Exclusion policy: sending a clear message when necessary

Edmond de Rothschild Asset Management's (France) Responsible Investment approach aims to both reduce risks and identify opportunities related to sustainable development issues. As an active, long-term management house, we aim not only to direct our investment choices towards the most responsible companies, but also to support them in the evolution of their business models and practices towards a more sustainable world. As such, the exclusions are a last resort for Edmond de Rothschild Asset Management (France).
However, we exclude securities whose holding could be deemed contrary to regulations or practices that we believe are the least compatible with our approach as a responsible investor, particularly with regard to climate issues.

Edmond de Rothschild Asset Management (France) has established a formal exclusion policy:
- which includes banned weapons, thermal coal, unconventional fossil fuels, palm oil and tobacco;
- and normative that targets violations of international standards.

Exclusions are set as pre-trade and post-trade blocking limits in the management tool to ensure that they are respected. The exclusion lists shall be updated at least annually.

Scope covered

This policy applies to all issuers, regardless of their country of origin.

The exclusion policy relating to prohibited weapons applies to all wallets managed by EdRAM (France) on a main basis or by delegation and to PBIA. The exclusion policies for Tobacco, Thermal Coal, Unconventional Fossil Fuels, Palm Oil, as well as the exclusion of companies that are in violation of international standards (OECD, ILO and UNGC) apply to all portfolios managed by EdRAM (France):
- unless the client expressly refuses in the case of management mandates for institutional clients,
- for PBIA management, to PBIA mandates and funds classified Article 8 and 9 SFDR
- for delegated management to external third parties, to funds classified Article 8 and 9 SFDR

Prohibited weapons

This exclusion policy concerns the values involved in the production or sale of weapons prohibited by international conventions (cluster bombs and anti-personnel mines, biological and chemical weapons) in the World zone.
The exclusion perimeter is as follows:

- Anti-personnel mines (MAP), the use of which has been banned by the Ottawa Convention since 1999;
- Cluster munitions (MSB), the use, stockpiling, production and transfer of which is prohibited by the 2008 Oslo Convention;
- Chemical and biological weapons, the use of which is prohibited by the Biological and Toxin Weapons Convention of 1972 (entered into force in 1975) and the Chemical Weapons Convention of 1993 (entered into force April 1997).

The Responsible Investment team establishes a proprietary exclusion list that targets companies producing/selling prohibited weapons, as well as suppliers of essential components required for their production. This list is based on the exclusion databases provided by the rating agency MSCI ESG Research, as well as on the public lists regularly updated by some twenty institutional investors in France and around the world (e.g. the Norwegian Pension Fund and the New Zealand Super Fund).

Thermal coal

Edmond de Rothschild Asset Management's (France) thermal coal exclusion policy is in line with our Responsible Investment strategy and more particularly our Climate and Biodiversity strategy, which aims in particular to "decarbonise" our portfolios by 2050.

Coal combustion is the largest source of global warming, while electricity generation is the largest user of coal. Reducing coal-related emissions is therefore one of the most effective ways to ensure an energy transition in line with the Paris Agreement. According to the International Energy Agency's (IEA) Sustainable Development Scenario (SDS), almost all of the reduction in greenhouse gas emissions for the energy sector – 2.8 gigatonnes out of a total of 3 gigatonnes – will come from reducing the use of coal in power generation[1].

Agenda

Edmond de Rothschild Asset Management (France) has defined a comprehensive strategy for exiting thermal coal by 2034 based in particular on public statements by companies, encouraging companies to publish a plan to close their coal assets (mines, power plants) by 2034 outside the OECD, considering that OECD countries should have closed all their coal-related assets. The scope of the companies concerned covers companies operating coal mines and companies involved in the production of electricity from thermal coal.

Exclusion criteria

To this end, in the context of the management of its portfolios, Edmond de Rothschild Asset Management (France) excludes:

- All companies developing new coal projects involving the use of thermal coal (due to plans to build new coal mines/power plants/infrastructure; expansion of existing assets; purchase of existing coal assets without a clear commitment to close them),

[1] According to the most recent version of the IEA's Sustainable Development Scenario (SDS) as described in the World Energy Outlook for 2019, energy-related CO_2 emissions are expected to reach 25 gigatonnes by 2030 (and 10 Gt in 2050), and coal demand is expected to decline rapidly to 8% of the energy mix in 2050.

