anaxis

Securing our future

Anaxis Asset Management

EXCLUSION POLICY

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1. Positioning

Anaxis has opted to apply ethical criteria to its portfolio management. This engagement reflects our view of a more balanced and more harmonious society in which satisfying economic requirements and personal aspirations is compatible with preserving the environment and mutual respect.

Overall objectives

Our policy aims to direct financial flows towards sectors that are compatible with our objectives, i.e. environmental preservation and public health. This requirement has led us to exclude certain sectors of activity due to their proven contribution to global warming, pollution and health risks.

Aquatic environments

We pay particular attention to aquatic environments, marine biodiversity and water resources. Aquatic ecosystems and wetlands are highly sensitive to pollution and climate change. Protecting these environments contributes to the efforts required across several domains that have a direct impact on our societies. These include access to drinking water, food security, the prevention of health risks and protecting residential areas from the rising sea level.

2. Scope of the exclusion policy

Application to corporate debt

The exclusion policy is well-suited to our corporate debt management expertise. It ensures that any issuers whose business is not compatible with our environmental objectives are excluded from our portfolios. Bond issuers regularly call on the markets in order to finance their development, make acquisitions or simply optimise their financial structure. Each time they do so, they have to convince investors of the relevance of their business model. A clearly defined sector exclusion policy can therefore have a significant impact on the positioning of their business.

Contribution to risk management

Bonds held in portfolios generate a financial yield in exchange for the credit risk incurred by investors. We therefore attach great importance to the robustness of our portfolio and the visibility offered by issuers. From this point of view, our sector exclusion policy strengthens our portfolios by allowing us to actively take into account certain risks that are greater within controversial sectors, in particular those associated with regulatory changes, legal issues, labour disputes, health issues, and accidents. We are confident that our sector exclusion policy is beneficial for the stability of our portfolios.

Transparency

Our clients benefit from our sector exclusion policy as it is clear and up to date. It guarantees an uncompromising ethical investment based on clear, verifiable and broadly consensus-based criteria. It allows for a direct, transparent and well-informed dialogue between the investment management team and investors.

3. Exclusion list

The objective of our sector exclusion policy is to exclude from the portfolios' investment universe certain issuers whose business is not compatible with our goal of preserving the natural environment and improving public health.

We have opted for a strong and ambitious policy that aims to have a significant impact on financial flows. Our policy targets businesses associated with fossil fuels, nuclear power, polluting products, weapons, tobacco and GMOs. The Anaxis exclusion list is represented below.

Fossil fuels

- Exploration, extraction, production and refining of coal, petroleum, natural gas and other fossil fuels
- Production of electricity, heat or other forms of energy from fossil fuels
- Equipment and services dedicated to fossil fuels (including with a view to saving energy or improving processes)
- Transport, distribution and storage of fossil fuels (including oil pipelines, gas pipelines, oil terminals, natural gas liquefaction terminals, maritime transport by tankers, distribution of heating oil)

Nuclear

- Uranium mining
- Concentration, refining, conversion and enrichment of fissile material
- Manufacture of nuclear fuel assemblies
- Nuclear power generation (construction and operation of nuclear reactors)
- Other equipment and services dedicated to the nuclear energy sector (including processing of spent nuclear fuel, nuclear decommissioning, radioactive waste management)

Polluting industries

- Production of fertilisers, weedkillers, insecticides, fungicides and other pesticides
- Plastic packaging production (including from recycled waste)

Activities contributing to global warming

- Storage and landfill of waste without greenhouse gas capture
- Incineration without energy recovery
- Unsustainably managed logging
- Peatland farming

Weapons

- Production of weapons, munitions and military equipment
- The manufacture of military aircrafts, ships, tanks and vehicles
- Activities associated with the design, trade or use of these materials
- Law enforcement or military surveillance services by private companies
- The manufacture of hunting weapons or any other type of arms for private use

Other activities excluded

- **Activities harmful to health**
  Tobacco, recreational cannabis and other products of similar use (including plantations, processing, production and distribution of cigarettes, by-products of all kinds)

- **Activities potentially harmful to biodiversity**
  Production of GMOs for non-therapeutic use

4. Explanatory statement

Anaxis has defined an extensive exclusion list matched by few others in the portfolio management industry. However, this ambitious choice is not a revolution for us; it builds on a particular feature of our investment management philosophy which was already in place. We focus on portfolio strength, which means that we prioritise issuers whose business is considered more reliable, more predictable and less exposed to regulatory uncertainties or economic variations. This particular focus of our investment strategy allows us to seamlessly integrate ethical criteria. It enables us to more easily take account of the risks associated with bond investments. In terms of ethics, it also responds to the real social and environmental concerns outlined below.

