**EDMOND DE ROTHSCHILD**

# EXCLUSION POLICY: A CLEAR MESSAGE WHEN NEEDED

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 asset management company, 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 model and practices towards a more sustainable world. In this respect, exclusions are a last resort for Edmond de Rothschild Asset Management (France).
However, we exclude securities whose holding could be considered contrary to regulations or practices that we consider least compatible with our approach as a responsible investor, particularly concerning climate issues.

Edmond de Rothschild Asset Management (France) has established a formal exclusion policy

- Sector exclusion policy that includes controversial weapons, thermal coal, non conventional fossil energy, oil palm and tobacco;
- Normative exclusion policy that covers the violations of the United Nation Global Compact (UNGC)[1].

This exclusion policy is accompanied by a strategy of engagement and active dialogue. It covers all our portfolios, all asset classes and geographical areas, and is implemented in the management mandates of institutional clients unless the client expressly refuses.
Exclusions are set as pre-trade and post-trade blocking limits in the management tool to ensure compliance. The exclusion lists are updated at least annually.

# SCOPE OF COVERAGE

This policy applies to all issuers, regardless of their country of origin. This policy applies to all open-ended funds managed by Edmond de Rothschild Asset Management (France), and is implemented in the dedicated funds and management mandates, unless the client expressly declines.

[1] https://unglobalcompact.org/what-is-gc/mission/principles

# CONTROVERSIAL WEAPONS

This exclusion policy concerns securities involved in the production or sale of weapons prohibited by international conventions (cluster bombs and anti-personnel mines, biological and chemical weapons including white phosphorus weapons) in the World zone for all funds under management.

The exclusion zone is as follows:

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

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

# THERMAL COAL

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

The burning of coal is the most important source of global warming, while electricity generation is the main 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 IEA (International Energy Agency) Sustainable Development Scenario (SDS), almost all of the greenhouse gas emission reductions 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[2] .

## AGENDA

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

## EXCLUSION CRITERIA

To this end, in managing 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 mines/power stations/coal infrastructure; expansion of existing assets; purchase of existing coal assets without a clear commitment to close them),
- All power generators with an energy mix that is overly exposed to coal (in capacity, production or revenue) where coal's share of energy production and/or turnover is greater than 5% in OECD countries, 20% elsewhere.
- All mining companies with a high exposure to coal in terms of production, capacity or revenue where coal's share of energy production and/or turnover is above 5% in OCDE countries, 20% elsewhere,[3]
- Companies with a production of more than 5 GW and absolute emissions of more than 10 Mt of CO2,
- All financial subsidiaries identified as specifically financing excluded companies.

Meanwhile, we believe it is important to encourage companies that exceed the set thresholds to reduce their reliance on thermal coal. In this spirit, we are mindful of the carbon trajectory of companies, and do not wish to exclude thermal coal producers and coal based power generators that make credible and measurable commitments to reduce their exposure to coal in order to meet the Paris Agreement.

[2] 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 CO2 emissions are to reach 25 gigatonnes by 2030 (and 10 Gt by 2050), and coal demand is to decline rapidly to 8% of the energy mix by 2050.

[3] 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. We may consider reducing this threshold to 1% when the available data allow us to do so

Thus, companies are not excluded as long as a clear exit strategy from coal-related activities is made public or the group has a decarbonisation 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) is likely to consider a subscription in green bonds[4] issued by excluded issuers, provided that the green bonds are based on one of the two standard green bond guidelines[5] .

### MAIN SOURCE

Edmond de Rothschild Asset Management's (France) thermal coal exclusion list currently covers over 2,300 issuers worldwide. Exclusions are based on the Global Coal Exit List of the NGO Urgewald, a reference in the field, after an internal analysis of the implications of coal and the possible presence of a credible exit from coal, validated by the SBT initiative[6] .

## TABAC

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

Our exclusion policy targets companies that produce tobacco or have tobacco distribution as an important business. The thresholds for exclusion are 5% of turnover from production and distribution, based on data from MSCI ESG Research. Approximately 120 companies are affected to date, in the production or distribution sector.

## NON-CONNVENTIONAL FOSSIL FUEL

Edmond de Rothschild Asset Management (France) has decided to adopt a climate policy of gradually reducing its investments in oil and gas extraction companies, initially targeting non-conventional oil and gas, i.e. those requiring non-traditional extraction techniques or more difficult or costly extraction conditions.

Edmond de Rothschild Asset Management (France) supports a gradual divestment from fossil fuels and a redeployment of energy capacities towards other

[4] An environmental bond that can be issued by a company, international organisation or local authority on the financial markets to finance a project or activity with environmental benefits.

[5] Green Bond principles or EU Green Bond Standard.

