



## Exclusion in Thematics AM's responsible investment strategy

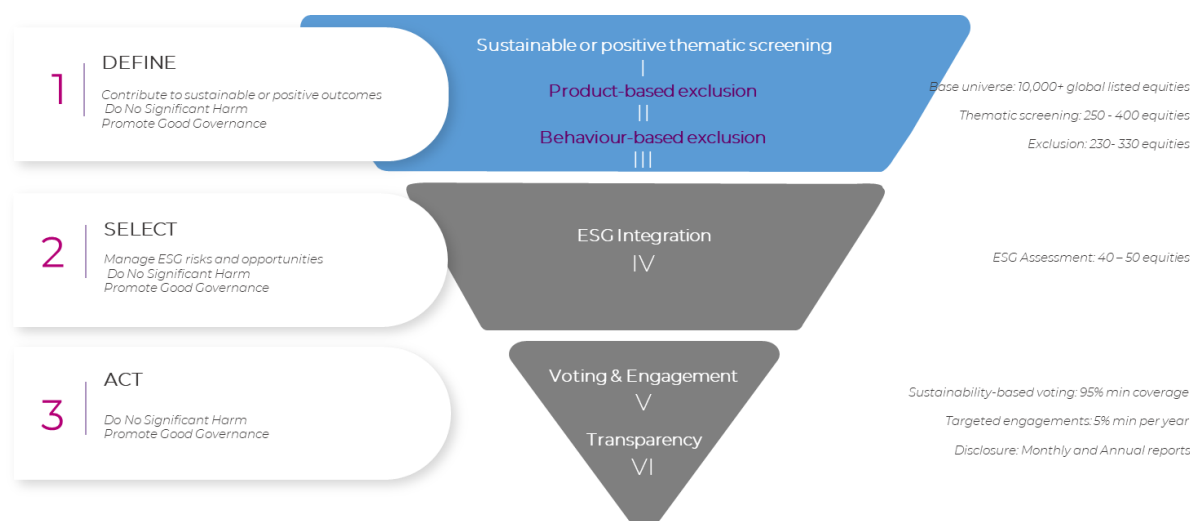
To achieve the sustainable investment objectives or to attain the ESG characteristics of its strategies, Thematics AM embeds Responsible Investment across the end-to-end investment process.

Thematics AM Responsible Investment Framework incorporates the following approaches:

- Sustainable or positive Thematic screening
- Product-based exclusion
- Behaviour-based exclusion
- ESG Integration
- Voting & Engagement

These approaches are applied across the three phases of the investment process of Thematics AM: Define, Select and Act - when we define the theme and its boundaries, when we select securities to comprise the final portfolio, and when we vote and engage with our investee companies post-investment. These approaches are employed systematically in all Thematics' AM strategies and are binding elements of the investment process.

The **product-based exclusion and behaviour-based exclusion** approaches are adopted in the Define Phase, when define the theme and its boundaries and when we build final portfolio, as illustrated below.



*Thematics Asset Management Responsible Investment Framework*

### Define

At the first stage of our investment process, we 'Define' our theme, its associated boundaries and ultimately the investable universe for the strategy. We set boundaries around what can and can't be considered appropriate for the strategy in question. We also apply product-based and behaviour-based exclusionary criteria at company and strategy level in order to do no significant harm and manage sustainability risks, recognising that even companies in positive thematic areas could have an adverse impact on society or the environment.

## Select

At the second stage of our investment process, we ‘Select’ companies that are suitable for investment.

ESG Integration is central at this stage. Our proprietary ESG scoring framework is used to assess the environmental, social, and governance risks and opportunities exposure of a security. It aims to mitigate sustainability risks and manage sustainability factors / impacts, and to maximise the value created through the ESG focus.

## Act

The third phase defines how we ‘Act’, in terms of sizing positions within the portfolio, and how we actively manage those positions.

‘Position Sizing’ is defined using thresholds that take ESG scores into consideration. Finally, ‘Engagement’ with companies on ESG issues and ‘Voting’ are core elements of our active ownership and engagement approach.

