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Exclusion policy – Finaltis EfficientBeta Euro

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## I. Context

Finaltis signed the PRI in 2018 and is committed to continuously improve the inclusion of ESG criteria in all of its investment solutions. Finaltis obtained the rating « A » to the PRI Due Diligence Questionnaire in 2018.

As an asset manager, Finaltis establishes its investment decisions as a way to contribute to a better and decarbonated future. This exclusion policy is based on the following statements:

- The world is facing several challenges which represent major threats for the Earth and its inhabitants
- Some economic activities contribute to the aggravation of this threats
- We can have a positive impact by not financing these activities anymore and we think this will also contribute to the improvement of Finaltis EfficientBeta Euro's performance

Finaltis has developed its exclusion framework in accordance with the following points:

- A common exclusion list should be shared by all investments of Finaltis.
- An additional layer of exclusions will address the specificities of the fund:
  - o the labelling objective
  - o the systematic philosophy of the fund
- The collegiality is the cornerstone of the ESG effective implementation: every non-systematic decision must be debated by the ESG committee
- The implementation of the exclusion policy should request resources consistent with the size of Finaltis.

## II. Exclusion framework

### II.1 Fund-specific exclusion policy : Norm-based and sector-based exclusions

#### II.1.1 *Hard exclusions*

##### II.1.1.1 *Controversial weapons*

This includes weapons that have indiscriminate effects, cause undue harm and are **incapable of distinguishing between civilian and military targets**. Controversial weapons refers to:

- anti-personnel mines
- cluster munitions
- biological and chemical weapons
- white phosphorus
- depleted uranium weapons
- nuclear weapons.

#### i. Anti-personnel mines

In 2010, 5 554 victims related to anti-personnel mines were reported. 80% of them were civilians.

Adopted in 1997, the **Ottawa Convention** bans the use, the stockpiling, the production and the transfert of anti-personnel mines.

France, as a signatory, has complied to this Convention since July 1998.

Finaltis EfficientBeta Euro excludes the companies involved in the use, the stockpiling, the production the sales, or the distribution of the **anti-personnel mines**.

ii. Cluster munitions

According to the Oslo Convention on Cluster Munitions, a cluster munition is a “traditional munition that releases or ejects smaller submunitions, each one weighting at least 20 kilograms”.

The probability to reach civilian zones is then higher. Between 5% and 40% of cluster munitions don't explode at the first impact, meaning that they become anti-personnel mines and represent an extremely high threat for the civilians. On December 3, 2008, France, alongside 95 other countries, signed this treaty, which came into effect in 2010.

Finaltis EfficientBeta Euro excludes the companies involved in the use, the stockpiling, the production, the sales, or the distribution of cluster munitions mentioned in the **Oslo Convention**.

iii. Biological and chemical weapons, white phosphorus, depleted uranium weapons and nuclear weapons

Additionally, Finaltis EfficientBeta Euro excludes companies involved in production sales or distribution of biological and chemical weapons, white phosphorus, depleted uranium weapons, and nuclear weapons.

The standards applied to define these weapons are based on the following conventions:

- The Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (**Biological**) and Toxin Weapons and on their Destruction (26 March 1975)
- The Convention on the Prohibition of the Development, Production, Stockpiling and Use of **Chemical** Weapons and on their Destruction (29 April 1997)
- The Convention on Conventional Weapons (1983) for the **white phosphorus**, which bans its use as an incendiary weapon against civilian populations or in air attacks against enemy forces in civilian areas.
- Insofar, **depleted uranium** munition is not covered by any treaty because the direct effect of depleted uranium munition is a mere physical impact, whereas incendiary effects or intoxication occur only as a side-effect after the time of direct exposure. However, Finaltis EfficientBeta Euro consider it as a controversial weapon since it can reach civilians, and therefore excludes companies involved in the production, sales or distribution of depleted uranium weapon.
- The Treaty on the Non-Proliferation of **Nuclear Weapons** (1970)

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.

Tobacco causes more deaths than AIDS, drugs, road accidents, murder and suicide combined.

Tobacco deepens poverty by diverting some expenses that could have been dedicated by households to essential needs, such as food or accommodation. This behavior is hard to revert to the high dependency to tobacco. The economic costs due to tobacco are significant: it is about healthcare and the human capital lost. This cost is estimated at more than \$ 1 400 billion per year, or 1,8% of the global Gross Domestic Product.

There is no threshold below which smoking, even passive smoking, is harmless. In some countries, children from poor households work in tobacco cultivation to supplement their families' income. These children are particularly at risk of "green tobacco disease," caused by skin absorption of nicotine when handling wet tobacco leaves.