[6] 13 companies benefit from this SBT clause in 2024

technologies to ensure a fair transition that takes into account energy needs but also supports employment and the regions.

## CONTEXT

The Paris Agreement, which aims to keep the rise in temperature to 2°C or less by 2100, requires a sharp reduction in greenhouse gas emissions. To achieve this, the various climate scenarios, including the Net Zero scenario for 2050 published by the International Energy Agency in May 2021, tend towards a sharp reduction in fossil fuel production in absolute terms.

This will start by reducing the use of unconventional energy sources, which have the most harmful consequences on the climate, but also on biodiversity and water resources: oil sands and Arctic exploitation in the first place. The oil sands[7] are indeed one of the most carbon-intensive sources of oil on their scopes 1 & 2 (emissions generated during the extraction and preparation of the raw material for refining).

As for production in the Arctic, the impact on biodiversity in the event of accidents or leaks is major for fragile marine and coastal ecosystems.

## EXCLUSION CRITERIA

Edmond de Rothschild Asset Management (France) has decided to progressively exclude 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 oil production from oil sands extraction.
- Exclusion of industry players with more than 20% of their hydrocarbon production in the Arctic.
- Exclusion of industry players who produce more than 20% of their hydrocarbons from ultra-deep offshore drilling.
- Exclusion of industry players that produce more than 20% of their hydrocarbons from coal bed methane[8] .

[7] A mixture of crude bitumen, sand, clay mineral and water, the extraction of which degrades vast areas of land, requires excessive amounts of water and energy, and produces huge quantities of toxic sludge. On a life-cycle basis, fuel derived from oil sands generates up to 37% more greenhouse gas emissions than fuel from conventional oil.

[8] Gas mainly consisting of methane, generated by a carbonaceous type of bedrock.

We rely on data and definitions from Urgewald's Global Oil & Gas Exit list (GOGEL), MSCI ESG Research and the results of our dialogues with companies.

Companies with an oil exit program and/or projects aiming at carbon neutrality in 2050 ideally validated by the Science Based Target initiative (SBTi)[9] could remain eligible for investment after validation by the Responsible Investment (RI) team. Companies generating less than 1% of their revenues from non-conventional fossil fuels are not covered by the exclusion.

Green bond issues[10] from industry players could also remain eligible provided that the green bonds are based on one of the two Green bond standard guidelines[11] .

Our exclusion policy is accompanied by a clear and precise commitment policy, asking companies to propose a strategy of divestment from the activities mentioned, of support for employment and the territories, and of investment in the contributing activities.

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

[10] Green bonds are bonds whose returns and risks are linked to specific underlying environmental projects (e.g. green infrastructure projects).

[11] Green Bond principles or EU Green Bond Standard: The Green Bond Principles (GBP) have become the leading 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: ▪ Alignment of taxonomy ▪ Transparency ▪ External review ▪ Supervision by the European Securities and Markets Authority (ESMA) of reviewers.

## AGENDA

As conventional natural gas has a lower carbon profile than oil and especially coal, several scenarios present it as a transition energy at least until 2040. However, we are looking into the possibility of extending our divestment policy to shale gas. We will also study the possibility of introducing an absolute volume from non-conventional energies.

We are aiming for a total exit from 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, palm oil comes first (34%)[12]. The risks associated with growing and trading palm oil include deforestation and forest degradation, land appropriation and human rights violations. RSPO[13] certification (Roundtable on Sustainable Palm Oil ) with the most stringent requirements is the only risk mitigation measure we can rely on. Controversies reveal environmental and/or social risks.

## 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 sales in palm oil and

a/ have less than 50% of their palm oil plantations certified to RSPO standards or b/ that violate any of the 10 principles of the United Nations Global Compact (UNGC).

Exclusions are made on the basis of available data, notably MSCI ESG Research and internal research.

[12] Regulation (eu) 2023/1115 of the european parliament and of the council

[13] RSPO certification assures individuals that RSPO members who produce or physically handle RSPO-certified sustainable palm oil (CSPO) have achieved RSPO certification. This includes assurance that the member has committed to and complied with sustainability requirements, and can claim and communicate its certified status throughout the supply chain.

# VIOLATION OF THE UNITED NATIONS GLOBAL COMPACT (UNGC)

The United Nations Global Compact is the world's largest sustainability initiative. As such, membership of 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 considered to be in violation of one of the ten fundamental principles of the UN Global Compact. The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

- Human Rights
  - Support and respect the protection of internationally proclaimed human rights;
  - Make sur not to be complicit in human rights abuses;

- Labour
  - Uphold the freedom of association and the effective recognition of the right to collective bargaining;
  - Contribute to the elimination of all forms of forced and compulsory labour;
  - Contribute to the effective abolition of child labour;
  - Contribute the elimination of discrimination in respect of employment and occupation;
  -

- Environment
  - Support a precautionary approach to environmental challenges;
  - Undertake initiatives to promote greater environmental responsibility;
  - Encourage the development and diffusion of environmentally friendly technologies;

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

## EXCLUSION CRITERIA

We use MSCI ESG Research as our source. Companies in "fail" status according to MSCI's UNGC compliance criteria are excluded from our investment scope.