## Product- and Behaviour-based Exclusion

As a responsible investor, we seek to minimise the adverse impacts to society and the environment, do no significant harm, and manage the sustainability risks of our investments. Using a combination of third-party data from established ESG rating and research agencies, external databases, and our own internal research, we systematically exclude from our final portfolio companies exposed to the following:

- (1) Products considered to have negative impact to the environment and society from a sustainability and/or ethical perspective. This list of activities is selected based on common industry exclusion criteria and standards of sustainable product labels. This falls within the Product-based Exclusion approach of Thematic AM’s Responsible Investment (RI) strategy.
- (2) Businesses whose overall corporate behaviour is not aligned with or not in adherence to globally established standards and norms on sustainability<sup>1</sup>. This is an assessment of the impact that companies have on stakeholders and the extent to which companies cause, contribute or are linked to violations of international norms and standards. This approach falls within the Behaviour-based Exclusion of our RI strategy.
- (3) Companies exposed to high with negative outlook and/or severe level of environmental, social, and governance controversies. This approach is also part of the Behaviour-based Exclusion of our RI strategy.

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<sup>1</sup> Such as the United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises

## Product-based exclusion

The table below outlines Thematics AM’s global minimum exclusion policy, covering activities and thresholds applied across all our strategies.

PRODUCT	Screening Criteria
<b>ENVIRONMENTAL</b>	
Coal	To support the transition to a low carbon economy, we have been continuously reducing our exposure our to coal. Effective June 2021, we adopted the strictest threshold concerning coal. Thematics AM shall not invest in companies that generate more than 5% of revenue from this activity. In addition, the company’s absolute production of or capacity for thermal coal related-products or services shall not be increasing, nor should the company invest in new-build coal power plant projects.
Unconventional Oil and Gas	Our unconventional oil and gas policy covers oil sands, shale energy, and oil and gas resources located in the Arctic region. We exclude companies that generate more than 5% of their revenue from exploration and production of these resources..
General Power Generation Sector Policy	We exclude companies involved in power generation from non-renewable energy sources or those providing dedicated equipment or services, whose carbon intensities are not aligned with the 2 degrees scenario. The current annual threshold is 350 gCO2/kWh. The companies must also not be structurally increasing their production or capacity from these non-renewable energy-related products or services.
<b>SOCIAL</b>	
Conventional weapons	To support peace and disarmament efforts globally, while respecting countries’ rights to self-defence, we limit our involvement in companies that manufacture or provide weapons, weapon components, or tailor-made combat-specific products or services. Companies that generate more than 5% of their revenue from weapons systems or their key components are excluded. Companies involved in the provision of key combat-specific products or services are also excluded, with a threshold of 5%. In addition, we also exclude companies providing essential general defense and non-weapons products or services with a 10% threshold.
Small Arms	Companies that generate more than 5% of their revenue from the production and distribution of small arms and their key components, including provision of key services, are also excluded.
Controversial Weapons	We do not invest in companies involved in the production of weapons considered illegal under international law with a zero-tolerance policy. This covers the following weapons: <ul style="list-style-type: none"> <li>- anti-personnel mines;</li> <li>- cluster munitions;</li> <li>- biological and chemical weapons;</li> <li>- depleted uranium;</li> <li>- white Phosphorous;</li> </ul>

PRODUCT	Screening Criteria
	<ul style="list-style-type: none"> <li>- nuclear weapons.</li> </ul> <p>Our policy is aligned with the stipulations of international treaties governing the use and production of these weapons, such as the Oslo Convention and Ottawa Treaty.</p>
Tobacco	<p>While recognising individual freedom to choose what one consumes, Thematics AM recognises the risks posed by certain substances that contribute to serious health and environmental problems for users and others. We therefore limit our investments to tobacco. Companies generating more than 5% from the production and wholesale trading of tobacco products and from the provision of dedicated equipment or services are excluded.</p>
Genetically Modified Plant & Seeds	<p>Effective June 2021, we added in our exclusion those activities relating to the development and/or cultivation of genetically modified seeds and/or plants, as well as growing of genetically modified crops, with a 5% threshold.</p>
Human Embryonic Stem Cell Research	<p>We also added in our exclusion those activities relating to the use of human embryonic stem cells and the use of fetal cell lines for vaccine or biologics development. Companies generating majority of their revenue or have significant exposure to the use of embryo and/or fetal cell lines are excluded.</p>

Details of each exclusion is provided in the Appendices section.

## Behavior-based exclusion

In addition to the exclusion criteria based on product or activity involvement, Thematics AM also excludes companies that are (1) non-compliant to internationally agreed standards, norms, and regulations, and (2) exposed to high with negative outlook and/or severe level of environmental, social, and governance controversies.

