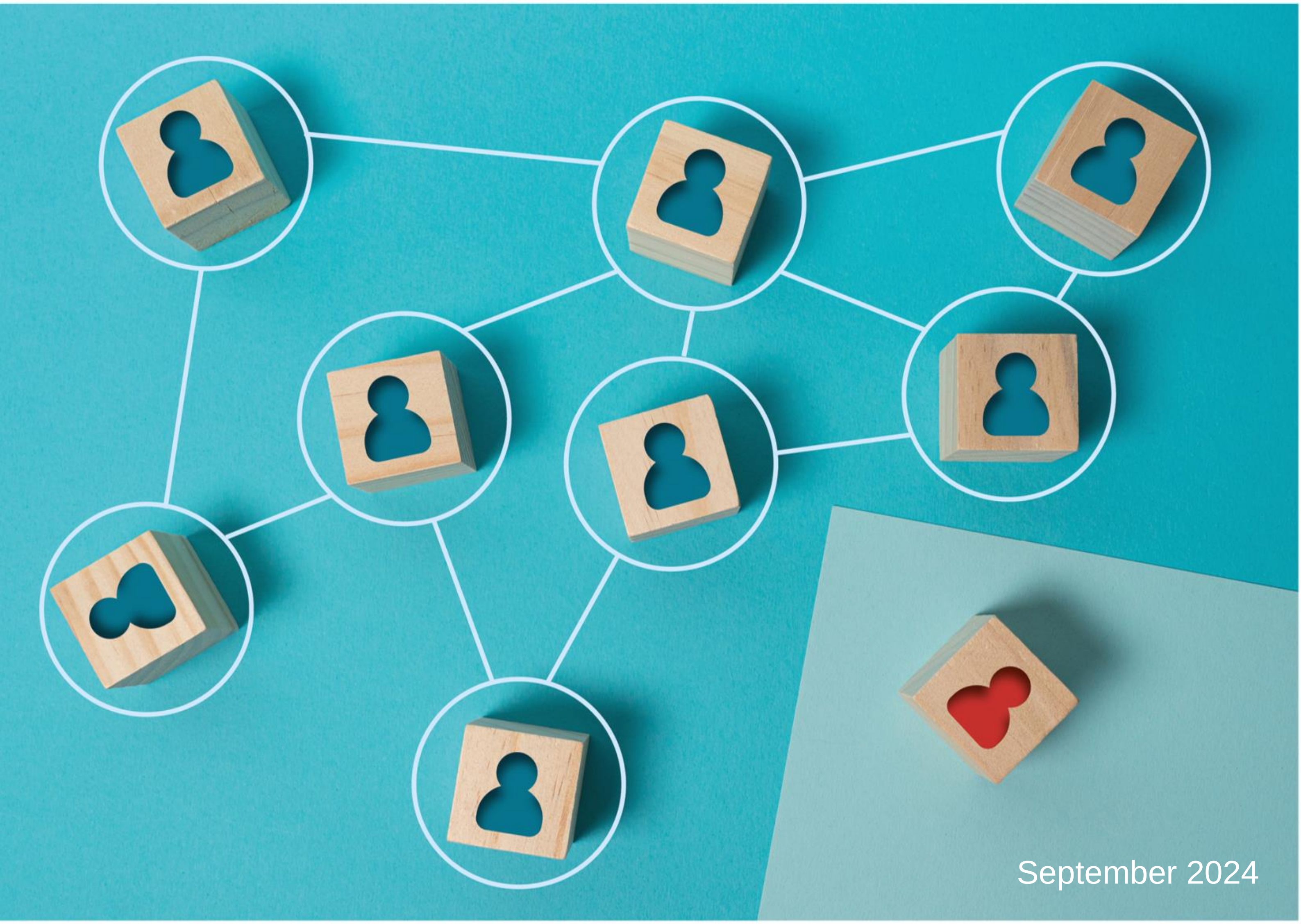
Thematic and Sectoral exclusions

Axiom Alternative Investments



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0 - INTRODUCTION

This handbook is used within our Responsible Investment approach as a complementary tool to formalize our thematic and sectoral policies as well as the related investment restrictions on issuers involved in controversial activities and products that go against our values and our minimum requirements in terms of sustainable development. All these policies are used to define our exclusion lists.

