Rothschild & Co Asset Management Europe

Principal Adverse Impacts policy

Rothschild & Co
Asset Management

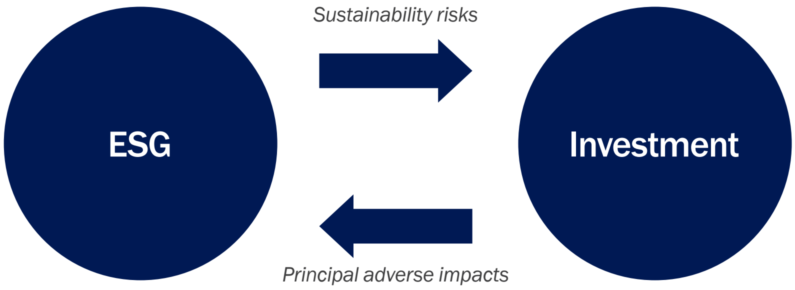
1. Perimeter of this document

This document covers the entity Rothschild & Co Asset Management Europe (hereinafter “R&Co AM EU”).

2. Scope of this document

This document briefly presents how R&Co AM EU’s policies asses the principal adverse impacts on sustainability factors in the investment decision process.

3. Definition of principal adverse impacts and the necessity to have policies covering these elements



ESG risks can be divided into two categories:

- Sustainability risk occurs when there is an environmental, social or governance event or situation that, if it occurs, could have a significant negative impact on the value of an investment (financial risk);
- Principal adverse impacts, on the other hand, are the adverse impacts of investment decisions from an environmental, social or governance perspective (non-financial risk).

3.2 The importance of assessing the principal adverse impacts in R&Co AM EU’s responsible investment approach

R&Co AM EU is concerned about its impact on the environment, social factors and on the human rights and assess the principal adverse impacts during the different stages of its investment proces and in its engagement approach.

3.3 An engagement shared by many R&Co AM Europe teams

The analysis of principal adverse impacts is addressed in a transversal way and mobilises several teams:

- The management teams;
- The ESG and financial analysis team;
- The reporting team;
- The risk control team;
- The compliance and internal control team through the implementation of a robust compliance and internal control system (including risk mapping, implementation of controls in line with the risks identified and the drafting and implementation of procedures).

4. Information on policies related to the identification and prioritisation of principal adverse impacts and the related indicators

The principal adverse impacts and the related indicators are mainly defined in the following policies and documents:

- The general ESG policy of R&Co AM EU;
- The exclusion policy for the thermal coal sector, which is part of the international coal phase-out schedule with clear deadlines of 2030 for Europe and the OECD and 2040 for the rest of the world;
- The exclusion policy relating to the respect of fundamental principles;
- The R&Co AM EU Commitment Policy;
- The TCFD report - Article 173 of the management company;
- The transparency codes for labelled funds.

To date, the principal adverse impacts have been measured using: the MSCI ESG Research database, information provided directly by companies, open source databases and information obtained from exchanges with companies.

4.1 Description of the main steps for the assessment of principal adverse impacts and the related measures taken/planned

LThe evaluation and monitoring of the principal adverse impacts is mainly performed through:

- The integration of ESG criteria into R&CO AM Europe's investment processes;
- The piloting and monitoring of the ESG investment profile;
- Monitoring the carbon intensity of portfolios;
- The examination of specific indicators within our labelled funds;
- Voting policy;
- The implementation of the engagement strategy.

1) The integration of ESG criteria into R&CO AM EU's investment process:

(i) The exclusion framework implemented within R&Co AM EU limits exposure to specific environmental, social and governance adverse impacts:

Group Investment principles relating to thermal coal

- We will no longer lend to or invest in companies involved in projects to develop new thermal coal mines or coal-fired power plants;
- No further investment will be made and no new financing will be provided to companies whose:
  - More than 30% of their turnover comes from thermal coal activities;
  - More than 30% of the energy mix (per MWh generated) is based on coal;
- No further investment will be realised and no new financing will be granted to companies with:
  - Annual thermal coal production exceeding 20 MT per year;
  - Installed coal-fired capacity exceeding 10 GW;

These thresholds will apply until the end of 2020 and will be reviewed in 2021.

Where companies are not involved in projects to develop new thermal coal capacity but are directly exposed to thermal coal beyond the thresholds defined above:

- We will engage with companies to discuss their exposure to coal;
- On a case-by-case basis, we will continue to provide financial support to companies implementing a coal exit strategy;
- We will stop investing in or lending to companies that, as a result of our engagement, do not implement a coal exit strategy.

When we do not invest directly in companies but rather in third party funds or funds of funds, the implementation of these principles is more complex. Therefore:

- We will integrate in our fund selection process, the analysis of the principles implemented by third party fund managers in relation to coal investment;
- We will specifically review our allocations to third party funds for which the fund manager(s) has/have not established an exit strategy for coal.

In general, we believe that an active dialogue with companies regarding their exposure to thermal coal can encourage them to improve their knowledge of climate risks and take steps to reduce their environmental impacts.

Group Exclusion policy relating to Fundamental Principles

This exclusion policy deals with investments that we make on our own behalf or on behalf of clients in companies.

We may exclude companies directly exposed to the following, based on information from credible third-party sources:

- Serious human rights violations;
- Serious violations of the rights of individuals in situations of war or conflict;
- Severe environmental damage, including unacceptable greenhouse gas emissions;
- Serious cases of corruption;
- Other particularly serious violations of fundamental ethical norms.

The exclusion policy relating to Fundamental Principles applies to our various discretionary listed and unlisted investment activities in:

- Private equity;
- Private banking;
- Asset management.

This exclusion policy relating to Fundamental Principles does not cover:

- Assets under advice or execution only accounts;
- Index-linked instruments nor index-linked structured products.