- All electricity producers with an energy mix that is too exposed to coal (in terms of capacity, production or income) whose share of coal in energy production and/or turnover is greater than 5% in OECD countries, 20% everywhere else,
- All mining companies with a high exposure to coal in terms of production, capacity or income whose share of coal in energy production and/or turnover is greater than 5% in OECD countries, 20% everywhere else[2],
- Companies with a production of more than 10 Mt or an installed capacity of more than 5GW.
- All financial subsidiaries identified as specifically financing excluded companies.

At the same time, we are convinced of the importance of encouraging companies above the set thresholds to reduce their dependence on thermal coal. In this spirit, we are attentive to the carbon trajectory of companies, and do not wish to exclude thermal coal producers and coal-based power producers that make credible and measurable commitments to reduce their exposure to coal in order to comply with the Paris Agreement.

Thus, companies are not excluded as long as a clear strategy for exiting coal-related activities is made public by 2022 at the latest or if the group has a decarbonization strategy in line with a trajectory consistent with a 2°C / below 2°C scenario validated by the Science Based Target (SBT) Initiative.

By way of derogation, Edmond de Rothschild Asset Management (France) may examine a subscription to Green bonds[3] issued by excluded issuers, provided that the green bonds are based on one of the two standard Green Bond guidelines[4].

Primary Source

The thermal coal exclusion list of Edmond de Rothschild Asset Management (France) currently concerns more than 2200 issuers worldwide. The exclusions are made on the basis of the Global Coal exit list of the NGO Urgewald, a reference in the field, after an internal analysis of the implications in coal and the possible presence of a credible coal exit, validated by the SBT initiative[5].

Tobacco

Tobacco is considered by the World Health Organization to be the greatest public health threat worldwide. Beyond ethics, Edmond de Rothschild Asset Management (France) analyses the risks associated with this industry: reputation, taxes, regulations, etc.

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[2] Given the difficulty of accessing sufficiently precise data, we consider that an exclusion threshold of 5% can be assimilated to an effective exit from coal.

[3] An environmental bond that can be issued by a company, an international organization or a local authority on the financial markets to finance a project or activity with an environmental benefit.

[4] Green Bond principles ou EU Green Bond Standard.

[5] 13 companies benefit from this SBT clause in 2024.

Our exclusion policy applies to companies that produce or distribute tobacco and tobacco products. Companies with more than 5% of their revenue in this sector are excluded from MSCI ESG Research data and our internal research.

Unconventional fossil energy

Edmond de Rothschild Asset Management (France) has adopted a climate policy to phase out investments in oil and gas extraction companies. Initially, this will target unconventional oil and gas, i.e. those requiring non-traditional extraction techniques or more difficult or expensive extraction conditions.

The company supports a gradual divestment from unconventional fossil fuels and a redeployment of energy capacity towards other technologies, in order to ensure a just transition that considers not only energy needs, but also employment and regional support.

Background

The Paris Agreement aims to keep the temperature rise to 2°C or less by 2100 and requires a sharp reduction in greenhouse gas emissions to achieve this. Various climate scenarios, including the International Energy Agency's Net Zero scenario published in May 2021, suggest a significant reduction in fossil fuel production to achieve this.

This will begin with a reduction in the use of unconventional energies, which have the most harmful impact on the climate, biodiversity and water resources. The oil sands and Arctic exploitation are the main culprits here. Oil sands are one of the sources of oil that emit the most carbon in scopes 1 and 2 (emissions generated during the extraction and preparation of the raw material for refining).
Production in the Arctic also has a significant impact on biodiversity in the event of accidents or leaks, particularly on fragile marine and coastal ecosystems.

Exclusion criteria

Edmond de Rothschild Asset Management (France) has decided to phase out unconventional oil and gas companies from its portfolios, starting with the most controversial techniques given their negative impact on the environment.

