anaxis

Securing our future

Anaxis Asset Management

ESG POLICY

30 June 2019

1. Positioning

Anaxis has opted to apply ethical criteria to its portfolio management. This engagement reflects our view of a more balanced and more harmonious society in which satisfying economic requirements and personal aspirations is compatible with preserving the environment and mutual respect.

Our approach is simple and robust. We have implemented a policy in keeping with our corporate debt management expertise, and which aims to direct financial flows towards sectors that are compatible with our objectives, i.e. environmental preservation and healthcare. This approach has led us to exclude certain business sectors due to their proven contribution to global warming, pollution and health risks.

We pay particular attention to aquatic environments, marine biodiversity and water resources. Aquatic ecosystems and wetlands are highly sensitive to pollution and climate change. Protecting these environments contributes to the efforts required across several domains that have a direct impact on our societies. These include access to drinking water, food security, the prevention of health risks and protecting residential areas from the rising sea level. We also wish to help preserve natural beauty and diversity.

2. Scope of the exclusion policy

The policy is well-suited to our corporate debt management expertise. It ensures that any issuers whose business is not compatible with our environmental objectives are excluded from our portfolios. Bond issuers regularly call on the markets in order to finance their development, make acquisitions or simply optimise their financial structure. Each time they do so, they have to convince investors of the relevance of their business model. A clearly defined sector exclusion policy can therefore have a significant impact on the positioning of their business.

Bonds held in portfolios generate a financial yield in exchange for the credit risk incurred by investors. We therefore attach great importance to the robustness of our portfolio and the visibility offered by issuers. From this point of view, our sector exclusion policy strengthens our portfolios by allowing us to actively take into account certain risks that are greater within controversial sectors, in particular those associated with regulatory changes, legal issues, labour disputes, health issues, and accidents. We are confident that our sector exclusion policy is beneficial for the stability of our portfolios.

Lastly, our clients benefit from our policy as it is clear and up to date. It guarantees an uncompromising ethical investment based on clear, verifiable and broadly consensus-based criteria. It allows for a direct, transparent and well-informed dialogue between the investment management team and investors.

3. Exclusion list

The objective of our sector exclusion policy is to exclude from the portfolios' investment universe certain issuers whose business is not compatible with our goal of preserving the natural environment and improving public health.

We have opted for a strong and ambitious policy that aims to have a significant impact on financial flows. Our policy targets businesses associated with fossil fuels, nuclear power, polluting products, weapons, tobacco and GMOs. The Anaxis exclusion list is represented below.

Fossil fuels

- Oil exploration, production, refining and transportation
- Shale gas, tar sands, hydraulic fracking
- Coal mining
- Oil or coal-based electricity production

Nuclear

- Uranium mining
- Enrichment of fissile material
- Nuclear power generation

Polluting industries

- Production of fertilisers, weed killers, insecticides and fungicides
- Plastic packaging production

Weapons

- Production of weapons, munitions and military equipment
- The manufacture of military aircrafts, ships, tanks and vehicles
- Activities associated with the design, trade or use of these materials
- Law enforcement or military surveillance services by private companies
- The manufacture of hunting weapons or any other type of arms for private use

Other ethical exclusions

- Tobacco
- Production of GMOs for non-therapeutic use

4. Explanatory statement

Anaxis has defined an extensive exclusion list matched by few others in the portfolio management industry. However, this ambitious choice is not a revolution for us; it builds on a particular feature of our investment management philosophy which was already in place. We focus on portfolio strength, which means that we prioritise issuers whose business is considered more reliable, more predictable and less exposed to regulatory uncertainties or economic variations. This particular focus of our investment strategy allows us to seamlessly integrate ethical criteria. It enables us to more easily take account of the risks associated with bond investments. In terms of ethics, it also responds to the real social and environmental concerns outlined below.

Fossil fuels

Coal is the highest-carbon energy source. Although coal power stations produce only 41% of energy worldwide, they are responsible for over 70% of the sector's greenhouse gases. Ever-aware of climate issues and the active role that financial institutions must play in energy transition, Anaxis has decided not to finance companies whose business is heavily dependent on coal in order to help lower emissions from coal power.