### a. Non-compliance to international standards and norms

Companies are expected to operate within internationally accepted norms and standards related to human rights, labour rights, the environment, and business ethics. When companies fail to operate within these norms, they risk negatively impacting societal stakeholders and/or the environment. This poses reputational risks for the company and for those who invest in it, and it can potentially destroy shareholder value. International norms and standards covered under this approach are:

- United Nations Global Compact;
- United Nations Guiding Principles on Business and Human Rights (UNGPs);
- OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines);
- Related Conventions and Treaties.

Company assessments are based on a number of different dimensions, including impact, company responsibility and management, applying factors derived from international standards. A holistic assessment is made based on all dimensions to determine a company’s status: Compliant, Watchlist, Non-compliant.

A company is assessed as non-Compliant when it is determined to be causing or contributing to severe or systemic and/or systematic violations of international norms. In other words, a company is assessed as non-Compliant when it does not act in accordance with the principles and their associated standards, conventions and treaties.

Companies assessed as non-compliant include those that are directly associated with issues causing severe, irreversible impacts that affect stakeholders and/or the environment and interfere with the enjoyment of rights and/or impose a clear cost on society. Companies displaying inadequate responses to address or remediate the issues at hand, including attempts to conceal their wrongdoing and/or involvement, are also assessed as non-compliant. All Non-compliant companies form the ‘behaviour-based’ exclusion list of Thematics AM.

CRITERIA	Scope
<b>ENVIRONMENTAL</b>	
Environmental protection	We exclude companies that are repeatedly facing grave and controversies relating to their impact on the environment and/or have demonstrated systematic failure to address or mitigate allegations of environmental harm – as well as those where there is an absence of any environmental risk management policy across the company’s operations. This is an encompassing criterion covering all environment-related issues, including climate change, biodiversity loss, and pollution, among others.
<b>SOCIAL</b>	
Human Rights	We exclude companies that are violating international agreements, standards, and directives in human rights protection, either deliberately or through neglect. These include: <ul style="list-style-type: none"> <li>- Those facing repeated allegations of severe human rights abuses;</li> <li>- Those where there is a repeated or systematic failure to address or mitigate allegations of human rights abuses and an absence of any human rights policy across the company’s supply chain.</li> </ul>

CRITERIA	Scope
Labour Rights	<p>We exclude companies that are violating international agreements, standards, and directives in labour standards, either deliberately or through neglect. These include companies facing repeated allegations of severe or significant violations or fines and failure to address or mitigate issues relating to:</p> <ul style="list-style-type: none"> <li>a. Health &amp; Safety of staff and suppliers;</li> <li>b. Child Labour;</li> <li>c. Modern Slavery</li> </ul>

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## GOVERNANCE

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Business Ethics	<p>We exclude companies that are violating international agreements, standards, and directives on business ethics, either deliberately or through neglect. These include repeated allegations of severe or significant violations or fines relating to:</p> <ul style="list-style-type: none"> <li>a. Corruption</li> <li>b. Extortion and bribery</li> <li>c. Competition Laws, Tax avoidance</li> </ul>
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### b. ESG Controversy Management

In addition to excluding non-compliant companies to sustainability norms and standards, Thematics AM also excludes from its investable universe any companies that are exposed to high with negative outlook and/or severe risk level of ESG controversies.

A controversy is any event or aggregation of events relating to an ESG topic. It can be any incident or record of an activity by a company that may have unintended and/or undesired negative sustainability impacts on the environment, society or other stakeholders. The corporate “activity” creating a negative impact can be a single incident (i.e. a mine explosion) or an ongoing activity (the use of child labour in factories). The highest event rating under one controversy indicator or issue automatically becomes the Controversy Rating. Controversy ratings also follow the five-level hurricane scale:

**Category 5 – Severe** – The Event has a severe impact on the environment and society, posing serious business risks to the company. This category represents exceptional egregious corporate behaviour, high frequency of recurrence if incidents, very poor management of ESG risks, and a demonstrated lack of willingness by the company to address such risks.

**Category 4 – High** – The Event has a high impact on the environment and society, posing high business risks to the company. This rating level represents systemic and/or structural problems within the company, weak management systems and company response, and a recurrence of incidents.

**Category 3 – Significant** – The Event has a significant impact on the environment and society, posing significant business risks to the company. This rating level represents

evidence of structural problems in the company due to recurrence of incidents and inadequate implementation of management systems or the lack of.