Source : World Health Organization, 2019

Finaltis EfficientBeta Euro's tobacco exclusion policy seeks to avoid investment in companies that are direct manufacturers and/or distributors and/or sellers of cigarettes, cigars, roll-your-own tobacco, and pipe tobacco. Finaltis EfficientBeta Euro considers direct manufacturers of cigarettes, cigars, roll-your-own tobacco, and pipe tobacco to be companies which generate greater than 5% of their revenues from this activity. Finaltis EfficientBeta Euro considers distributors of cigarettes, cigars, roll-your-own tobacco, and pipe tobacco to be companies which generate greater than 15% of their revenues from this activity.

#### II.1.1.3 Nuclear energy

The use of Nuclear Power has advantages in that it has low CO2 emission, is not a scarce resource, and that some isotopes can be used for medical applications. Significant downsides are the substantial environmental damage and long-term health concerns for living organisms in case of accidents, nuclear waste disposal, and potential usage of waste as input for nuclear weapons.

Finaltis EfficientBeta Euro excludes all companies whose more than 5% of their annual turnover comes from the production, sales and/or distribution of nuclear energy.

#### II.1.1.4 Controversial behaviour

Companies of all sectors and in all countries can profoundly impact the human rights of employees, consumers, and communities. Negative impact can be polluting the environment, underpaying workers, or evicting communities. The responsibility of companies and their shareholders in managing these adverse impacts have been a recurrent theme of debate.

Finaltis uses the UN Global Compact to identify and assess the Responsible conduct of businesses and potential human rights violations. The 10 principles of the UN Global Compact cover human rights, labour rights, the environment and corruption. They provide a good framework for companies to commit to and for investors to measure progresses.

The integration of the UNGC is classified in 3 levels: poor, limited, good.

All equities with poor integration are excluded from the portfolio because they have significant breaches of these principles and guidelines and cannot be part of Finaltis EfficientBeta Euro's investment universe.

Finaltis EfficientBeta Euro aims at undertaking an engagement process with companies which have limited level on integration of the UNGC.

#### II.1.1.5 Controversial Jurisdictions

Investments in countries identified in the United Nations Security Council Sanctions (countries that face **economic, trading, or diplomatic limitations due to their criminal or peace-violating activity**) and high risk jurisdictions identified by the Financial Action Task Force (**anti-money laundering, terrorism financing**) are excluded.

Should these lists change over time, this policy will be updated accordingly. At the time of publication of this policy, the list of countries is as follows:

- United Nations Security Council Sanctions' list:
  - Afghanistan
  - Central African Republic
  - The Democratic Republic of the Congo
  - Iran
  - ISIL and Al-Qaida
  - Libya
  - Mali
  - North Korea
  - Somalia
  - Sudan
  - Yemen

Finaltis EfficientBeta Euro does not financially support companies which invests in the countries/organizations listed above.

#### II.1.1.6 Gambling

Whilst gambling can be a source of employment and leisure, it can lead to an addiction and have several negative impacts (over-indebtedness, social isolation...)

Every company involved in gambling should have a material policy to prevent underage gambling and to reduce the gambling addiction risk. They also should have tools to detect vulnerable gamblers.

Finaltis Efficient Beta does not invest in companies whose turnover comes from more than 10% of gambling.

### II.1.2 Flexible exclusions

#### a) Alcohol

Finaltis EfficientBeta Euro excludes companies which does not have a reasonable drinking policy.

Furthermore, if a company has a major involvement in a controversial activity related to alcohol, our team will carry out an additional extra-financial analysis in order to determine, on a case-by-case basis, whether this company should be excluded from Finaltis EfficientBeta Euro's investment universe or not.

#### b) Illegal Drugs

Finaltis Efficient Beta does not invest in companies involved in the production, distribution and selling of illegal drugs.

If a company has a major Involvement in a controversial activity related to recreational drugs, our team will carry out an additional extra-financial analysis to determine, on a case-by-case basis, whether this company should be excluded from Finaltis EfficientBeta Euro's investment universe or not. For instance, we do make an exception when the sales occur in countries where drugs, such as cannabis, are legalized: in this case, we do not consider that the company is having controversial activities thus, we will not exclude it from or investment universe.

#### c) Adult entertainment / Pornography

The adult entertainment / pornography industry is widely criticized for several reasons, among which

- Regressive and stereotypical image of genders
- deplorable labor conditions, against human dignity
- contribution to the spread of Sexually Transmitted Diseases

Looking at the companies involved, it appears that the adult entertainment / pornography industry is a privately-owned industry, with a very limited number of publicly listed producers, if any.

Finaltis is skeptical that this economic sector would be contributing positively to the long-term sustainable development of populations. Finaltis also believes that there is a significant risk that the adult entertainment / pornography industry indirectly fails to comply with human rights principles, both because of labour practices (notably the risk of human exploitation) and because of its societal impact on consumers.

