

Exclusion list ABN AMRO Investment Solutions

Extract from AAIS' internal Sustainable Investment Policy
Component of AAIS' Sustainability Risk Policy Framework in the sense of article 3 of the Sustainable Finance Disclosure Regulation
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I. Background

ABN AMRO Investment Solutions ("AAIS"), in its capacity of Management Company under the authority of the French Autorité des Marchés Financiers (AMF) and signatory to the Principles for Responsible Investment (PRI) via its parent company ABN AMRO, has a fiduciary duty. This fiduciary duty implies that our clients expect from us that we manage their portfolios in line with their best interests. To begin with, this means mitigating financial risks. Sustainability risk is an important driver of financial value, this is confirmed by the regulatory definition of sustainability risk: *"an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment."* At the same time, we are driven by a more holistic point of view: we aim to provide investment solutions that are serving the best interest of generations to come.

We exclude companies active in certain industries or involved in certain activities. We do this because we believe these investments may cause "financial value at risk" and/or reputational risks (entire fund range), and/or are not in line with our purpose and ethical values (funds classified under SFDR article 8 and 9).

This memo intends to provide an overview of the exclusions ABN AMRO Investment Solutions has in place, explaining the rationale behind each exclusion. These exclusions are in line with ABN AMRO's Sustainability Risk Policy Framework and ABN AMRO Investment Solutions Sustainable Investment Policy.

The exclusions are applicable to the funds onboarded on our platforms and are part of AAIS' Sustainable Investment Policy. To the extent that this is not yet the case, these exclusions will be incorporated in the funds' prospectus. AAIS has controls in place to verify that the portfolios onboarded on our platforms meet these exclusions.

Finally, in line with AAIS' policies regarding Anti-Money Laundering and Terrorism Financing ("AML-FT"), we exclude all securities issued by issuers from countries presenting shortcomings on AML-FT ("Blacklist for Countries"). These securities are excluded from all funds we manage, directly or through a delegation agreement. The Blacklist for Countries is updated several times per year, in line with the latest Financial Action Task Force, European Union & OECD publications.

II. Explanation of exclusions in place related to corporates

Exclusions applicable to the entire fund range (no tolerance)

1. **Controversial weapons.** Controversial weapons are weapons that have a disproportionate and indiscriminate impact on civilians. In Appendix 1 we explain this exclusion in more detail.
2. **Companies that are non-compliant with the 10 principles of UN Global Compact.** UN Global Compact has formulated 10 principles that define the minimum fundamental requirements for doing business in a responsible way. These principles should be respected regardless of where a company is active. Good practices in one area cannot offset harm in another. Via our parent company ABN AMRO, we are a member of UN Global Compact. Therefore, ABN AMRO Investment Solutions excludes companies that are non-compliant with the ten principles. These include two principles on human rights (1 and 2), four principles on labour rights (principles 3, 4, 5 and 6), three environmental principles (principles 7, 8 and 9) and a governance principle (principle 10).¹
3. **Tobacco producing companies, e.g., growers and manufacturers of tobacco.** Since 2017, our parent company ABN AMRO has withdrawn from financing in Tobacco producing companies, in cooperation with the Dutch Heart Foundation. Since April 2018 this exclusion is also valid for investment products. According to ABN AMRO, the core activity of the tobacco industry is not compatible with the core values of the bank. Next to serious health (human rights) implications of the product itself, the production of tobacco is linked to serious sustainability risks. Tobacco production is linked to serious labour issues, like a lack of protective clothing and child labour practices. Furthermore, the production of tobacco has environmental impacts, such as deforestation and pollution of land and water.
4. **Companies on the Investment Exclusion List (IEL) of ABN AMRO.** ABN AMRO can decide to exclude companies from investments for reasons not mentioned in this document.

Defence-related exclusions for ESG Leaders and Impact funds (no tolerance unless stated otherwise)²

5. **Military contracting.** We have no tolerance in place for military contracting related to weapons, for weapon-related products and/or services the threshold is 5%. Military contracting, also referred to as the defence or armaments 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.
6. **Small military and civilian weapons.** We have no tolerance for companies deriving revenues from these weapons and their key components. Firearms can be considered controversial as they are reported to be a major factor in the increase of armed conflict worldwide. They are the weapon of choice for many terrorist groups around the world and often hinder smoother rebuilding and development after a conflict has ended. Besides the loss of human life and physical harm, armed violence also has significant (direct and indirect) economic costs.

