Rothschild & Co
Asset Management

Minimum standards & Exclusion policy

2022

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Guiding Principles

At Rothschild & Co Asset Management Europe, we believe that the transition to a more sustainable world must take place by integrating all sectors, including the less virtuous. Nevertheless, the transition objective requires a great deal of analytical rigour, coupled with a long-term vision. We are convinced that by accompanying companies from all sectors we will achieve a more significant sustainable impact.

As minimum standards, we have put in place

1. a common exclusion framework for all our open-ended and dedicated, directly managed and open architecture, investment vehicles based on:
   - Compliance with regulatory standards: the Oslo & Ottawa Conventions on cluster bombs and anti-personnel mines and international sanctions
   - Application of discretionary exclusions: compliance with the United Nations Global Compact (UNGC) and our investment principles for the thermal coal sectorDes exclusions spécifiques à certains labels (fonds labélisés)
2. Specific exclusions for certain labels (labelled funds) and
3. Client-specific exclusions (dedicated funds).

As a transition oriented investor, we believe that through pragmatic exclusions and structured engagement actions we can raise awareness regarding companies' negative externalities associated with their production model and encourage them to adopt investment plans accelerating and empowering their sustainable positioning.

Norm-based exclusions

Oslo & Ottawa conventions on cluster munitions & landmines

In line with regulatory obligations, all Rothschild & Co Asset Management Europe investment vehicles comply with Oslo & Ottawa conventions on cluster munitions and landmines. This exclusion covers any involvement in the production of weapons, components and propulsion mechanisms.

Perimeter: all investment vehicles
Source: MSCI ESG Research

International sanctions & tax havens

In line with regulatory obligations, investment in countries subject to international sanctions (OFAC, GAFI, UN, EU …) are banned, for all Rothschild & Co Asset Management Europe's products. This exclusion has 2 levels of application: on sovereign instruments and on companies based in those locations.

Investments in companies with registered office and/or business located in very high-risk countries are prohibited. For companies with registered office and/or activity located in high-risk countries, it must be subject to a reputation check by the Compliance team, and if necessary, to a review by the country risk Committee, before investing.

Perimeter: all investment vehicles
Source: Public lists (OFAC, GAFI, UN, European Union..)

United Nations Global Compact (UNGC)

We exclude companies in violation of the 10 Principles of the UNGC:

- **Human Rights**: Businesses should support and respect the protection of internationally proclaimed human rights; and make sure that they are not complicit in human rights abuses.
- **Labour**: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation
- **Environment**: Businesses should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies.
- **Anti-Corruption**: Businesses should work against corruption in all its forms, including extortion and bribery

The 10 Principles 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.

Perimeter: all investment vehicles
Source: MSCI ESG Research

International Labor Organization (ILO) conventions

Companies involved in ILO conventions violation are not eligible for products granted with the Belgian label Towards Sustainability, for funds classified article 9 SFDR and for specific dedicated funds.

Perimeter: products categorized SFDR Article 9 and/or granted with the Belgian label Towards Sustainability
Source: MSCI ESG Research

OECD Guidelines for Multinational Enterprises

Companies involved in OECD guidelines for multinational enterprises violation are not investable for products granted with the Belgian label Towards Sustainability and for funds classified article 9 SFDR.

Perimeter: products categorized SFDR Article 9 and/or granted with the Belgian label Towards Sustainability
Source: MSCI ESG Research

UN Guiding Principles on Business & Human Rights

Companies involved in UNGP on Business & Human Rights violation are ineligible for products granted with the Belgian label Towards Sustainability and for funds classified article 9 funds.

Perimeter: products categorized SFDR Article 9 and/or granted with the Belgian label Towards Sustainability
Source: MSCI ESG Research

Energy related exclusions: thermal coal, oil & gas and nuclear

Thermal Coal

As part of our common exclusion framework, applied to all our investment vehicles, we have established since October 2020 investment guidelines for thermal coal sector. We are regularly reviewing thresholds in line with the NGO's, Urgewald, recommendations to be in line with the international coal exit calendar.

In that sense, the following principles are set up:

→ We are not lending to or investing in companies involved in projects to develop new thermal coal mines or coal-fired power plants.