Furthermore, if a company has a major involvement in a controversial activity related to adult entertainment, our team will carry out an additional extra-financial analysis in order to determine, on a case-by-case basis, whether this company should be excluded from Finaltis EfficientBeta Euro's investment universe or not.

In addition, Finaltis EfficientBeta Euro may introduce a revenue contribution threshold to decide on the exclusion of these companies.

d) Fossil fuels

63% of the world's electricity production comes from fossil fuels (coal, oil and natural gas), coal being the most polluting of them and responsible for 40% of the greenhouse gas emissions linked to electricity production. (Source: International Energy Agency, 2021)

- Oil & gas : In accordance with the Fund's ESG policy, Finaltis EfficientBeta Euro adopts a "Best in Class" approach and excludes companies in the bottom quartile of ESG ratings in this sector.
- Coal : Finaltis EfficientBeta Euro excludes companies that derive at least 10% of their turnover from coal.

Furthermore, if a company has a major involvement in a controversial activity related to fossil fuels, our team will carry out an additional extra-financial analysis in order to determine, on a case-by-case basis, whether this company should be excluded from Finaltis EfficientBeta Euro's investment universe or not.

## II.2 Finaltis *Common ESG Core*, a company-level exclusion policy : Norges Bank conduct-based exclusion list

As part of its fiduciary duties towards its clients, Finaltis has decided to apply a common core of responsible investment process, from the smallest discretionary mandate to the biggest mutual fund.

In our discretionary (non-systematic) asset management, the ESG integration is mainly based on governance topics. For instance, Finaltis Titans only invests on quality stocks: to assess the inclusion of a stock in its universe, the manager analyses, among others, the quality of the company governance.

Given this strong knowledge of governance issues, we chose to focus the *common ESG core* on the environmental, social and societal issues and to base it on external well-accepted standards. The UNGC (United Nations Global Compact) is therefore the basis of our policy.

Unlike Finaltis Efficient Beta Euro, whose stocks are well studied by our data provider, discretionary management invests in international and thematic stocks whose ESG data can be more erratic, particularly on controversial behaviors. We therefore selected the conduct-based exclusions of the Norges Bank, which has a very important power of analysis, and has ethical criteria close to UNGC. The blacklist of the Norwegian Government Pension Fund Global is often viewed as a reference for the exclusion policy.

In addition to norm- and sector-based exclusions, which applied specifically to Finaltis Efficient Beta Euro, Finaltis applies this list to all his mutual funds and discretionary portfolios.

The Norwegian Government Pension Fund Global has a market value above €1.100 billion (in 2021), which gives them means far superior to any data provider to monitor and invest the controversies about the companies.

Some exceptions can be made if the ESG analysts can prove the inclusion on the list is not linked to a breach of the UNGC (United Nations Global Compact). Every exception has to be debated and approved by the ESG committee. The rationale of the possibility of exceptions is the political influence<sup>1</sup> which may lead to brutal changes in the list and the potential culturally- and geographically-biased views of the Norwegian Council on Ethics which can diverge from the globally accepted views on environmental and social challenges. As of September 2021, no exception has been made.

These companies are deemed by the Norges Bank as contributing to or responsible for:

- Serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour;
- Serious violations of the rights of individuals in situations of war or conflict;
- Severe environmental damage;
- Acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions;
- Gross corruption; and
- Other particularly serious violations of fundamental ethical norms.

### III. Implementation, governance and monitoring of the exclusion policy

The basis for the assessment of the controversial activity involvement is the Vigeo classification (“major” vs “minor”).

Our extra-financial analysis team can also consult public data such as annual sustainability reports, published by the companies under scrutiny.

Some raw data of involvement in controversial activities request deeper analysis, conducted by our ESG analysts.

This is particularly the case of indirect involvement: we consider an indirect involvement through subsidiaries only if the parent company has a decision-making stake in the subsidiary.

We also consider a misuse of a generic product (not designed specifically for the controversial activities) is not a proof of involvement in a controversial activity.

The involvement assessment has to be conducted by the ESG analysts independently of the fund management, under the supervision of the risk manager or of the compliance officer. It leads to the production of a report which has to be debated and approved by the ESG committee.

The governance of the policy is the responsibility of the ESG committee. Every modification to the policy has to be debated by the committee and disclosed in the committee report.

The risk controller is in charge of the on-going monitoring of the compliance of the portfolio with the exclusion list.

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<sup>1</sup> *Norway grapples with rising political influence of \$1.4tn oil fund*, Financial Times, September 2021  
<https://www.ft.com/content/8574bd97-86e2-4665-9192-93dfde877d52>

Before the quarterly rebalancing of the portfolio, the fund manager submits the candidate portfolio to the ESG committee which carries out a comprehensive audit in accordance to the exclusion policy. In case of unclear involvement in one of the controversial activities mentioned above, it can charge the ESG analysts to conduct an in-depth analysis with data from our providers or publicly available.