This handbook is divided in 3 sections:

1. the Level 1 **-** general Thematic and Sectoral policies section, which summarizes the policies used to define the issuers in our general exclusions list. This section equally explains our view on the relevance of such policies for financial sector issuers and the tools used to monitor compliance with the policies;

2. the Level 2 **-** exclusions policies section which defines additional and more stringent climate policies.

3. the Level 3 **-** exclusions policies, which are applicable to our article 9 funds.

These policies are used to define our exclusion list. If a name is added to the exclusion list and the securities are already in the portfolios, the portfolio manager must divest the securities in a way that is not damaging to our clients' capital. The portfolio manager has a maximum of one month to sell the securities. The respect of the exclusion list is monitored on a daily basis and controlled through our pre-trade and post-trade systems.

The following table summarizes the application of our policies across our fund range:

Fund Name	Level 1	Level 2	Level 3
Axiom Emerging Markets Corporate Bonds	X		
Axiom Long Short Equity	X		
Axiom Liquid Rates	X		
Axiom Credit Opportunity	X		
EC Gestion	X		
Star Colbert	X		
Axiom Obligataire	X	X	
Axiom Short Duration Bond Fund	X	X	
Axiom 2027	X	X	
Axiom European Banks Equity	X	X	
Axiom Climate Financial Bonds	X	X	X

1. LEVEL 1: GENERAL THEMATIC AND SECTORAL POLICIES

Axiom AI asserts that a holistic approach to sustainable development should not only consider the ESG risks that a company faces, but also the negative impact that companies can cause in the environment and society. In this context Axiom AI has defined a set of thematic and sectoral policies that seek to guide investment decision making. The policies cover sixteen sectors or themes: United Nations Global Compact violations, controversial weapons, tobacco, coal power and mining, unconventional oil & gas, biodiversity, water, alcohol, cannabis, adult entertainment, gambling, oppressive regimes, death penalty, taxation, sovereigns, and forward contracts on agricultural commodities.

1.1 Violations of United Nations Global Compact (UNGC) Principles

Axiom AI believes that the companies our funds invest in should meet the standards and principles of the UNGC. All significant violations of the UNGC principles should be addressed.

Axiom AI excludes companies deemed to be in breach of the UN Global Compact Principles on human rights, labour, environment, and corruption. This is done following the exclusions applied by the Norwegian Government Pension fund, based on a recommendation from the Council on Ethics of Norway, and using our own internal controversies screening database. The exclusions guidelines of the Norwegian fund state that:

"Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for:

i. serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour
ii. serious violations of the rights of individuals in situations of war or conflict
iii. severe environmental damage
iv. acts or omissions that on an aggregate company level can lead to unacceptable greenhouse gas emissions
v. gross corruption
vi. other particularly serious violations of fundamental ethical norms."

The ESG committee can decide to remove companies from the exclusion list before they are removed from the Norwegian Government Pension fund's exclusion list when the committee considers the company has remediated the UNGC breach.

In addition, the controversies monitored in our controversies database are mapped to the relevant UNGC principle. When a company considered as a Sustainable Investment is exposed to a controversy that is potentially breaching a UNGC principle, the members of the ESG committee discuss the case and determine whether it should be added to a watch list or whether the company can no longer be considered as a Sustainable Investment.

Breaches of UNGC principles by financial institutions are quite rare, as they are closely monitored by regulators. It is therefore important to clarify the relevance of the ten UNGC principles and how these cases are typically analysed:

<u>Human Rights</u> [Principle 1: businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.]