Where we conclude that exclusion is appropriate we will act according to the following rules:

Listed and non-listed assets under direct management(1)

- For companies in which we do not have existing investments, no investments will be made and no lending will be provided to companies involved in a Fundamental Principles breach
- In relation to companies in which we have existing investments, where companies are involved in a Fundamental Principles breach, we will cease to invest within 18 months in companies which are still exposed to a Fundamental Principles breach. In relation to unlisted investments, divestment is more complex and our policy needs to be slightly different.

Assets managed by external financial managers and listed and non-listed funds of funds

- For assets managed by external financial managers, our exclusion policy applies to the delegated management company for the part of the portfolio management delegated to it
- Where we do not invest in individual companies but rather in third-party funds or funds of funds the implementation of this exclusion policy will require to integrate the analysis of the exclusion policy relating to Fundamental Principles implemented by third party fund managers into our funds selection process.

(1) The implementation process had to be slightly adapted to meet the specific constraints of sector funds compared to a highly concentrated index.

(ii) Portfolio rating management acts both as an indicator of ESG risk and as a tool for assessing the principal adverse impacts of the investments.

R&Co AM EU actively monitors the ESG rating of its portfolios. The investment, risk monitoring and compliance teams have access to the research in order to implement effective management and monitoring.

The internal ESG rating tool is based on MSCI ESG Research's external rating

MSCI ESG Research's rating is based on the materiality of ESG factors; this is in line with our commitment to integrate ESG factors into our convexity analyses.

MSCI ESG Research uses published data, including:

- Macroeconomic and sectoral data published by governments, NGOs, and academic institutions;
- Data from the publications of the companies surveyed: annual reports, CSR reports, etc.

For each key ESG factors identified (between 3 and 8 depending on the industry) by sector, MSCI ESG Research assesses the risk exposure of the company under review and the policies and actions implemented to address it.

Similarly, if it represents an opportunity within the sector, MSCI ESG Research looks at the company's exposure to the opportunity and the initiatives taken to address it.

Ratings are assigned on a sector-by-sector basis using a « Best-in-Class » approach, as defined below:

- The scores defined for each key issue are calculated and weighted according to their importance within the sector in question in order to obtain an absolute overall score (from 0 to 10);
- Successively MSCI ESG Research's analysts distribute the ratings within the sectors studied (from CCC to AAA). The ratings obtained are relative to each sector covered.

The Best-in-class rating methodology allows the identification of the best-rated companies from an ESG point of view within their sector of activity, without favouring or excluding any sector. In their rating process, the MSCI ESG Research's analysts take into account any controversies to which companies may be exposed. The ESG ratings, which are reviewed at least annually, may be reviewed on an ad hoc basis to incorporate any controversy.

(iii) The monitoring of consolidated indicators at the level of our direct management portfolios and funds of funds.

The ESG performance monitoring reports for direct and multi-management portfolios include a number of indicators that allow us to measure the impact of our investments, monitor them over time and improve our engagement policy.

- Monitoring carbon intensity:

R&Co AM Europe has chosen "carbon intensity" to measure and monitor the carbon performance of its investments. The calculation of carbon intensity makes it possible to define a performance indicator independently of the nature of the security held (share/bond), according to its share in the portfolio, regardless of portfolio's size.

For direct funds, special attention is directed to the 5 largest contributors within the portfolios.

Carbon Intensity of an issuer	Carbon intensity of a portfolio of n securities
$\frac{\text{Tons of } CO^2}{\text{\$m or €m of annual sales}}$	$\sum_{i=1}^{n}$ Weight security i x carbon intensity stock i

Within the scope of direct funds, carbon intensity is analysed and compared with the benchmark indicator from a sectoral perspective and then special attention is directed to the most important contributors to carbon emissions via the analysis of:

- Risks related to greenhouse gas emissions (transition and regulatory risks);
- Solutions and policies implemented to reduce emissions;
- The trajectory in motion.

Rothschild & Co AM EU reserves the right to dispose of a security if the ESG practices of the investment target remain unchanged or if the target does not meet its commitments (emissions, etc.).

- The monitoring of specific indicators on the funds in the 4Change range:

The labelled funds in the 4Change range include the monitoring of more specific impact indicators in line with their objectives.

It involves additional tools for monitoring our principal adverse impacts.

(iv) Main elements of R&Co AM EU's engagement policy:

R&Co AM EU's engagement policy is based on three pillars:

- Dialogue with companies and asset management firms through our 1-to-1 meetings and collaborative engagement initiatives;
- Voting policy respecting the principles of sustainable investment. On our multi-management activity, the due diligence also includes questions on voting policy;
- Membership in responsible investment promotions and collaborative engagement initiatives: (i) UNPRI, Climate 100+, etc... (ii) Participation in the AFG Responsible Investment Committee.

Climate Action 100+

A group of international investors committed to the climate challenge

- 545 investors committed to this initiative with over $52 trillion in assets under management.

For a constructive dialogue with the largest greenhouse gas contributors

- Implementation of a governance framework that integrates climate risks;
- Concrete measures to reduce emissions throughout their supply chain processes;
- Compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

It also includes specific engagement initiatives:

- 4Change Climate and Human Values funds:
  As part of the dialogue process with emitters, R&CO AM EU provides specific surveys on social aspects to companies in the Human Values fund and a second survey on environmental aspects to companies n the Climate portfolios. The objectives of these surveys are to determine the level of integration of social and environmental issues, to detect potential risk/opportunity issues and engagement subjects relating to adverse externalities.
- Emergence of controversies:
  The R&Co AM EU teams reserve the right to contact companies in their eligible investment universe to explore the causes and the means implemented to manage their performance.

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