green indicators are displayed between ex ante and ex post level so that we can trace the projects' development:

Green Indicators

	Actual	Expected	%
Installed power generation from renewable energy sources	1,533 MW	2,904 MW	53%
Reduction of emissions	2.5 M Tons	52.5 M Tons	5%
Reduction of energy generated - renewable	5.3 MW/h	111.3 MW/h	5%
Treated wastewater (m3)	161M	167M	96%

Allocation per target population and SDGs is not very common but useful for our communication at the funds/strategies level:

This shows that through a fruitful dialogue between issuers and investors, we can work towards more market harmonisation. We will continue to discuss with IDB Invest to fill the remaining gaps (such as impact data not presented on a pro rata basis or alignment with the EU taxonomy) and are highly optimistic on the outcome of this engagement, as IDB Invest has already stated that it will work on assessment of its alignment towards the EU taxonomy.

We also need to discuss further on their sustainable bond reporting to push them to align with IDB Invest standard. Indeed, the quality of IDB Invest reporting remains well above what we have seen from other MDBs and should be used as an example by other MDBs.

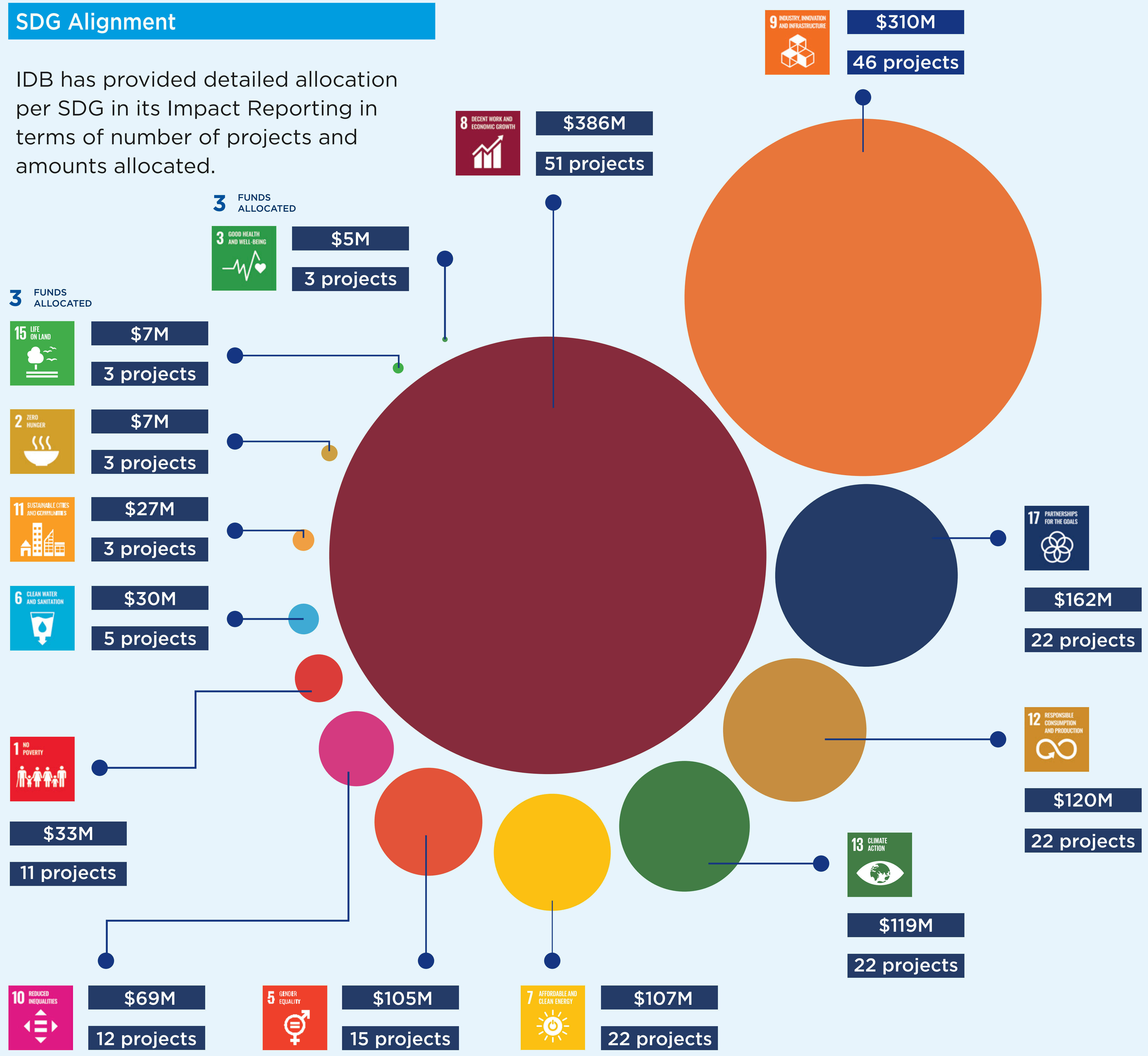
By doing this type of bilateral engagement with issuers, we target a general improvement of reporting practices. We share good practices with issuers on a regular basis, showing them what the others are doing and more importantly, that it is feasible. We also collect a lot of information on the challenges experienced by issuers in gathering impact data. Thanks to our deep expertise in collecting data through our reporting review, we have been able to write best practices for GSS bonds reporting and we will use them on a systematic basis in our future engagements.