Financial institutions are very unlikely to directly breach the internationally proclaimed human rights. Therefore, our focus is on indirect breaches, i.e., breaches for which a client of the financial institution is responsible and of which the institution has knowledge or should have had knowledge. An example is the Epstein/Deutsche Bank relationship which is described at length in US court documents.

Labour [Principle 3: businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour. • Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.]

Axiom AI mostly invest in financial institutions based in the European Union, the United Kingdom and Switzerland. All those countries adhere to strict laws on collective bargaining, freedom of association, forced labour and child labour thus financial institutions are extremely unlikely to directly breach those rules. Therefore, we focus on possible indirect breaches, i.e., breaches committed by the clients of the institutions, and the type of involvement of the financial institution.

In addition, anti-discrimination laws also exist in those countries, but their effective application is more difficult to monitor. Public data on gender equality (board and management representation, pay, etc.) is used to assess a firm's policies. It is however difficult to have more detailed statistics on other possible discriminations (such as those based on race, religion, sexual orientation, disability) as in some European countries companies cannot gather those statistics because it is deemed illegal, or it is severely restricted.

Environment [Principle 7: businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility, and Principle 9: encourage the development and diffusion of environmentally friendly technologies.]

Due to the nature of their business and the European regulatory environment, it is highly unlikely and nearly impossible for a financial institution to breach these principles though their direct operations, however, their client base could breach those principles. Through our proprietary Climate tool for financial institutions, the Axiom Climate Readiness Score (ACRS), Axiom AI assesses how FIs incorporate environmental challenges of their (potential) clients through the analysis of sector policies (e.g. biodiversity, coal)

Anti-Corruption [Principle 10: businesses should work against corruption in all its forms, including extortion and bribery.]

Principle 10 is the most likely to be breached by companies in our investment universe. Reported cases of bribery are monitored in our controversies database.

1.2. Controversial Weapons

A zero-tolerance principle is applied to controversial weapons. Companies involved in controversial weapons are excluded if they are involved in the i.) manufacturing of components of weapons intended solely for use in the production and that are essential for the functioning of these weapons. These are components/services that are specifically designed to be used within, or in relation to, an arms system or weapon.; or ii. that supply products and/or services such as stockpiling and transferring, and sales for controversial weapons.

The types of controversial weapons considered are the following:

- Anti-Personnel Mines
- Biological and Chemical Weapons
- Blinding Laser Weapons and Undetectable Fragments
- Cluster Munitions
- Depleted Uranium
- Incendiary Weapons
- Nuclear Weapons

1.3. Tobacco

All companies involved in tobacco production are excluded, regardless of the revenue share it represents for a company. The screening criteria is limited to tobacco products and does not include associated products such as filters and flavour additives.

The World Health Organisation (WHO) Framework Convention on Tobacco Control is the first international treaty negotiated at the initiative of the WHO in 2003 and signed by 181 parties covering more than 90% of the world's population. It aims to tackle some of the causes of the tobacco epidemic, including complex factors with cross-border effects, such as trade liberalisation and direct foreign investment, tobacco advertising, promotion and sponsorship and illicit trade in tobacco products. Tobacco is the deadliest modifiable risk factor contributing to non-communicational diseases with more than 7.2 million deaths per year and is projected to increase over the coming years[1].

As such, Axiom AI wants to continue to promote divestment from this sector. However, Axiom AI does not exclude a financial institution that provides lending to or invests in an excluded tobacco company.

1.4. Coal power and mining

Axiom AI excludes coal mining companies which:

- derive more than 5% of their revenues from thermal coal; or
- produce more than 10 million tons of thermal coal; and

Coal power producers which:

- derive more than 20% of their revenues from thermal coal; or
- base 20% or more of their capacity generation on thermal coal; or
- have a power capacity of more than 10 000 Mega Watt (MW) from thermal coal.