- Exclusion of players who produce more than 20% of their hydrocarbons from tar sands extraction.
- Exclusion of players in the sector who produce more than 20% of their hydrocarbons in the Arctic.
- Exclusion of players in the sector who produce more than 20% of their hydrocarbons from ultra-deep drilling.
- Exclusion of players in the sector who produce more than 20% of their hydrocarbon products in coalbed methane[6].

[6] Gas mainly made up of methane, generated by coal-like source rock.

We rely on data and definitions from the global Oil & Gas Exit list (GOGEL) of Urgewald and MSCI ESG Research as well as the results of our dialogues with companies.

Players with an oil exit program and/or projects aiming at carbon neutrality by 2050 ideally validated by the Science Based Target initiative (SBTi)[7] could remain eligible for investments after validation by the Responsible Investment (RI) team. Companies that generate less than 1% of their revenues from the production of unconventional fossil fuels are not covered by the exclusion.

Greenbond issues[8] by industry players could also remain eligible, provided that the green bonds are based on one of the two standard Green bond guidelines[9].
Our exclusion policy is accompanied by a clear and precise commitment policy, relating to a request to companies to propose a strategy for divestment from the activities mentioned, support for employment and territories, and investment in contributing activities.

Agenda

As natural gas has a lower carbon profile than oil and, in particular, coal, several scenarios present it as a transitional energy source, at least until 2040. However, we are studying the possibility of extending our divestment policy to include shale gas. We are also considering introducing an absolute volume cap on unconventional energies.

Our goal is to exit all unconventional fossil fuels by 2040.

Palm oil

Background

Biodiversity and climate change are closely linked. Deforestation is a major cause of biodiversity loss, and among the causes of deforestation for which the European Union is responsible, oil palm comes first (34%). The risks associated with the cultivation and trade of palm oil are deforestation and forest degradation, land grabbing, human rights violations. RSPO ([10] Roundtable on Sustainable Palm Oil) certification with the strictest requirements is the only risk mitigation measure we can rely on. Controversies reveal environmental and/or social risks.

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[7] SBTi is a partnership between CDP, the United Nations Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The SBTi aims to encourage ambitious climate action in the private sector by enabling organizations to set science-based emission reduction targets.

[8] Green bonds are bonds whose returns and risks are linked to specific underlying environmental projects (green infrastructure projects, for example).

[9] Green Bond principles or EU Green Bond Standard: The Green Bond Principles (GBP) have become the main global framework for this asset class. They are all based on four pillars: ▪ (1) Product Use, ▪ (2) Project Evaluation and Selection Process, ▪ (3) Product Management, and ▪ (4) Reporting (see ICMA, 2018).
The EU Green Bond standard proposes a framework based on the following requirements: ▪ Taxonomy ▪ alignment Transparency ▪ External review ▪ Supervision of reviewers by the European Securities and Markets Authority (ESMA)

[10] RSPO certification guarantees individuals that RSPO members who produce or physically handle RSPO certified sustainable palm oil (CSPO) have obtained RSPO certification. This includes assurance that the member has committed to and complied with sustainability requirements and can claim their certification status and communicate it throughout the supply chain.

Exclusion criteria

Edmond de Rothschild Asset Management (France) has therefore decided to exclude companies producing or distributing palm oil with a high environmental risk:

— Exclusion of producing or distributing companies with more than 5% of turnover in palm oil and
    a. that have less than 50% of palm oil plantations certified in accordance with RSPO standards or
    b. that violate any of the 10 principles of the United Nations Global Compact (UNGC).

Data source: Exclusions are based on available data, including MSCI ESG Research and internal research.

Violations of international standards

Violations of the principles of the UNGC (United Nations Global Compact).

The United Nations Global Compact is the world's largest sustainability initiative. As such, joining the UN Global Compact (UNGC) demonstrates an increased commitment to corporate sustainability and environmental, social and governance (ESG) issues.
Edmond de Rothschild Asset Management (France) has decided to exclude from its investments companies deemed to be in serious and/or repeated violation of one or more of the ten fundamental principles of the United Nations Global Compact. These ten principles derive from the Universal Declaration of Human Rights, the Declaration of the International Labour Organization, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption:

— Human Rights
    - Promote and respect the protection of international human rights law;
    - Be careful not to be complicit in human rights violations.