In addition, as good communication practices encompass also a contextualisation of the framework (the reason why issuers choose to issue labelled bonds), we engage with issuers on their ESG strategy (link with the sustainable framework) as well as on their DNSH policy. All the work done on a bilateral basis help us to build a global social engagement campaign that will cover a comprehensive set of topics including reporting practices, ESG strategy and externalities of projects developed. Ultimately, engagement supports our ESG strategy, by ensuring the sustainability of the projects financed and the issuers' involvement in ESG matters, and therefore avoiding the risk of greenwashing.

Excluded Population	1	$6M
Low - Income Population	3	$121M
Micro, Small, and Medium Enterprises (MSMEs)	24	$899M
Poor population	1	$38M
Vulnerable	1	$16M
Women-led SMEs	4	$141M

SDG Alignment

IDB has provided detailed allocation per SDG in its Impact Reporting in terms of number of projects and amounts allocated.



8

How to analyse a social bond

Our comprehensive approach aims at ensuring that any social bonds included in the portfolio fulfil the highest standards of transparency as well as the ESG characteristics of the issuer.

To capture all the ESG and social features of the social bonds, we have developed a sophisticated methodology.

Our social bond analysis consists of four steps. On each of these steps, the bond will be assessed with a “Go” or “no Go”:

1. Transparency and alignment with standards
2. Impact of projects
3. Alignment with the issuer’s ESG strategy
4. Social funding rationale

1. Transparency

The amount of information available, on projects, impact data, and verification (such as SPO)

- **Projects:** details of the projects to include location, social output, outcome & impact as well as methodologies used.
- **Verification:** presence of SPO, and impact report external verification.
- **Alignment with international framework:** Aligned with Harmonised Framework for Impact Reporting.

2. Impact of projects

The degree of social contribution in absolute terms, as well as relative to the sector and country.

- **Location of the projects:** greater impact in developing markets.
- **Social feature embedded in projects:** schools, hospitals
- **Projects are not social by nature:** targeted population is the criteria to qualify as social
- **DNSH:** limit negative impact on environment, biodiversity.
- **Alignment with industry standards:** ICMA SBP.

3. Alignment with the issuer's ESG strategy

The contribution to issuer's ESG strategy and link between the social bond and the issuer's key performance indicators.

- **Global strategy:** level of ambition and evidence seen towards social projects or activities.
- **Social profile of the issuer:** Employees well-being, health & safety, community involvement.
- **Controversy at issuer level:** any severe controversy or risks of severe controversy and the management of these incidents.

4. Social funding rationale

The alignment between social bonds and social assets in terms of purpose and allocation.

- **Financing requirement:** to fund the social business of the issuer.
- **Allocation:** estimated social assets, matching with social liabilities including previous social bonds issuance, actual allocation.
- **Capital arbitrage:** we do not favour any arbitrage of capital structure.

We conduct regularly reviews of allocation and impact report, issuer controversies and the issuer's sustainability strategy update.

At Amundi, we see social bonds as an opportunity to engage, not only on the transparency over the assets financed by the proceeds, but also on the alignment of the wider issuer strategy with the sustainable goals pursued by their sustainable financing framework.

9 Conclusion

For this second edition, it is positive to note that the vast majority of issuers held in the Amundi Social Bonds portfolio provided an impact report. Bearing in mind an impact report whilst highly recommended, is not mandatory under the Social Bonds Principles.

We would reiterate last year's recommendations:

- Firstly, to provide an impact report.
- Second, to focus on a clear number of metrics including beneficiaries complemented by other most relevant indicators.

We hope that going forward this report will show how issuers can help us to aggregate data by:

- Harmonising indicators per project category
- Accurately quantifying their participation in the financed projects
- Adding relevant contextual information

The ultimate impact should lie in socio-economic improvements linked to the disbursed proceeds. In that regard, we do appreciate the IDB Invest reporting by SDGs that is very relevant for social programs especially those with multiple projects.

Our ambition is to accompany the development of this new segment of the sustainable bond universe and give our clients the opportunity to participate in this dynamic through Amundi Social Bonds.

We believe our social bond fund is an efficient instrument through which we can address some of the global challenges of our time and fight against social inequalities, and this impact report shows our investors how we do it.

> *"Poverty is not just a lack of money, it is not having the capability to realize one's full potential as a human being" – Abhijit Banerjee*[13]

13. *Abhijit Vinayak Banerjee is the Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology. In 2003 he co-founded the Abdul Latif Jameel Poverty Action Lab (J-PAL) with Esther Duflo and Sendhil Mullainathan, and he remains one of the Lab's Directors. Banerjee is a fellow of the National Academy of Sciences, the American Academy of Arts and Sciences and the Econometric Society. He is a winner of the Infosys Prize a co-recipient of the 2019 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for his groundbreaking work in development economics research.*

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