All coal mining and coal power companies with expansion plans (greenfield and brownfield) are equally excluded.

Axiom AI does not exclude a financial institution that provides lending to a thermal coal mining company or invests in securities issued by such a company; however, those activities have an impact on the scoring of that bank or insurance company under the ACRS. The ACRS assesses coal policies of financial institutions in 3 sectors: Coal mining, power generation and related Services (e.g. Transportation, trading…).

1.5 Unconventional Oil & Gas

As unconventional Oil & Gas (O&G) techniques can have long-lasting negative impacts on the environment, our funds exclude O&G companies that have more than 20% of their production coming from oil sands, Arctic onshore/offshore and coal-bed methane.

As in the case of coal, Axiom AI does not exclude financial institutions that provide lending to or invest in securities issued by O&G companies not meeting the aforementioned thresholds, however, those activities have an impact on the scoring of that bank or insurance company under the ACRS. The ACRS looks at the scope of the O&G sector policies implemented by financial institutions, including both conventional and unconventional O&G types.

1.6 Biodiversity

Since 1970, global extraction of biomass, fossil fuels, minerals, and metals increased sixfold. Urban area has doubled since 1992 and half of agricultural expansion (1980–2000) was into tropical forests. Fishing covers over half the ocean. Since 1980, plastic pollution increased tenfold. Over 80% of global wastewater is discharged into the environment without treatment, while 300–400 million tons of heavy metals, solvents, toxic sludge, and other waste~~s~~ is dumped into the world's water~~s~~ each year. Fertilizers enter coastal ecosystems, producing more than 400 *dead zones*[2] and affecting a total area of more than 245,000 km^2. Today, 75% of the terrestrial environment, 40% of the marine environment, and 50% of streams manifest severe impacts of degradation[3].

The main factor contributing to such degradation of biodiversity is human activity, either from individuals or companies. Investors are exposed to biodiversity risk through the companies they invest in. These companies

[1] https://www.who.int/news-room/fact-sheets/detail/noncommunicable-diseases
[2] An area of water (as in a lake or ocean) in which the level of dissolved oxygen is so depleted (as by the decay of an algal bl oom) that most life cannot be sustained
[3] Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services 2019

can contribute to:

i. Increasing pollution: water and land pollution from waste e.g. plastics, pesticides, spills, etc.
ii. Over exploitation of land and oceans: deforestation, increasing industrialization of agriculture (e.g. monocultures), overfishing; and
iii. Loss of natural habitats

To understand the exposure to such risks our ESG rating considers a company's operations in areas of importance for biodiversity (e.g. Ramsar Wetlands, AZE sites) and their policies or commitments on biodiversity preservation. Biodiversity is equally considered in our ACRS rating through the review of policies from financial institutions in 3 sectors that are highly exposed to biodiversity controversies: Palm Oil, Forestry/Wood Pulp and Agriculture.

1.7 Water use

Water is an important resource in a wide range of production processes, which disruption can have a negative direct (e.g. electricity shortages) and indirect (e.g. supply chain disruption) impact to businesses, society and the wider economy. In some sectors (e.g. energy, materials, food and beverage) we invest in, it is therefore crucial to understand how resource-intensive companies are, as well as their actions and commitments to avoid potential risks associated with water shortages or restrictions. Our ESG rating considers the impact of water related incidents (e.g. operation interruptions, plant closures) on a company's financials, the percentage of sites in water-stressed areas, and water risks management practices.

In addition, the ACRS assesses the potential exposure of a financial institution to water risks by understanding their exposure to economic sectors highly dependent on natural capital as well as the related geographic exposure.

1.8 Forward contracts on commodities

Axiom AI does not directly invest in derivatives and exchange-traded funds based on food (*soft*) commodities or that speculate on agricultural or marine commodities such as wheat, meat, sugar, dairy and fish. This applies to all portfolios including dedicated funds and third-party mandates unless the client gives different instructions. Our funds exclude forward agricultural contract investments from their investment universe.