Category 2 – Moderate – The Event has a moderate impact on the environment and society, posing moderate business risks to the company. This rating level represents low frequency of recurrence of incidents and adequate or strong management systems and/or company response that mitigate further risks.

Category 1 – Low – The Event has a low impact on the environment and society, and risks to the company are minimal or negligible.

The Outlook is a forecast of how an Event Rating will evolve over a 12 to 24-month period based on a set of criteria such as the company's risk factors, its management systems, and the external political and business environment. A Negative outlook indicates that the company's overall assessment status is likely to be downgraded over the next 12 to 24 months due to negative developments.

For stocks that are already part of Thematics portfolios that get exposed to high with negative outlook and/or severe risk level of ESG controversies post investment, a capping to 2% of the position size (if currently higher) is required. For each strategy, the total number of capped securities cannot be more than five. Further, targeted engagement with the company is initiated. The cap would be lifted if sufficient performance improvement is demonstrated within 6 months. Portfolio Managers will exit the investment otherwise.

## Implementation

### Product and Behaviour Exclusion List

The Exclusion list is built using the screening data from third-party research, external databases, and internal research. The list is updated, twice a year, every 01 January and 01 July, and is hard-coded into the trading platform. This ensures that there is an automatic block and no transaction is carried out in entities in the exclusion list. The list is reviewed and validated by the Responsible Investment Committee.

### Data sources

- Sustainalytics
- ISS
- Global Coal Exit List
- Bloomberg ESG
- Internal ESG Research

### Controversies exclusion list and continuous monitoring

The exclusion list of companies exposed to High (Negative Outlook) and Severe risks is built using Sustainalytics Controversies data. The list is also updated twice a year, every 01



January and 01 July, and is hard-coded into the trading platform. As new controversies exposure can arise any time post-investment, new controversies exposure or change in the risk level are monitored continuously and the exclusion list is updated accordingly. This review is conducted real-time and any breach will trigger the capping and engagement as described above.

## Performance disclosure

### *Monthly reporting*

For all Thematics AM funds, we publish a monthly Factsheet containing a dedicated sustainability performance section containing a number of key performance indicators (KPIs), including one relating to the exclusion approach:

- Exposure to ESG controversies

### *Annual reporting*

All Thematics AM funds, through their annual sustainability report, disclose on a number of sustainability KPIs including the following that relates to product-based exclusion and behaviour-based exclusion approaches:

- Percentage of the Fund's assets under management of issuers generating more than the internally defined thresholds (% of revenue exposure) from harmful and/or controversial activities.
- Percentage of the Fund's assets under management of issuers whose behaviour and overall performance are considered non-compliant to established global sustainability norms and principles governing corporate behaviour.
- Percentage of Fund's assets under management of newly invested issuers that have already high with negative outlook and/or severe ESG controversies at the time of investment
- Number of already invested issuers that becomes exposed to high with negative outlook and/or severe ESG controversies and within a 6-month time frame: are not engaged or, are engaged but do not demonstrate sufficient performance improvement.

## Appendix

### General Power Generation Sector Policy

#### Scope

Electricity production generates the largest greenhouse gas emissions globally. Transitioning to a greener and low carbon economy requires a shift away from the burning of coal, natural gas, and oil for electricity and heat. Thematics AM excludes companies in the power generation industry whose energy comes from non-renewable sources and whose carbon intensity are not aligned with the 2-degree scenario. This is progressively reduced on an annual basis. Currently, Thematics AM's maximum threshold is 350 gCO<sub>2</sub>/kWh. Companies must also not be structurally increasing their generation capacity on these non-renewable energy-related products or provision of services. In addition, Thematics AM actively monitors and engages with companies to put in place climate risk management and disclosure, in particular around risk management strategies and transition plans, including committing to Science-based targets towards well-below 2 degree Celsius.

*Threshold: 350 gCO<sub>2</sub>/kWh*

### Coal

#### Scope

Coal is the most carbon-intensive fuel and the largest source of electricity and the second-largest source of primary energy worldwide. As a result, CO<sub>2</sub> emitted from coal combustion is responsible for over 0.3°C of the 1°C increase in global average annual surface temperatures above pre-industrial levels. This makes coal the largest single source of global temperature increase.

We exclude companies involved in the exploration, mining, extraction, and production of energy from thermal coal; transportation, distribution, or refining; building or operating coal-fired power plants; providing critical services or dedicated equipment to coal power plants. Our exclusion covers exploration, mining, extraction, and production of energy from thermal coal; transportation, distribution, or refining; building or operating coal-fired power plants; providing critical services or dedicated equipment to coal power plants. We also exclude whose revenue share from coal is structurally increasing or are investing in new coal power plants.