Our scope of exclusion includes business sectors incompatible with the *France finance verte* Greenfin label (April 2019 version) introduced by the Ministry of Ecological and Solidarity Transition (MTES). It also covers sectors recommended for exclusion by the Global Investor Coalition on Climate Change (GICC, *Low Carbon Investment (LCI) Registry, Taxonomy of Eligible Investments*, 14 October 2015 version).

Fossil fuels

Coal is the highest-carbon energy source. Although coal power stations produce only 41% of energy worldwide, they are responsible for over 70% of the sector's greenhouse gases. Ever-aware of climate issues and the active role that financial institutions must play in energy transition, Anaxis has decided not to finance companies whose business is heavily dependent on coal in order to help lower emissions from coal power.

The same view is applied to the oil sector, as hydrocarbons are a major contributor to global warming and a substantial source of pollution. This environmental damage is aggravated by non-conventional forms of exploitation, such as shale oil and gas, tar sands extraction, hydraulic fracking, Arctic drilling or deep water drilling. For this reason, Anaxis excludes these forms of production.

Although natural gas can be considered less-polluting than other fossil energy sources, its continued use is not compatible with the need to reduce greenhouse gas emissions.

We also rule out activities aimed at improving the performance, efficiency or yield of fossil fuel sectors. Following the reasoning of the MTES and the GICC on this point, we feel that efforts must focus on the transition to sustainable energy sources and that activities helping to prolong the use of fossil fuels are not eligible.

Nuclear

Nuclear energy production does not contribute significantly to global warming and is often encouraged as it emits almost zero greenhouse gases. However, it constitutes a major threat to human health and that of the environment. The civil nuclear industry produces and accumulates large quantities of dangerous nuclear waste that is extremely difficult to treat, for which there is no satisfactory solution. The risk of radioactive spillages, industrial accidents or natural catastrophes can also be aggravated due to a lack of experience in decommissioning disused power plants. The economic rationale is not necessarily viable, as costs are frequently underestimated. Decommissioning financing requirements are only partially taken into account. Moreover, nuclear technologies, in particular uranium enrichment, may be used for military purposes and increase the risk of nuclear weapons proliferation.

Activities contributing to global warming

The activities mentioned contribute significantly to global warming, and therefore to the degradation of natural environments. They do not implement the practices necessary to limit, optimise or compensate for greenhouse gas emissions.

In the case of peatlands, it should be noted that they are composed of partially decomposed organic matter and store large amounts of carbon. Agricultural practices threaten peatlands due to soil drainage and fires caused by land clearing. These fires can be accidental, for example when burning gets out of hand, or criminal, as a means of settling disputes or driving out locals. Peatlands dried out by drainage are highly flammable. Huge fires have occurred, for example in the Amazon, Congo, and Indonesia, where they were responsible for 42% of the country's CO_2 emissions in 2015.

Polluting industries

This exclusion factor specifically aims to protect the natural environment and biodiversity by paying particular attention to the oceans and other aquatic ecosystems. Chemical pollution and plastic waste cause significant, often irreversible damage to natural environments. They contribute to the extinction of many species, in particular insects and amphibians, and create devastating imbalances such as eutrophication and the proliferation of green algae. Pollution also directly affects human societies by deteriorating water quality and impacting certain food resources, such as traditional fishing methods and fish and shellfish farming.

Weapons

We do not contest the legitimacy of national defence against dictatorial regimes, imperialist policies, totalitarian regimes or the threat of terrorism. However, we believe that our investments should not finance private commercial companies involved in the production of weapons and munitions or military systems, vehicles or equipment. We have therefore excluded this sector. We also exclude weapons for private use, as we believe in a state monopoly for the use of force. We are particularly opposed to legalising firearms.

The case of hunting weapons deserves particular consideration. We concede that some hunting activities are indeed respectful and committed to maintaining the balance of our relations with animals. Unfortunately, there are also more destructive, egotistical hunting practices targeting endangered species for use as trophies. It is also difficult to control the use of hunting weapons. We have therefore opted to exclude this sector as well.

Tobacco and drug abuse

The use of tobacco and certain other addictive products is legal (with major differences depending on the country). It can be perceived as a personal liberty. However, it undeniably poses a serious public health issue. The question does not only concern adults who chose to smoke and are fully aware of the risks involved, but also children and young people exposed to advertising and other promotional techniques that cause addiction and the associated dangers. We must also take into account the economic burden on healthcare systems – and thus for society on a broader scale. As such, ethical investing cannot finance the development of companies generating profits from selling products that are worthless and dangerous. These companies necessarily seek to promote this type of product.