1.9 Oppressive regimes

We consider oppressive regimes as those associated with systematic human rights abuses, where there is an absence of the rule of law, lack of freedom of expression and movement. Through our ESG integration process we seek to understand whether companies operate or have supply chains in countries governed by oppressive regimes. In addition, we do not invest in sovereign debt from countries:

- qualified as *not free* by the Freedom House[4]; or
- with less than 30/100 on the Transparency International Corruption Perception Index[5].

1.10 Death penalty

We believe that companies and sovereign issuers should adhere to international norms and conventions with respect to human rights, including the death penalty. We screen companies that are involved in death penalty (e.g. substance providers) in a best effort basis not only because it can be ethically questionable, but also because of the potential reputational risks these companies can face and the associated high investment risk.

1.11 Taxation

We believe taxation is a component of conduct risk or compliance risk, which is a key component of governance risk. This is the risk that a company does not respect its legal obligations, which can lead to direct or indirect financial losses. It includes such high-profile cases as tax fraud (for clients or for the company itself), money

[4] https://freedomhouse.org/countries/freedom-world/scores
[5] https://www.transparency.org/en/cpi/2020

laundering, sanctions breach, etc. We treat taxation as we treat other major possible issues such as money laundering or mis-selling. Our approach to this risk involves 3 steps:

1. identification of the main sources of risk, based on previous cases, ongoing investigations, or prospective analysis;
2. analysis of the legal environment, what it means in terms of financial risk, and the internal policies of the relevant institutions; and
3. the assessment of the risk that each institution is facing. No complacency is possible: we are aware that this can range from very benign cases to outright bankruptcy.

All these elements are compiled in our controversies database. We also monitor the registration of entities in tax havens.

1.12 Alcohol

The funds exclude all companies directly involved in alcohol (brewers, distillers, traders, liquor store owners and operators) as well as alcohol retailers who derive more than 10% of their revenues from the manufacture or sale of alcoholic products without having a Responsible Drinking policy. We expect companies involved in alcohol to have strict policies in place to restrict supply of alcohol to minors and to promote responsible drinking i.e. taking precautions with your drinking so that it does not harm yourself, your family, or society at large.

Axiom AI does not exclude a financial institution that provides lending to or that invests in an alcohol producer, supplier or retailer.

1.13 Gambling

The funds exclude from their investment universe companies that generate 5% or more of their revenues from owning and/or operating gambling establishments (e.g. casinos, racetracks, online gambling), manufacturing specialized equipment used exclusively for gambling (e.g. slot machines, roulette wheels), and/or supporting products and services supplied to gambling operations.

Axiom AI does not exclude a financial institution that provides lending to or invests in the gambling industry. However, these types of financings are generally restrained by financial institutions through the application of dedicated policies. We believe that if not restrained by the financial institution policies in place, these financings would appear under our different screening filters such as our controversies database.

1.14 Cannabis

At Axiom AI we recognize that cannabis production poses several serious ESG risks[6]. Indoor cannabis is energy intensive, while outdoor cultivation is related to soil and water pollution risks and requires high water consumption. The industry is exposed to social risks related to the health of cannabis users and producers due to pesticides. Moreover, cannabis production is dependent on changes in regulations. Finally, the cannabis industry is often linked to unethical business practices. That is why we forbid all direct investments in any company that is generating more than 5% of its revenues from production of recreational cannabis and companies that generate 10% or more of their revenues from retail sales of recreational cannabis.

1.15 Adult Entertainment

We do not invest directly in companies that generate 5% or more of their revenues from the production (e.g. online, TV), operation, and/or distribution (e.g. pay-per-view adult channels) of adult entertainment.