*Threshold: 5% of revenues*

### Unconventional Oil & Gas

#### Scope

Unconventional oil and gas production from tar sands and oil shale pose environmental, climate and societal risks. They are energy- and water- intensive to produce. They are also linked to significant land disturbances associated with surface mining. The upgrading of bitumen contributes significantly to air pollution in the form of SO<sub>x</sub> (Sulphur Oxide), SO<sub>2</sub> (Sulphur Dioxide) and NO<sub>x</sub> (Nitrogen Oxide). These elements also contribute to soil and water source acidification. Our exclusion covers: exploration, extraction, and provision of critical infrastructures or services to tar sands, shale oil, shale gas, and arctic drilling.

*Threshold: 5% of revenues*

## **Conventional Oil & Gas**

### *Scope*

Oil and gas represents 55% of the world's primary energy use. Oil and Gas production is highly carbon intensive, generating roughly one tenth of global GHG emissions. Oil and gas, which are primarily combusted as fuels, result in greenhouse gas emissions (GHGs) globally as well as localized pollution impacts, and are responsible for roughly half of all anthropogenic emissions. Integrated Oil and Gas companies are among the largest companies globally, and are major emitters of GHGs throughout the exploration, production and refining processes. The functioning of the global economy currently depends heavily on oil and gas, underlining the importance of companies in this sector to put in place carbon management and transition plans.

Our exclusion covers exploration, extraction, refining and transportation of oil and gas, as well as provision of dedicated products or services.

Threshold: 5% of revenues

## **Tobacco**

### *Scope*

Tobacco is one of the biggest public health threats the world has ever faced. It kills up to half of its users. Tobacco kills more than 8 million people each year. More than 7 million of those deaths are the result of direct tobacco use while around 1.2 million are the result of non-smokers being exposed to second-hand smoke. While we recognise people's right to choose activities or consumption they want to pursue, we take into account products that have impact on health and the environment, both of the users and others.

Our exclusion covers: production and wholesale trading of tobacco products, as well as the provision of dedicated equipment or services.

*Threshold: 5% of revenues*

## **Genetically modified plants and seeds**

### *Scope*

GMO is defined as an organism whose genetic characteristics have been altered by the insertion of a modified gene or a gene from another organism using the techniques of genetic engineering. The use of genetically modified seeds is considered controversial due to health and socio-economic concerns, as well as environmental risks associated with the spreading of GMOs to other plants in the ecosystems. There are also increasing concerns around pesticide resistant weeds and insects due to increased use of chemicals. On the other end, proponents of GMO argue that the GMO plants and seeds are important part of the solution to the issue of global food security, as plants and seeds with certain properties such as drought or pest resistance or increased yields can be developed with the GMO techniques.

Our exclusion on this contentious issue covers involvement in the development and growth. Companies that develop or cultivate genetically modified plants and/or seeds, and those that grow genetically modified crops are excluded. This exclusion does not capture companies

that only use or process genetically modified seeds, crops or plants, as well as those activities related to processing or retail of genetically modified plants.

*Threshold:* 5% of revenues

## **Human Embryonic Stem Cell Research**

### *Scope*

Embryonic Stem Cells are pluripotent cells that can differentiate into any cell of the body and derived from the inner cell mass of the blastocyst, an early-stage embryo that reaches this stage 4-5 days post fertilization. Fetal cell lines are not stem cells but are derived from a fetus and then replicated to create cell lines that can be used indefinitely. The WI-38 and MRC-5 lines are the most widely used. The use of fetal cell lines for vaccine or biologics development refers to the use of fetal cell lines for vaccines for flu, MMR, hepatitis A & B, smallpox, chicken pox and shingles along with tumor vaccines.

The ethical and political controversy surrounding this research arises from the harvesting of cells for research. The most flexible stem cells are obtained from embryos. A fertilized egg forms a blastocyst 4 days after conception. This blastocyst has two types of cells; an outer layer (which becomes the placenta and other supporting tissues needed for fetal development) and an inner cell mass (the stem cells). In order to harvest these cells, they are removed from the blastocyst, a process that destroys the embryo. Because of their utility in regenerative medicine and tissue replacement after injury or disease, evolutions in stem cell research involving embryo and fetal cell lines also generate legal and reputational risks.