Specific climate change and biodiversity-related exclusions for ESG Leaders and Impact funds (5% threshold unless stated otherwise)

7. **Genetically Modified Organism (GMO) development and/or cultivation and growth of genetically modified crops.** GMOs raise environmental and biodiversity-related concerns regarding the creation of new weeds, loss of land and water ecosystems by usage of toxic herbicides and pesticides.
8. **Unconventional fossil fuels: arctic drilling, oil (or tar) sands, and shale energy extraction methods.** From a climate perspective, these extraction methods cause high emission levels (tar sands, shale energy) and have severe consequences for (often fragile) ecosystems, such as areas of high biodiversity value. Therefore, we exclude any company of which the *combined* revenues derived from these activities exceed 5%.

¹ <https://www.unglobalcompact.org/what-is-gc/mission/principles>

² AAIS identifies ESG leaders, or article 8+ products, as a subcategory within the SFDR article 8 product range. Next to ESG leaders, we also identify ESG improvers, or article 8

Specific exclusions related to thermal coal for funds promoting environmental and/or social characteristics (SFDR article 8) and funds with a sustainable investment objective / impact funds (SFDR article 9)*

We currently focus on thermal coal (steaming coal), which is burned for steam to run turbines to generate electricity either to public electricity grids or directly by industry consuming electrical power (such as chemical industries, paper manufacturers, cement industry and brickworks).

9. **Thermal coal mining (ESG leaders and impact funds: exceeding 5% of revenues, ESG improvers: exceeding 10% of revenues³).** Coal releases more Greenhouse Gases (scopes 1, 2 and 3) than oil or gas for electricity generation. The carbon intensity of coal to generate electricity is more than twice the carbon intensity of natural gas.⁴
10. **Companies with involvement (exceeding 10% of total turnover) in thermal coal power generation.⁵** In line with the 2030 commitment of the European Union, we are striving to finance no more European coal-related transactions per 2030 and to phase out coal financing at all per 2040 (the latter in line with the AFG guidelines).

*Although the above-mentioned exclusions on thermal coal are currently only applicable to SFDR article 8 and 9 funds, AAIS will gradually expand these exclusions to the entire fund range (including funds in the category “other products”, or article 6 under SFDR), in order to meet the above-mentioned phase out deadlines.

Other exclusions for ESG Leaders and impact funds (5% threshold unless stated otherwise)

11. **Companies with involvement (exceeding 50% of total turnover) in trading and/or wholesale of tobacco.** In exclusion number 3 the background of this exclusion is explained.
12. **Gambling**, specifically companies that offer gambling services (operation of casinos, lotteries, bookmaking, online gambling, etc.), gambling products (slot machines and other gambling devices) and supporting products/services to gambling operations. Gambling is controversial among others because of potential social impacts on vulnerable people and communities. Furthermore, the gambling industry is susceptible to data privacy issues and money laundering practices.
13. **Adult entertainment production.** Adult entertainment is linked to several human rights and labour issues, such as human trafficking and other forms of exploitation.
14. **Cannabis production for recreational purposes.** Producing cannabis is linked to several severe ESG risks.⁶ Indoor cultivation of cannabis is energy intensive, whereas outdoor cultivation comes with risks related to pollution of land and water and requires high water use. Social risks are related to the health of cannabis users and growers (due to pesticides). Furthermore, the production of cannabis is susceptible to changes in regulation. Also, the cannabis industry is often linked to unethical business practices.
15. **Fur and specialty leather production.** The production of fur and specialty leather products has a severe impact on animal welfare and may lead to negative environmental effects, such as pollution of water and land.
16. **Animal testing.** Animal testing can have a severe impact on animal welfare. Animal testing should only be possible if compliant with legislation in the EU or the US (or an equivalent). Even if regulated, the use of laboratory animals, the animal suffering and the number of animals used should be minimised (the so-called 3R strategy: Replace, Reduce, Refine). We expect our portfolio managers to have minimum quality standards in place in line with our stance on animal testing.

³ AAIS identifies ESG leaders, or article 8+ products, as a subcategory within the SFDR article 8 product range. Next to ESG leaders, we also identify ESG improvers, or article 8.

⁴ According to the AFG (Guide to Developing a Coal Strategy for Asset Management Companies, March 2020) the carbon intensity of coal is 1050 gCO₂e/kWh versus 443 gCO₂e/kWh for natural gas.

⁵ Apart from Green Bonds (which may be issued by the same companies).