This exclusion does not apply to indirect investments: we do not exclude a financial institution because it lends to or invests in an excluded company. However, these types of financings are generally restrained at the bank/insurance company level by the application of dedicated policies or otherwise appear under our different

[6] See for example: https://www.morningstar.com/articles/949410/cannabis-faces-significant-esg-risks

screening filters such as our controversies database.

1.16 Policy regarding countries

We believe governments have a key role to play in the achievement of the Sustainable Development goals. We therefore limit sovereign debt investments to all countries that are in the 1st and 2nd quartile of the UN SDG Country Index[7].

2 – LEVEL 2 EXCLUSION POLICIES

Level 2 exclusion policies have for objective to further limit investments to high-carbon sectors.

2.1 Thermal coal

The requirements mentioned in 1.4 (p.6) are extended to exclude companies from the mining, power and services sector that meet the following thresholds:

- 10% or more of their revenues are from thermal coal; or
- Their coal share of power generation exceeds or equals 10%; or
- Their installed coal-fired power capacity generation exceeds or equals 5 GW.

2.2 Conventional and Unconventional Oil & Gas

The requirements of 1.5 are extended to exclude upstream Conventional and Unconventional Oil & Gas companies as well as midstream companies with expansion plans (i.e. pipelines and terminals)[8].

3 - LEVEL 3 EXCLUSION POLICIES

A more stringent set of exclusion criteria is applied to our Article 9 fund, Axiom Climate Financial Bonds. In the case of investments in financial institutions the exclusion requirements are mainly based on our internal climate methodology, the ACRS, while in the case of corporates the requirements follow the Towards Sustainability label.

Although it would be extremely rare, investments in non-financial sector companies is allowed by the precontractual documentation of our Article 9 fund. When this is the case, the compatibility with the policies below is reviewed on a case-by-case basis.

3.1 Financial sector

3.1.1 Social and Governance exclusions

Based on our analysis of Social and Governance aspects, we may exclude companies in case of egregious breach of S and G standards. The analysis builds on our internal controversies database and external databases.

3.1.2 UNEP FI Principles for Responsible Banking (PRB)

Commercial and investment banks that are not signatories of the PRB are excluded from investments.

3.1.3 Climate change performance

Based on the application of the ACRS, banks and/or insurers are excluded if they do not meet the following thresholds:

[7] https://dashboards.sdgindex.org/rankings
[8] Companies are identified using Urgewald's GOGEL database

- Their Corporate Engagement score should be higher than 30%.
- The weighted average score on the Climate Risks & Opportunities Management pillar and Positive Contribution to the Low-carbon Transition pillar has to be higher than 25%[9].
- Banks must have an implied temperature rise of less than 3°C.

3.2 Sovereign bonds

Funds cannot invest in bonds issued by countries that are included in the list of the Towards Sustainability Labelling Agency.

3.3 Investments for diversification

3.3.1 Tobacco

Requirements laid out in 1.3 above are extended to additionally exclude companies involved in the production of tobacco products or e-cigarettes or that are involved in the wholesale trading of these products as well as other companies in the value chain that derive more than 25% of its revenues from bespoke products, equipment or services dedicated to the production of tobacco, tobacco products and e-cigarettes.

3.3.2 Thermal coal

The partial exclusion laid out in 2.1 is extended to total exclusion of companies involved in the prospecting or exploration, extraction/mining, processing or transportation of thermal coal as well as companies deriving more than 25% of its revenues from bespoke products, equipment or services.

3.3.3 Conventional and unconventional oil & gas

The partial exclusion laid out in 2.2.) is extended to all midstream and downstream oil & gas companies as well as companies deriving more than 25% of their revenue from bespoke products, equipment or services to upstream, midstream and downstream oil & gas companies.

3.3.4 Weapons

The requirements in 1.2 are extended to companies involved in the manufacture and sale of military weapons and small arms as well as companies in their value chain that derive more than 25% of its revenues from bespoke products, equipment or services.

[9] The score of that first pillar weighs 67%, while the second weights 33%