→ No further investments are made, and no new financings are provided to companies whose:
- More than 20% of revenues comes from thermal coal activities.
- More than 20% of the energy mix (per MWh generated) is based on coal.

→ No further investments are made, and no new financings are granted to companies with:
- Annual thermal coal production exceeding 10 MT per year.
- Installed coal-fired capacity exceeding 5 GW.

Additional thermal coal related restrictions are applied to products granted with the Belgian label:

→ The company's absolute production of or capacity for thermal coal-related products/services shall not be increasing

→ The company's absolute production of or capacity for contributing products/services shall be increasing [*additional criteria only applicable for power generation related activities*]

In addition, the issuer shall meet at least one of the following criteria:

→ Have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment

→ Derive less than 5% of its revenues from thermal coal-related activities

→ Have less than 10% of CapEx dedicated to thermal coal-related activities and not with the objective of increasing revenue

→ Derive more than 50% of its revenues from contributing activities [*additional criteria only applicable for power generation related activities*]

→ Have more than 50% of CapEx dedicated to contributing activities contributives.

For dedicated investment vehicles, we are able to implement clients' thresholds based on their SRI requirements in terms of revenues, production, capacities, carbon intensity, taxonomy or other Paris Agreement / transition related criteria (SBTi, TPI, CDP, Temperature, avoided and saved emissions…).

Perimeter: all investment vehicles, funds granted with the Belgian label Towards Sustainability and dedicated products
Source: Global Coal Exit List, MSCI ESG Research, Carbon4 Finance, open-source data (SBTi, TPI, CDP, ...) as well as reports from NGOs, brokers and companies.

Oil & Gas

Regarding fossil fuels, our approach is long-term: we want to support economic players in their climate transition over time. Recognizing the contribution of fossil fuel activities to climate and biodiversity issues, we analyze companies' trajectory in order to assess the potential, capacity and feasibility of transforming their business models towards less carbon-intensive businesses. We are willing to select those that are best positioned and able to achieve their ambitions and ensure the reduction of their negative impacts. Details on our company-wide guiding principles regarding fossil fuel investment are provided in appendix.

For products granted with the Towards Sustainability label, we implement specific thresholds:

→ The company's absolute production of or capacity for unconventional oil and gas-related products/services shall not be increasing

In addition, the company shall meet at least one of the following criteria:

→ Have a SBTi target set at "well-below 2°C or 1.5°C", or have a SBTi "Business Ambition for 1.5°C" commitment

→ Derive less than 5% of its revenues from unconventional oil and gas-related activities

→ Have more than 50% of CapEx dedicated to contributing activities [*only applicable for unconventional O&G screening*]

→ For the conventional: have less than 15% of CapEx dedicated to oil and gas-related activities and not with the objective of increasing revenue or have more than 15% of CapEx dedicated to contributing activities [*only applicable for conventional O&G screening*]

For dedicated investment vehicles, we are able to implement clients' thresholds based on their SRI requirements in terms of revenues, production, capacities, carbon intensity, taxonomy or other Paris Agreement / transition related criteria (SBTi, TPI, CDP, Temperature, avoided and saved emissions…).

Perimeter: all investment vehicles, funds granted with the Belgian label Towards Sustainability and dedicated products
Source: MSCI ESG Research, Carbon4 Finance, open-source data (SBTi, TPI, CDP...) as well as reports from NGOs, brokers and companies.

Nuclear power generation

Exclusions related to nuclear energy are part of the investment process for funds granted with the Towards Sustainability label.

The below requirements are put in place:

→ The company's absolute production of or capacity for nuclear-based energy- related products/services shall not be structurally increasing.
→ The company's absolute production of or capacity for contributing products/services shall be increasing

The company shall meet at least one of the following criteria:

→ Have a SBTi target set at "well-below 2°C or 1.5°C", or have a SBTi "Business Ambition for 1.5°C" commitment

→ Derive more than 50% of its revenues from contributing activities

→ Have more than 50% of CapEx dedicated to contributing activities

For dedicated investment vehicles, we are able to implement clients' thresholds based on their SRI requirements in terms of revenues, production, capacities, carbon intensity, or other transition related criteria.