⁶ Cannabis faces significant ESG risks: <https://www.morningstar.com/articles/949410/cannabis-faces-significant-esg-risks>

III. Explanation of exclusions in place related to governments

Exclusions applicable to the entire fund range (no tolerance)

Countries are excluded from investment, if:

1. They are listed on ABN AMRO's **sanctions list**. ABN AMRO adheres to international sanctioning regimes, including the sanction regulations of the United Nations (UN), the European Union (EU) and the United States (US). In addition, ABN AMRO adheres to local sanction regulations of countries in which the bank operates. ABN AMRO also has its own sanctions policy. This means that in some cases the bank applies a stricter policy than external sanction regulations require. This policy is based on our own risk analysis. The most recent list can be found on the website of ABN AMRO⁷. This exclusion is valid in addition to the AML-FT exclusions defined in the introduction of this document.

Exclusions for funds promoting environmental and/or social characteristics (SFDR article 8) and funds with a sustainable investment objective / impact funds (SFDR article 9)

Countries are excluded from investment if:

2. They have not ratified **the Treaty on the Non-Proliferation of Nuclear Weapons (NPT)**: a treaty to prevent the spread of nuclear weapons and weapons technology, to promote cooperation in the peaceful uses of nuclear energy and to further the goal of achieving nuclear disarmament and general and complete disarmament.⁸
3. They have not ratified **the Paris Agreement**: a legally binding international treaty on climate change, aiming to limit the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. A temperature rise of well below 2°C should help to avoid dangerous climate change.⁹
4. They have not ratified **Convention 182 of the International Labour Organisation (ILO) on the Worst Forms of Child Labour**: an obligation to take immediate, effective and time-bound measures to eliminate the worst forms of child labour as a matter of urgency.¹⁰

⁷ <https://www.abnamro.nl/en/personal/payments/sanctions-measures.html>

⁸ <https://www.un.org/disarmament/wmd/nuclear/npt/>

⁹ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

¹⁰ <https://www.ilo.org/ipec/facts/ILConventionsonchildlabour/lang--en/index.htm>

Appendix 1 Controversial weapons

It is prohibited, by [Dutch law](#) among others, to invest in corporations that produce, sell or distribute cluster munitions. Furthermore, and in line with our parent company ABN AMRO Bank N.V. (hereafter ABN AMRO), ABN AMRO Investment Solutions excludes investments in controversial weapons other than cluster munitions. We define controversial weapons as weapons that have a disproportionate and indiscriminate impact on civilians.

Based on underlying research supplied by Sustainalytics, ABN AMRO Investment Solutions lists companies involved in controversial weapons and excludes them from our investment platforms.

Across our entire fund range (unless stated otherwise), a company is excluded if it is involved in the production, selling and/or distribution of (parts of) controversial weapons *and* this involvement concerns the core weapon system, or components/services of the core weapon system that are tailor-made and essential for the lethal use of the weapon.

The following weapons are controversial¹¹:

- Cluster weapons;
- Nuclear weapons;
- Depleted uranium;
- Anti-personnel mines;
- Biological weapons;
- Chemical weapons;
- White phosphorus weapons; and
- Fully autonomous weapons.¹²

Please note:

- In case of indirect involvement in Controversial Weapons through ownership, the company is excluded if the ownership percentage exceeds 10% for ESG leaders, an AAIS subclassification of article 8 SFDR¹³, and Impact funds (article 9 SFDR) and 35% for all other funds.¹⁴
- In case of involvement in nuclear weapons, the company is excluded if it contributes to the nuclear programmes of states other than the United States, United Kingdom or France.¹⁵

A list with publicly listed companies excluded based on involvement in controversial weapons is published on the website of ABN AMRO.¹⁶

¹¹ This list is based on several conventions and treaties, such as the (Oslo) Convention on Cluster Munitions, the Non-Proliferation Treaty, the Ottawa Convention, the Biological and Toxin Weapons Convention and the Chemical Weapons Convention.

¹² Weapons that can select and attack targets without human intervention

¹³ AAIS identifies ESG leaders, or article 8+ products, as a subcategory within the SFDR article 8 product range. Next to ESG leaders, we also identify ESG improvers, or article 8. The 10% threshold is applicable to article 8+ products and SFDR article 9.

¹⁴ Other funds in this context include article 8, ESG improvers (see previous footnote) and SFDR article 6 products. External asset managers are excluded from indirect involvement thresholds on controversial weapons.

¹⁵ The nuclear powers that are part of the Treaty on the Non-proliferation of Nuclear Weapons and the NATO. Although China and Russia are also part of the NPT, involvement in their nuclear programmes is excluded.

¹⁶ Sustainability policy - ABN AMRO Bank