Genetically modified organisms

Certain biotechnological research programmes are acceptable and should be encouraged, provided they are undertaken within a stringent framework. However, we have opted to exclude companies that produce GMOs for non-therapeutic purposes. This primarily concerns the large-scale genetic manipulation of plants and animals with the aim of enhancing agricultural yield. Some objectives may appear legitimate, such as improving productivity, increasing resistance to diseases and adapting species to drought conditions. In addition, human development has been accompanied by the improvement of domestic species since the Neolithic period – look at the difference between a modern ear of wheat and wild wheatgrass to see the progress made. However, we believe that the environmental repercussions from poorly managed GMO cultures and experimentation are not controlled sufficiently. Some practices aim to make farmers dependent to a certain extent upon major cereal producers.

5. Controversial weapons

Our sector exclusion policy ascribes a particular importance to banning controversial weapons, the humanitarian impact of which is disturbing. We support NGOs involved in the fight against controversial weapons. Six of these NGOs, including Handicap International and Human Rights Watch, received the Nobel Peace Prize in 1997 for their campaign supporting the Ottawa Treaty.

Reference texts

Our controversial weapons exclusion policy is based on the following texts:

- The Ottawa Anti-Personnel Mine Ban Convention of 3 and 4 December 1997;
- The Oslo Convention on Cluster Munitions of 3 December 2008;
- The 1972 Biological and Toxin Weapons Convention;
- Law No. 98-564 of 8 July 1998 aiming to ban anti-personnel mines;
- Law No. 2010-819 of 20 July 2010 aiming to ban cluster munitions;
- The AFG recommendations prohibiting the financing of cluster munitions and anti-personnel mines.

Applied principles

Our exclusion policy concerns the following controversial weapons:

- Anti-personnel mines;
- Cluster munitions;
- Biological weapons;
- Chemical weapons;
- Nuclear weapons.

Our exclusion policy applies to all companies involved in the development, manufacture, production, acquisition, storage, conservation, supply, sale, import, export, trade, brokerage, transfer, use or financing of these munitions.

Our exclusion policy applies to listed and non-listed companies, irrespective of their legal form, nationality and the locations in which they are involved in controversial activities, even if the activity in question is legally authorised in the countries concerned.

6. Criteria and thresholds

Criteria definitions

We set a maximum threshold, expressed as a percentage of turnover, for exposure to excluded activities. This threshold is calculated using aggregate exposure to excluded industries, so that an issuer may be excluded even if each individual activity represents a lower percentage of turnover.

Annual reports and other company statements are used as reference material for our analyses. Additional information may be drawn from other sources and by direct contact with companies in order to fine-tune our estimate of their exposure to excluded activities.

The investment committee can decide to lower the threshold in the event of aggravated environmental damages, or if a company breaches local or international standards or fails to respect its sector's best practices.

Activities subject to a higher threshold

Fossil fuels

Conventional activities

Activities directly related to the generation of energy from fossil materials are subject to a threshold of 5% of turnover. These activities are: (i) exploration, extraction, production and refining of fossil fuels, (ii) fossil fuel-based generation of electricity, heat or other forms of energy.

New controversial projects

Companies developing new projects in one of the following areas are also excluded, even if they fall within the 5% threshold: coal mining, shale gas exploitation, tar sands extraction, hydraulic fracking, Arctic drilling or deep water drilling.

Stricter exclusions

In addition to the exclusions indicated above that take into account the danger posed by certain existing operations, Anaxis undertakes to keep its portfolio allocation in coal and non-conventional oil and gas activities below 1%, and to completely exclude these activities by 2030.

In addition, new investments in fossil fuels will no longer be tolerated after 2030. Groups that make new investments in coal, oil, natural gas or other fossil fuels after 2030 will no longer be eligible for our portfolios, regardless of what percentage of their turnover is derived from this sector.

Nuclear

All nuclear-related activities mentioned in the description of our scope of exclusion are subject to the same threshold of 5% of turnover.

Tobacco and similar products

Because of its impact on public health, producers of tobacco, recreational cannabis and other products of similar use are limited to the threshold of 5% of turnover.

Weapons

In order to take into account the peculiarities of this sensitive sector, and to help reinforce generally accepted ethical standards, issuers are excluded if such production exceeds 10% of turnover.