Our exclusion covers companies involved in the use of human embryonic stem cell and use of fetal cell lines. Disclosure and information on this type of activities are limited and revenue can be hardly calculated meaningfully. As our third-party data provider does not provide the revenue estimation, our exclusion is aimed at companies whose activities in HESC and fetal cell lines represent a majority of their business activities or majority of their products are developed using these processes.

*Threshold:* Significant exposure | Majority of revenue

## **Controversial Weapons**

### *Scope*

Although there is no universally accepted definition of controversial weapons, certain weapons cause disproportionate and indiscriminate impact on civilians during and after the conflicts. Considering international agreements and conventions, we consider as controversial weapons:

- **Anti-personnel mines:** The Ottawa Treaty (1997) prohibits the use, stockpiling, production and transfer of anti-personnel mines
- **Cluster weapons:** The Convention on Cluster Munitions (Oslo Convention, 2008) prohibits the use, stockpiling, production and transfer of cluster munitions
- **Nuclear weapons:** The Treaty on the Non-Proliferation of Nuclear Weapons (1968) aims at limiting the proliferation of nuclear weapons to the group of so-called Nuclear-Weapons States (USA, Russia, the UK, France and China)

- **Biological and chemical weapons:** The Chemical Weapons Convention (1997) and the Biological Weapons Convention (1975) prohibit the use, stockpiling, production and transfer of biological and chemical weapons
- **Depleted uranium weapons:** Are considered as “depleted uranium weapons”, munitions and armour containing uranium depleted in the isotope 235 below that occurring in nature or any other type of industrial uranium
- **White Phosphorous**

Our policy is aligned with the stipulations of international treaties governing the use and production of these weapons, such as the Oslo Convention and Ottawa Treaty. Thematics AM will not invest in companies which operate activities related to research, production, storage, of any of the above weapons’ systems. It covers the full weapons, their essential key parts, as well as related key services.

*Threshold:* Zero tolerance

## **Weapons manufacturers**

### *Scope*

In addition to the Controversial Weapons policy noted above, this policy provides an assessment of whether companies derive revenue from the manufacturing of weapons or weapon components or from providing combat-specific key products or services to the army or the defence industry. While a country’s right of self-defence is a cornerstone of international law, enshrined in the UN Charter (Article 51) and numerous Security Council Resolutions, military contracting (also referred to as the armaments or defence industry) can be considered controversial for reasons of pacifism, asymmetric defence-related purchasing power between countries, negative effects on economic growth and development particularly in post-conflict areas as a result of defence spending, potential issues around transparency and corruption, and its potential for (re-)fuelling wars and conflicts.

The policy examines the percentage of revenue derived by companies that manufacture weapons or weapon components and parts or from providing tailor-made products or services to the army or the defence industry. It does not include companies that provide dual use products and services or products of strict civilian use.

The policy covers two categories:

1. Weapons- or combat- related
  - **Weapons:** The company manufactures military weapon systems and/or integral, tailor-made components of these weapons. Weapons include handguns, guns, ammunitions, missiles, military aircrafts, tanks, warships, nuclear warheads, defence components and systems, training/combat simulators, parts and components (though not raw materials)
  - **Weapon related products and/or services:** The company provides tailor-made products and/or services that support military weapons
  - **Tailor-made products:** Tailor-made products are not always obvious to identify. Tailor-made products include, for example, special fabrics for bulletproof vests, electronic systems for military aircrafts, etc. Certain

providers of services to the weapons or defence industry are also included, such as those providing services for the maintenance of military combat aircrafts

2. Non-weapon- or non-combat-related

- Non-weapon related products and/or services: The company provides non-weapons related tailor-made products and/or services to the military or defence industry

*Threshold:*

Weapons- or combat-related: 5% of revenues. In the case of involvement through a subsidiary or investment, we apply the same threshold – parent companies whose revenue share based on shareholding represent more than five percent of the parent company's total revenue are excluded.

Non-weapons- or non-combat-related: 10% of revenues

In addition to the investment principles quoted above, Thematics AM excludes a company which controls an excluded company but will not exclude, on this very ground, a company partially owned but not controlled by an excluded company.

## Legal Information

### **Thematics Asset Management**

An affiliate of Natixis Investment Managers.

A French SAS (Société par Actions Simplifiée) with a share capital of €191 440. RCS Paris: 843 939 992. Regulated by the AMF (Autorité des Marchés Financiers), under no GP 19000027.

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