



Exclusion policy of Palatine AM

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CONTEXT

According to the International Energy Agency (IEA) Beyond 2° C scenario, all coal fired power plants should be closed by 2030 in the countries of the European Union and OECD, and by 2040 in the rest of the world, to hope to contain global warming below 2° C.

Aware of its responsibilities as an investor, Palatine Asset Management announces the implementation of a coal exit policy in order to align its investments with the Paris Agreements, which aim to reduce greenhouse gas emissions by 2025 and limit the increase in global average temperatures to 1.5° C. PALATINE Asset Management has thus taken another important step in its commitment to the fight against global warming.

SKIAGE OF APPLICATION

This policy applies to all assets managed by the Management Company, excluding external funds, therefore to direct investments in shares and debt securities of companies in the thermal coal sector.

CRITERIA FOR APPLICATION

This sectoral policy aims at the definitive withdrawal of coal, an essential step to limit global warming by 2030 at the latest on all asset classes and geographical areas.

Thermal coal related activities

At a minimum, the coal strategy should cover investments in activities related to thermal coal, i.e. coal mining and electricity generation from coal.

Coal, the mainstay of power generation in the world, is the energy that contributes the most to the increase of CO2 emissions through its extraction and exploitation. And thermal coal, in particular, is the most polluting fossil energy which is valued, therefore, less and less well. Ultimately, the electricity generated from this coal will lose in productivity compared to the renewables that are becoming increasingly competitive.

Coal exit policy

As of 1 January 2021, Palatine AM decided not to invest in companies that are developing new coal projects or whose businesses are highly exposed to coal.

PALATINE AM wanted to set a **relative exclusion threshold** based on the share of thermal coal in turnover or the energy mix and therefore to exclude from its management:

- Mining companies which generate more than 20% of their revenues from thermal coal extraction;
- Power companies whose mix of power generation is based on more than 20% coal.

At the same time, it is also appropriate to establish **an absolute exclusion threshold** based on coal production or installed capacity. Indeed, some highly diversified companies do not reach the relative exclusion threshold, while the size of their facilities puts them among the world's largest coal operators or producers. PALATINE AM, in line with NGO recommended practise, decided to exclude companies

- Whose annual coal production exceeds 10 million tonnes/year;
- Whose installed capacity of coal fired power plants exceeds 5 GW.

Finally, Palatine AM will not invest in companies that would like to venture into new coal projects.

Identification of companies affected by exclusion criteria

To calculate the share of coal in potential eligible companies, Palatine AM uses the German NGO Urgewald: The Global Coal Exit List (GCEL), which covers 90% of global coal production and is thus one of the most comprehensive lists for the assessment of coal exposures.

The companies to be excluded are not the groups, because some groups have subsidiaries that are not involved in the coal sector, but each company on its own.

However, the relative and absolute thresholds at the group level should be checked in addition to their compliance at the level of each subsidiary. In addition, continuing to finance a company that is not involved in the coal sector while other companies in the same group are, may allow the group to continue financing the thermal coal related activities through capital or intra group debt transactions. However, the aim of these exclusion criteria is to stop funding these activities. It is therefore necessary to carry out a detailed analysis of all the subsidiaries of a group.

PALATINE AM will follow changes to the methodology and approach of the GCEL exclusion list.

DIALOGUE AND ENGAGEMENT

In order to participate in a real transition, Palatine AM has decided to strengthen dialogue and engagement with companies operating coal fired power plants to anticipate and plan the closure of the said power plants.

Provided that the commitment of these companies is monitored with verifiable KPIs to allow the evaluation of progress made and to come (the companies will thus have to define a coal exit plan and not indicate only an expected exit date) Palatine AM will not systematically exclude them from its investment universe.

Palatine AM's commitment strategy is also linked to its voting policy: PALATINE AM will use its voting rights at general meetings to express its disagreement with the strategies implemented by certain companies.

Exclusion policy Oil & Gas

CONTEXT

In 2021, the International Energy Agency (IEA) released a report 'Net Zero by 2050,' which outlines a decarbonisation path for the energy sector to limit temperature increases to one scenario 1.5° C. This report makes it clear that this scenario leads to a gradual disinvestment of fossil fuels and the end of exploration for new coal, gas or oil deposits. Yet many companies are still exploring new oil and gas fields.

According to the latest IEA analyses, global energy related CO2 emissions increased by another 0.9% in 2022 to a record 36.8 billion tonnes¹. And especially from fossil fuels, growth remains unsustainable in the face of climate change and requires rapid and strong action.

It is within this framework that Palatine AM implemented in 2021 a policy of exclusion of coal.

In 2023, we sought to strengthen our practises on the exclusion of fossil fuels by adopting a policy on conventional fossil fuels (excluding coal) and unconventional fossil fuels (NFTs). These are particularly harmful to the environment and climate.

SKIAGE OF APPLICATION

This policy applies to all assets under management within Palatine AM, unless otherwise requested by a client specifically for its funds and separate accounts and outside of external funds.

CRITERIA FOR APPLICATION

PALATINE AM will rely on data and definitions from the upstream Global Oil & Gas Exit List (GOGEL) published by Urgewald² and revised annually.

This list makes it possible to assess whether a company's activities are in line or not with the IEA's Net Zero Emissions Scenario. It covers 95% of the players involved in upstream production (exploration, extraction and all related activities such as seismic studies, obtaining exploration licenses, etc.) and 97% of short term upstream development projects.