Perimeter: funds granted with the Belgian label Towards Sustainability and dedicated products
Source: MSCI ESG Research, Carbon4 Finance, open-source data (SBTi, TPI, CDP, ...) as well as reports from NGOs, brokers and companies.

Food & Agriculture

Trading and speculation on agricultural products

Direct and indirect exposure to commodities on UCITS products is prohibited.

Perimeter: UCITS products
Source: Bloomberg

Palm oil

Palm oil related exclusions are applied as part of dedicated investment strategies, in line with clients SRI requirements. It may consider revenues, plantation size and the compliance with the Roundtable on Sustainable Palm Oil (RSPO) principles.

Perimeter: Dedicated products
Source: MSCI ESG Research and RSPO publicly available data

Soybean

Companies active in soy industry and not respectful of the Roundtable on Responsible Soy (RTRS) principles can be considered ineligible, as part of specific dedicated strategies.

Perimeter: Dedicated products
Source: MSCI ESG Research and RTRS publicly available data

Damage to biodiversity

Biodiversity integration has not yet reached the level of maturity necessary to support meaningful exclusion policies. Through key partnerships with Finance for Tomorrow and Carbon4 Finance, we are actively working on the subject with the willingness to contribute to the emergence of best practices.

Currently, we consider biodiversity issues through the MSCI ESG Research environmental analysis and rating. Biodiversity is considered material for 5 GICS macro sectors (energy, materials, utilities, industrials and consumer staples).

Regarding exclusions linked to biodiversity, issuers involved in severe controversies related to biodiversity might be subject to our controversy committee and therefore be divested or not eligible for reinforcement. The controversy might imply a downgrading of its UNGC status and/or ESG rating, which may breach with our sustainable processes, leading to divestment.

We are willing to develop our integration of biodiversity issues through our participation to the Finance for Tomorrow working group on biodiversity. We hope to better understand this issue, to raise awareness among economic players on their impacts and to contribute to the emergence of best practices. We have also established a partnership with Carbon4 Finance and CDC Biodiversity, two well-known organizations on environmental issues, to measure the impact of our investments while seeking to identify the main causes. We wish to define the most relevant methodology and indicators (MSA.KM2, IPBES 5 pressures, dependency score) to enable us to take into account the risks and opportunities associated with them and, ultimately, to contribute to directing financial flows towards actors who can provide concrete solutions.

Health & Addiction

Tobacco

Various tobacco revenues thresholds are applied (from 10% to 25%) for a few open-ended (Essor product range, funds labeled Towards Sustainability and R-co 4Change Inclusion & Handicap Equity) and dedicated products. Tobacco is not yet part of our common exclusion framework but shall be considered as part of Rothschild & Co Asset Management Europe's key sustainability milestones.

More specifically, for our investment strategy dedicated to inclusion & disability, R-co 4Change Inclusion & Handicap Equity, we have put in place a strict exclusion regarding tobacco involvement: any issuer directly (excluding retailers and distributors) exposed to tobacco related activities (revenue > 0%) is excluded.

Moreover, for funds granted with the Towards Sustainability label, companies shall derive less than 5% of its revenues from the production of tobacco, products that contain tobacco or the wholesale trading of these products (distribution in not part of the scope) to be considered investable.

Perimeter: Essor product range, funds granted with the Belgian label Towards Sustainability, R-co 4Change Inclusion & Handicap Equity and dedicated investment vehicles
Source: MSCI ESG Research

Alcohol

Alcohol is banned from our investment strategy dedicated to inclusion & disability. Any issuer directly (excluding retailers and distributors) exposed to the alcohol business (revenue > 0%) is excluded. For dedicated investment vehicles, clients' thresholds are implemented.

Perimeter: R-co 4Change Inclusion & Handicap Equity and dedicated investment vehicles
Source: MSCI ESG Research

Gambling

For our inclusion & disability strategy, R-co 4Change Inclusion & Handicap Equity, we exclude any company with more than 1% of revenues derived from gambling activities.

Various gambling revenue thresholds are implemented for dedicated vehicles, in line with each client's SRI requirements.