Controversial weapons

With regard to controversial weapons, our sector exclusion policy is not based on any thresholds or level of activity. The exclusion policy is applied even if the controversial activity is marginal within the companies in question. Such companies are excluded whether their activity is related to controversial weapons or components used for controversial weapons.

Other activities excluded

The other activities mentioned in the description of our scope of exclusion are subject to a threshold of 20% of turnover.

Associated activities

Our sector exclusion policy covers companies involved in broader industries closely linked to the excluded sectors in two particular situations.

1. For companies providing products or services specifically designed for an excluded sector, a 20% threshold is applied. Examples include oil drilling equipment or construction of gas-fired power plants.

2. We also exclude companies providing products or services with a broad range of uses, if more than 50% of turnover is generated from clients in sectors that are not in line with our policy. Examples include chemical additives used for water treatment and hydraulic fracking, and polymers used in the manufacture of plastic packaging and various other materials.

At the discretion of the investment committee, an exception can be made for legitimate services including technical surveillance of installations, health and safety, rescue, fire protection and best practices training. These businesses are not excluded, even if the clients operate within the sectors in question.

Affiliated companies

Applicable thresholds are determined with respect to the issuer of the security in accordance with the applicable accounting consolidation rules. Due to the specific nature of our private debt investments, we also consider these thresholds at the aggregate level of the companies backing the bond issue in question (this issue may be carried by a special purpose vehicle).

We have not adopted a punitive approach – we aim to encourage a transition towards a healthier economy. This means we do not exclude holding companies controlling excluded companies if the exclusion threshold has not been reached with respect to the holding group. We do not exclude jointly controlled companies either if their activity complies with our policy. For example, the same private equity fund can hold stakes in both excluded and eligible companies. The fact that both companies have the same reference shareholder does not exclude them.

However, an exception is made for controversial weapons; our exclusion policy covers companies directly or indirectly controlling another company involved in this business line, for example if they hold a majority of voting rights, are a reference shareholder or exercise significant economic influence.

Financial instruments

Our sector exclusion policy concerns all types of securities issued by excluded companies, as well as all securities that provide direct or indirect economic or financial exposure to excluded companies, including conditional or marginal exposure.

Market indices

Our sector exclusion policy does not apply to the major market indices. However, we systematically prefer any similar indices implementing an exclusion policy referring explicitly to the Ottawa Treaty and the Oslo Treaty, or whose objective is to respect consensus-based ethical criteria.

7. Integration into our investment process

Selection of investments

Our sector exclusion policy is based on a detailed analysis of the structure and activity of companies. It can therefore be seamlessly integrated into our investment process. An issuer’s compliance with our sector policy is assessed at the time the investment case is examined.

Review of positions

The securities and issuers in the portfolio are reviewed on an annual basis. If the review of a security in the portfolio reveals that the issuer no longer meets our criteria, the corresponding position must be sold within three months.

In order to take exceptional circumstances into account, the investment committee may decide to delay the sale of certain securities if their divestment prior to maturity would impair the financial interests of our investors, whether due to market volatility, low liquidity or a pending corporate action. Any such decision would have to be justified in an internal memo and validated by the head of compliance and internal control.

Repository

We have drawn up a list of securities covering our investment universe. The chief investment officer is in charge of updating this list, under the supervision of the risk manager. Any new investment proposals are examined in light of the criteria of our exclusion policy. The results of this analysis are summarised and formalised in a repository which lists all the excluded and eligible securities. Reasons for excluding securities are stipulated and any supporting documents are archived.

8. Controls

Compliance with our ethical management criteria is integrated into our risk control process. Controls are based on the repository of securities covering the investment universe.

Before investing, target securities are checked against our exclusion list at the order pre-allocation stage. The pre-allocation system rejects any securities appearing on our exclusion list. An alert is then sent to those in charge of operations and risk control. If the proposed securities are not explicitly approved, an alert is then sent to the investment committee, which deliberates on the compliance of the issuer in question.

The percentage of non-compliant securities held in the portfolio is checked daily by the risk controller. Portfolio managers are immediately alerted of any anomalies. The list of any non-compliant securities and the corresponding percentages are also indicated in weekly risk reports.

9. Further information

The Anaxis ethical management policy can be consulted on the company website at www.anaxis-esg.com. An update on policy implementation is included in the ethical investment annual rapport. The report is also available on our website, at the same address.

Further information is available by email at info@anaxiscapital.com. Investors can also request the list of excluded issuers and portfolio compliance indicators from Anaxis.

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