Palatine Asset Management's policy aims to exclude those responsible for more than 90% of total annual hydrocarbon production, by:

- Companies' activities in unconventional fossil energy (oil sands, shale oil and gas, Arctic oil and gas, ultra deep offshore oil and gas, methane hydrate, compact tank oil and gas, extra heavy oil);
- Corporate expansion projects;

¹ <https://news.un.org/fr/story/2023/03/1132867>

² <https://www.urgewald.org/en/medien/ngos-release-2022-global-oil-gas-exit-list-industry-willing-sacrifice-livable-planet>

- Company exploration projects;
- The share of fossil fuels in corporate revenues;
- Companies' exposure to projects with high reputational risk.

DIALOGUE AND ENGAGEMENT

In order to participate in a real transition, Palatine AM has decided to strengthen dialogue and engagement with companies active in fossil fuels so that they anticipate and plan the exit of these energies.

Provided that the commitment of these companies is monitored with verifiable KPIs to allow the assessment of progress made and to come (companies will therefore have to define a plan for the release of fossils and gas and not just indicate an expected exit date) Palatine AM will not systematically exclude them from its investment universe.

Palatine AM's commitment strategy is also linked to its voting policy: PALATINE AM will use its voting rights at general meetings to express its disagreement with the strategies implemented by certain companies.

Tobacco exclusion policy

CONTEXT

Each year, according to the World Health Organization, tobacco consumption kills about 8 million people worldwide. In addition, its cultivation contributes to deforestation, the loss of 22 billion tonnes of water and the emission of 84 million tonnes of CO₂, depriving populations of responsible crops.

Similarly, tobacco products are big contributors of waste, therefore of pollution (4500 cigarette filters harm the planet and are the second pollutant in terms of microplastics) and are composed of over 7000 toxic chemicals³.

SKIAGE OF APPLICATION

This policy applies to all assets under management within Palatine AM, unless otherwise requested by a client specifically for its funds and separate accounts and outside of external funds.

CRITERIA FOR APPLICATION

Since 2022, Palatine AM has therefore gradually excluded:

- Companies with more than 5% of turnover derived from the manufacture of tobacco products or alternatives to tobacco;
- Companies with over 5% of sales come from the wholesale and retail sale of tobacco products.

Controversial weapons exclusion policy

CONTEXT

Since 2018, Palatine AM has implemented a policy of exclusion of controversial weapons to comply

[Who has warned of the environmental impact of the tobacco industry \(who.int\)](https://www.who.int/news-room/fact-sheets/tobacco)

with the normative exclusions defined by the Ottawa and Oslo conventions.

SKIAGE OF APPLICATION

Thus, the management company excludes from all its investments all companies involved in the manufacture or trade of controversial weapons.

CRITERIA FOR APPLICATION

Since 2018, Palatine AM has implemented a policy of exclusion of companies involved in the production and/or marketing of controversial weapons within the meaning of the Ottawa and Oslo conventions. Thus, we exclude all companies involved in the manufacture or trade of anti personnel mines and cluster bombs.

In addition, since the gradual implementation of Regulation 2022/1288 of 6 April 2022, chemical and/or biological weapons are also considered controversial by Palatine AM. Therefore, all companies involved in the manufacture and/or marketing of such weapons are excluded from investment.

To do this, the management teams at Palatine AM rely on an established and regularly updated list of stocks involved in anti personnel mines, cluster bombs and chemical or biological weapons. The companies on this list are not authorised for investment and any company already in a fund that joins the exclusion list will be removed from the investment universe and funds as soon as possible.

Politics of excluding controversial companies

As part of the ongoing controversy management process, the SRI team at Palatine AM conducts a continuous press watch to identify as soon as possible the companies that are guilty of violations of major international conventions on the environment, respect for human rights (child labor, slavery, etc.), business ethics (corruption), etc.

The materiality of a controversy depends on the extent of the controversy (whether it affects an isolated entity or the entire group, amounts of or fines...), its impact (direct and indirect costs, etc.), the reputational risk it represents and the degree of impact it causes on stakeholders. The attitude of society to the controversy and its degree of transparency in dealing with it is also considered.

All companies that have a material controversy considered by Palatine AM are placed on an internal watch list. Companies subject to the highest materiality controversies are the subject of a discussion in the SRI Committee. Depending on the case 2 decisions may be taken: Maintenance of the investment with reinforcement of the commitment mechanisms or exclusion of the value and gradual disinvestment within the shortest period respecting the interests of the holders. A value is placed on the exclusion list in case of severe, actual and repeated violations of any UN Global Compact principles or OECD Guidelines.

Stocks on the watch list are removed after a period of one year without reactivating the same controversy or/and without the occurrence of a new controversy.

Stocks placed on the reinforced commitment list or on the exclusion list may be removed only by decision of the SRI Committee. The list is frequently reviewed and discussed. Stocks exiting these 2 lists are placed on the watch list for a minimum period of one year.

Exclusion policy monitoring and control

The checks are carried out at 1st and 2th level:

Ex ante checks on TRACKER tool: Pre trade blocking of securities excluded by the policy with the possibility of derogating in the event of specific requests from clients.

Managers: Checks on investment/disinvestment decisions; votes at general meetings.

SRI Analyst: Engagement with companies, definition of the action plan to regularly monitor issuers in order to quantify their margin for growth over time and verification of portfolio consistency with policy.

Internal control and compliance: Sri checks.