Investment principles for the thermal coal sector

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Rothschild & Co is supportive of the transition towards a low-carbon economy including activities which aim to reduce global carbon emissions and renewable energy.

As engaged investors we want to play an active role in influencing business practices and drive investment flows towards the most sustainable players.

As part of the group's ESG investment integration framework, we are implementing investment principles for the thermal coal sector in line with the international coal phase-out schedule, which sets clear deadlines for 2030 for Europe and the OECD, and for 2040 for the rest of the world.

These principles are part of a comprehensive Responsible Investment framework Asset Management. They are:

• Aligned with our approach to ESG criteria integration among our investment strategies;

• Part of a response to the risks induced by climate change for our investors;

• Representative of our desire to contribute to the transition to a sustainable economy.

The thermal coal[(1)] investment principles apply to our various Asset Management investment activities.

These investment principles also cover assets under managed accounts and dedicated funds. Certain securities held may be subject to exceptions, in the event that the management company is required to comply with the constraints expressed by the client which may conflict with these principles. These principles do not apply to index-based structured products.

Defining thermal coal exposure, absolute and relative thresholds

The investment principles deal with investments that we make on our own behalf or on behalf of clients in companies directly engaged in thermal coal production, exploration, mining & processing and power generation using thermal coal.

The investment principles impose the following broad restrictions on investments (subject to the detailed rules below):

• We do not invest in companies involved in projects for new thermal coal mines or thermal coal fired power plants;

• We do not invest in companies with:

  - more than 20% of revenues generated through activities related to thermal coal;

  - more than 20% of the energy mix (per megawatt produced) derived from coal;

• We will not invest in or lend to companies whose:

  - annual thermal coal production exceeds 10 megatons (MT) per year;

  - installed coal capacities are greater than 5 gigawatts (GW).

These investment principles were designed to respect our different investment businesses, and to protect the interests of our investors. These thresholds are applied until the end of 2022 and will be reconsidered in 2023.

Compliance with these principles is based on information from the Global Coal Exit List of the NGO Urgewald.

(1) According to European taxonomy, metallurgical coal should be considered separately from thermal coal. There is currently no economically viable substitute for metallurgical coal.

These principles are implemented according to the following rules

Direct management of listed and non-listed assets

• Where companies are involved in projects to develop new thermal coal capacity:

- No investment are made, and no lending provided to those companies.

- For existing investments, we will cease to invest from these companies.

• Where companies are not involved in developing new thermal coal capacity but have direct exposure to thermal coal in excess of the thresholds defined above:

- Continue to support companies implementing a thermal coal exit strategy on a case-by-case basis;

- For existing investments, we are initiating an engagement process with companies to discuss their coal exposure;

- We will cease to invest in or lend to companies which, following our engagement, do not implement a thermal coal exit strategy.

For their thermal coal exit strategy, in this discussion companies should provide the evidence, preferably publicly available, of a commitment for implementing an exit strategy in line with the international thermal coal exit calendar, considering the social impacts generated by this transition. Furthermore, quantitative underlying elements, demonstrating the credibility of the exit strategy should also be provided to our investment teams.

Indirect management, listed and non-listed funds of funds

Where we do not invest in individual companies but rather in funds or funds of funds the implementation of this principles is more complex. Therefore:

• We integrate into our funds selection process the analysis of the coal investment guidelines implemented by fund managers;

• We have defined, at the level of listed funds of funds, a residual threshold of 1% maximum of real exposure to companies that would not comply with these investment principles and that would be present in products whose composition is linked to indices, or/and in underlying actively managed funds that do not apply a thermal coal exclusion policy.

Only alternative, illiquid funds (such as private equity funds) and those linked to commodities, as defined in the Rothschild & Co Asset Management Europe buy list or by the Private Assets activity, are excluded from this framework for technical reasons (lack of data transparency, concentration of the universe, composition of indices, etc.). These funds continue to be subject to engagement to set up a policy or to discuss their possible exposure. In all cases, we always make our best efforts to find the alternative that best respects our investment principles regarding thermal coal.

In delegated management

For direct investment, our exclusion policy applies to the delegated management company by delegation for the part of the portfolio that is delegated to it.

For delegates investing in mutual funds, the latter (with the exception of certain strategies) must apply the thermal coal exclusion policy defined by the delegates.

In general, Rothschild & Co believes that engagement in dialogue with companies and our partner asset management companies about their thermal coal exposure can help them to further enhance their knowledge of climate risks and take action to reduce their environmental impacts.

Engagement policies are implemented at the level of individual companies within the Rothschild & Co Group reflecting the different nature of our investment business, but all follow the Group's general approach based on dialogue with management and an active voting policy.

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