Perimeter: R-co 4Change Inclusion & Handicap Equity and dedicated investment vehicles
Source: MSCI ESG Research

Fundamental Rights

Military equipment and weapons

Beside controversial weapons banned by regulation (cluster munition & landmines), various types of weapons related exclusions are applied to several open-ended and dedicated products. Those exclusions are mainly based on the weapons typology (controversial, nuclear, conventional, and civilian) and/or revenues.

Some open-ended funds have chosen to exclude specific weapons:

→ Biological & chemical weapons are prohibited for the open-ended Essor product range

→ Companies involved in depleted uranium and civilian weapons businesses are not eligible to the open-ended fixed income strategy, R-co Valor Bond Opportunities

→ Funds granted with the Belgian label Towards Sustainability are not allowed to invest in companies involved in controversial, nuclear, conventional, and civilian weapons based on the following criteria:
- Controversial & nuclear weapons: the company shall have no activity of manufacturing or of manufacturing tailor-made components, using, repairing, putting up for sale, selling, distributing, importing, or exporting, storing or transporting controversial or indiscriminate weapons such as: anti-personnel mines, submunitions, inert ammunition and armor containing depleted uranium or any other industrial uranium, weapons containing white phosphorus, biological, chemical or nuclear weapons.
- Conventional & civilian weapons: the company shall derive less than 5% of its revenues from the production of (other) weapons or tailor-made components thereof.

→ Regarding the inclusion & disability fund, R-co 4Change Inclusion & Handicap Equity, companies involved (revenues >0%) in controversial, nuclear and conventional weapons are banned.

For dedicated products, custom weapons exclusions are set up in line with clients SRI requirements.

Perimeter: Essor product range, R-co Valor Bond Opportunities, funds granted with the Belgian label Towards Sustainability, R-co 4Change Inclusion & Handicap Equity and dedicated investment vehicles
Source: MSCI ESG Research

Adult Entertainment

Adult entertainment exclusions are applied to several open-ended and dedicated products, mainly based on revenue thresholds.

Two open-ended strategies, R-co Valor Bond Opportunities and R-co 4Change Inclusion & Handicap Equity are excluding companies with revenues (> 0%) derived from pornography related activities.

Dedicated vehicles may implement different revenues thresholds based on clients SRI requirements.

Perimeter: R-co Valor Bond Opportunities, R-co 4Change Inclusion & Handicap Equity and dedicated investment vehicles
Source: MSCI ESG Research

Specific cases

Governments

In addition to the exclusion based on international sanctions, funds granted with the Towards Sustainability label implement a strengthened screening process for sovereign instruments.

Non investable instruments are the ones issued by:

→ States that have not ratified or have not implemented in equivalent national legislation:
  - the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
  - at least half of the 18 core International Human Rights Treaties

→ States which are not party to:
  - the Paris Agreement
  - the UN Convention on Biological Diversity
  - the Nuclear Non-Proliferation Treaty

→ States with particularly high military budgets (>4% GDP)

→ States considered "Jurisdictions with strategic AML/CFT deficiencies" by the FATF

→ States with less than 40/100 on the Transparency International Corruption Perception Index

→ States qualified as "Not free" by the Freedom House "Freedom in the World"-survey

Use-of-proceeds instruments issued by states are considered eligible.

For dedicated products, custom country-related exclusions are implemented on clients' request, based on criteria listed above or on additional indicators, such as The Global Gender Gap Report.

Perimeter: products granted with the Belgian label Towards Sustainability and dedicated investment vehicles
Source: MSCI ESG Research and publicly available data are used to implement this exclusion

Use of proceed instruments (Green, social and sustainability bonds)

Investments in use of proceed bonds (green bonds, social bonds and sustainability bonds) for all Rothschild & Co Asset Management Europe portfolios comply with the principles set out by the International Capital Market Association (ICMA) framework, namely the Green Bond Principles (GBP), the Social Bond Principles (SBP) and the Sustainability Bond Guidelines (SBG), and shall be verified by a second party opinion (SPO). Complementary diligence regarding EU Green Bond Standard (EU GBS) are check out as part of the SPO.

This process is based on Bloomberg information and internal tools.

Perimeter: All investment vehicles
Source: ICMA, Second Party Opinions, Bloomberg and internal tools.