— International labour standards
    - Respect freedom of association and recognize the right to collective bargaining;
    - Contribute to the elimination of all forms of forced or compulsory labour;
    - Contribute to the effective abolition of child labour;
    - To contribute to the elimination of discrimination in respect of employment and occupation.

— Environment
    - Apply the precautionary approach to environmental problems;
    - Take initiatives to promote greater environmental responsibility;
    - Promote the development and dissemination of environmentally friendly technologies.

— Anti-corruption
    - Act against corruption in all its forms, including extortion and bribery.

Violations of the OECD Guidelines for Multinational Enterprises

The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises set out the key principles of responsible business conduct and strong corporate governance.
Companies involved in a violation of the OECD Guidelines for Multinational Enterprises are excluded.

Violations of International Labour Organization (ILO) standards

Companies involved in serious violations of the core standards of the International Labour Organization (ILO) are excluded from our investment universe. This includes documented cases of forced or compulsory labour, child labour, discrimination in employment, denial of freedom of association or unsafe and degrading working conditions.

Exclusion criteria

We use MSCI ESG Research as our source. Companies with "fail" status on the criteria for compliance with the UNGC principles, the ILO core standards or the OECD guidelines for multinational enterprises are excluded from our investment scope.

Specfic exclusions applicable to funds with the French SRI public label

Since 1 January 2025, the following are also excluded:

<u>With regard to an environmental criterion:</u>

Thermal coal:

— Issuers whose activity is more than 5% related to the exploration, extraction, refining of thermal coal or the supply of products or services specifically designed for these activities, such as transport or storage; as well as any emitter developing new thermal coal exploration, extraction and transport projects.

— The source used is MSCI ESG research.

Fossil fuels:

— Issuers developing new projects for the exploration, extraction and refining of liquid or gaseous fossil fuels, conventional and/or unconventional;

— Emitters of which more than 5% of the total production of liquid or gaseous fossil fuels comes from the exploration, extraction, refining of unconventional liquid or gaseous fossil fuels. Unconventional liquid or gaseous fossil fuels are identified according to the definition of the Scientific and Expert Committee of the Observatory of Sustainable Finance, namely oil shale and shale oil, shale gas and oil, oil sand, extra-heavy oil, methane hydrates, ultra- offshore oil and gasand fossil oil and gas resources in the Arctic;

— Exclusions are made on the basis of the Global Oil & Gas exit list of the NGO Urgewald, a reference in the field. In the event of no data in this list or old data, IR Management will take into account more recent data about the company.

Electricity producers:

— Any emitter whose main activity is electricity production and whose carbon intensity is incompatible with the Paris Agreement's objectives will be excluded. Thus, emitters whose carbon intensity exceeds the thresholds below will be excluded in subsequent years:

Year	2023	2024	2025	2026	2027	2028
geqCO_2/kWh	336	326	291	260	232	207

— Exclusions are made on the basis of information contained in the companies' annual reports.

— *Possible exception* : in order to allow investment in companies in transition, an issuer exceeding this threshold may be retained in the portfolio or be the subject of new investments, if it has a proven robust transition plan[11].

<u>With regard to a governance criterion:</u>

— Issuers whose registered office is domiciled in a country or territory on the latest available version of the EU list of non-cooperative jurisdictions for tax purposes;
— Issuers whose registered office is domiciled in a country or territory on the Financial Action Task Force's (FATF) blacklist or grey list.
— Sovereign bonds issued by countries and territories:
  - Listed on the latest available version of the EU list of non-cooperative jurisdictions for tax purposes;
  - Listed on the Financial Action Task Force (FATF) blacklist or grey list;
  - Including the latest version of the corruption perception index published by Transparency International is strictly below 40/100.

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[11] Validated objectives SBTI 1.5° or Transition pathway initiative.