# SPECIFIC EXCLUSIONS APPLICABLE TO FUNDS WITH THE FRENCH PUBLIC ISR LABEL

As of January 1, 2025, the following are also excluded:

Environmental criteria

- **Thermal coal :**
  - Issuers with more than 5% of their business activity in the exploration, extraction or refining of thermal coal, or in the supply of products or services specifically designed for these activities, such as transport or storage; as well as any issuer developing new projects for the exploration, extraction or transport of thermal coal.
  - The source used is MSCI ESG research.

- **Fossil fuels :**
  - Issuers developing new projects for the exploration, extraction and refining of conventional and/or unconventional liquid or gaseous fossil fuels;
  - Issuers whose exploration, extraction and refining of non-conventional liquid or gaseous fossil fuels account for more than 5% of their total liquid or gaseous fossil fuel production. Unconventional liquid or gaseous fossil fuels are defined by the Scientific and Expertise Committee of the Sustainable Finance Observatory as oil shale and shale oil, shale gas and shale oil, oil sand, extra-heavy oil, methane hydrates, ultra-deep offshore oil and gas, and Arctic oil and gas fossil resources;
  - Exclusions are based on the Global Oil & Gas exit list of the NGO Urgewald, a reference in the field. In the absence of data in this list, or in the case of outdated data, the RI team will take into account more recent data on the company.

- **Electricity producers :**
  - Any emitter whose main activity is the production of electricity, and whose carbon intensity is not compatible with the objectives of the Paris Agreement. Emitters whose carbon intensity exceeds the thresholds below for the following years will therefore be excluded:

| Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|
| geq$CO_2$/kWh | 366 | 326 | 291 | 260 | 232 | 207 |

  - Exclusions are made on the basis of information contained in 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[14].

With regard to a governance criterion:

- Issuers whose head office is domiciled in a Country or Territory appearing on the latest available version of the EU list of non-cooperative countries and territories for tax purposes;
- Issuers whose head office is domiciled in a Country or Territory appearing on the Financial Action Task Force (FATF) black or grey list.
- Sovereign bonds issued by Countries and Territories:
- Included in the latest available version of the EU list of countries and territories uncooperative for tax purposes;
- On the Financial Action Task Force (FATF) black or grey list;
- Whose latest version of Transparency International's Corruption Perceptions Index12 is strictly below 40/100.

# SPECIFIC EXCLUSIONS APPLICABLE TO FUNDS WITH THE GERMAN FNG LABEL

The following companies are excluded:

- **Controversial weapons:**
  - Producers of controversial weapons and their essential components, with no revenue threshold. Controversial weapons include cluster bombs, landmines, chemical, biological and nuclear weapons and their essential components.
  - Sources used are a proprietary controversial weapons exclusion list (see chapter above on controversial weapons exclusions) and MSCI ESG research on nuclear weapons.

- **Conventional weapons:**
  - Producers of conventional weapons and/or their essential components, with a revenue threshold > 5%.
  - Source used is MSCI ESG research.

- **Nuclear energy:**
  - Companies involved in uranium mining, with a revenue threshold > 5%

14 Objectives 1.5° validated by SBTI or Transition Pathway Initiative

    - Companies involved in the production of electricity from nuclear energy are excluded, with a revenue threshold > 5%.
    - Companies involved in the operation of nuclear power plants and/or the manufacture of essential components for nuclear power plants, with a revenue threshold > 5%.
    - The source used is MSCI ESG research.

- **Fossil fuels:**
    - Companies involved in coal mining, with a revenue threshold > 5%.
    - Companies involved in coal-fired power generation, with a revenue threshold > 5%.
    - Companies involved in oil sands mining and/or processing, with a revenue threshold > 5%.
    - Companies involved in the use and/or production of hydraulic fracturing technologies, with a revenue threshold > 5%.
    - Source used is MSCI ESG research.

- **Tobacco:**
    - Companies involved in tobacco production, with a revenue threshold > 5%.
    - Source used is MSCI ESG research.

- **Normes based exclusions:**

    - Issuers who fail to demonstrate compliance with the ten key principles of the United Nations Global Compact: These are generally serious and/or systematic violations of the ten key principles, which are differentiated according to the following four themes:
        - Human rights,
        - Labor rights,
        - Environment,
        - Corruption.
    - The source used is MSCI ESG research

WARNING

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