ESG scores

Even if there is no formalized exclusion process based on ESG rating, all Rothschild & Co Asset Management Europe investment vehicles have portfolio level ESG requirements implying a cautious and rigorous selection on low ESG ratings issuers.

At Rothschild & Co Asset Management Europe, we have put in place a systematic monitoring of overall ESG and per pilar ratings (scores =< 2), as part of the Risk processes.

On specific dedicated products, in line with clients SRI requirements, low ESG rated issuers, based on MSCI ESG Research methodology, are not allowed.

Perimeter: All investment vehicles
Source: MSCI ESG Research

Operational implementation

For practical implementation, we have integrated ESG criteria into all our operational systems. The common exclusion framework is updated and hard-coded (with a pre-trade block) into operational systems by the compliance department.

Details regarding exclusions applied to all Rothschild & Co Asset Management Europe investment vehicles are publicly available on our website:

Cluster Munitions & Landmines (Oslo & Ottawa conventions)

United Nations Global Compact

Investment principles for thermal coal sector

Specific exclusions and/or sustainable requirements at product level are the responsibility of the Risk team. Those elements are coded and monitored daily.

Investment Managers have access to ESG data through their Bloomberg portal and may review the impacts linked to investment decisions on each portfolio's defined sustainable requirements.

On a quarterly basis, ESG dataset and its application on our investment universes are updated. Portfolio managers have one month to realign portfolios.

Annexes

Rothschild & Co Asset Management Europe guiding principles regarding fossil fuel investment

Beyond the score, we seek to assess the overall environmental profile of the company through the following key elements:

→ Energy mix and revenue breakdown

→ Geographical distribution of assets and breakdown by resource type

→ Level of involvement in unconventional fuels

→ Pipeline of new projects

→ Energy efficiency systems

→ Low carbon capex including the share allocated to renewable energy, technological innovations and carbon capture and sequestration mechanisms

→ Financings and free cash flow allocation

→ Environmental controversies

The above parameters are combined to the assessment of the company's climate strategy and potential for alignment with the Paris Agreement:

→ Existence of a greenhouse gas emissions reduction strategy, scope of activities and geographies covered, measurability, TCFD reporting and level of ambition of targets in terms of emission scopes, use of offsetting techniques, timeline, and third-party audit (SBTi)

→ Planned investments and divestments

→ Monitoring of carbon intensity and temperature levels

→ Consideration of just transition issues (Just Transition strategy, covered employees, retraining programs and spending allocated)

→ Level of involvement and responsibility of the top management

→ Validation of the climate strategy at the general meeting through Say on Climate

For this, we combine various information: MSCI ESG Research, Carbon4 Finance, SBTi, TPI, CDP ... as well as reports from NGOs, brokers and companies.

The companies in our portfolios are monitored regularly and are subject to our priority engagement process, with a particular focus on the defined 18 most polluting issuers.

We meet with them on a regular basis to monitor the company's performance, notably by confronting and challenging them on the factors mentioned above. It is also the opportunity for us to understand the strategic significance of the company's climate approach within the organization, the challenges faced, and to encourage them to act on key milestones:

→ A formal and public commitment to reduce greenhouse gas emissions in all scopes by 2050 according to a scenario aligned with the Paris Agreement and a scientifically valid methodological framework

- → Increasing renewable energy capacity and stopping fossil fuel expansion projects
- → Acting for a drastic and rapid reduction of methane emissions through the implementation of remote sensing systems and maintenance programs as well as by limiting flaring practices
- → The publication of turnover and investment data in line with the European environmental taxonomy

Those elements also contribute to our decision in terms of voting rights, in particular in the case of a Say on Climate presented by the fossil player.

We are aware that company transformations are not short-term and must be carried out pragmatically, taking into account the social and financial implications, but we may disengage from certain companies if the realized trajectory and the progress made are too far from the objectives communicated and the discussions we have had with the company's representatives.

Since 2021, we have also been actively involved in the AFG's fossil fuel working group, where we have contributed to a white paper on this subject, published at the end of October 2021. In addition, we are part of the Finance for Tomorrow "Investors for a Just Transition" coalition for the energy sector.

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