The same view is applied to the oil sector, as hydrocarbons are a major contributor to global warming and a substantial source of pollution. This environmental damage is aggravated by non-conventional forms of exploitation, such as shale oil and gas, along with tar sands extraction and hydraulic fracking. For this reason, Anaxis excludes these forms of production, even in the case of natural gas.

Nuclear

Nuclear energy production does not contribute significantly to global warming and is often encouraged as it emits almost zero greenhouse gases. However, it constitutes a major threat to human health and that of the environment. The civil nuclear industry produces and accumulates large quantities of dangerous nuclear waste that is extremely difficult to treat, for which there is no satisfactory solution. The risk of radioactive spillages, industrial accidents or natural catastrophes can also be aggravated due to a lack of experience in decommissioning disused power plants. The economic rationale is not necessarily viable, as costs are frequently underestimated and decommissioning financing requirements are only partially taken into account. Moreover, nuclear technologies, in particular uranium enrichment, may be used for military purposes and increase the risk of nuclear weapons proliferation.

Polluting industries

This exclusion factor specifically aims to protect the natural environment and biodiversity by paying particular attention to the oceans and other aquatic ecosystems. Chemical pollution and plastic waste cause significant, often irreversible damage to natural environments. They contribute to the extinction of many species, in particular insects and amphibians, and create devastating imbalances such as eutrophication and the proliferation of green algae. Pollution also directly affects human societies by deteriorating water quality and impacting certain food resources, such as traditional fishing methods and fish and shellfish farming.

Weapons

We do not contest the legitimacy of national defence against dictatorial regimes, imperialist policies, totalitarian regimes or the threat of terrorism. However, we believe that our investments should not finance private commercial companies involved in the production of weapons and munitions or military systems, vehicles or equipment. We have therefore excluded this sector. We also exclude weapons for private use, as we believe in a state monopoly for the use of force. We are particularly opposed to legalising firearms.

The case of hunting weapons deserves particular consideration. We concede that some hunting activities are indeed respectful and committed to maintaining the balance of our relations with animals. Unfortunately, there are also more destructive, egotistical hunting practices targeting endangered species for use as trophies. It is also difficult to control the use of hunting weapons. We have therefore opted to exclude this sector as well.

Tobacco

Tobacco use is legal and can be perceived as a personal liberty. However, it undeniably poses a serious public health issue. The question does not only concern adults who chose to smoke and are fully aware of the risks involved, but also children and young people exposed to advertising and other promotional techniques that cause addiction and the associated dangers. We must also take into account the economic burden on healthcare systems – and thus for society on a broader scale. As such, ethical investing cannot finance the development of companies generating profits from selling products that are worthless and dangerous. These companies necessarily seek to promote this type of product.

Genetically modified organisms

Certain biotechnological research programmes are acceptable and should be encouraged, provided they are undertaken within a stringent framework. However, we have opted to exclude companies that produce GMOs for non-therapeutic purposes. This primarily concerns the large-scale genetic manipulation of plants and animals with the aim of enhancing agricultural yield. Some objectives may appear legitimate, such as improving productivity, increasing resistance to diseases and adapting species to drought conditions. In addition, human development has been accompanied by the improvement of domestic species since the Neolithic period – look at the difference between a modern ear of wheat and wild wheatgrass to see the progress made. However, we believe that the environmental repercussions from poorly managed GMO cultures and experimentation are not controlled sufficiently. Some practices aim to make farmers dependent to a certain extent upon major cereal producers.

5. Controversial weapons

Our sector exclusion policy ascribes a particular importance to banning controversial weapons, the humanitarian impact of which is disturbing. We support NGOs involved in the fight against controversial weapons. Six of these NGOs, including Handicap International and Human Rights Watch, received the Nobel Peace Prize in 1997 for their campaign supporting the Ottawa Treaty.

Reference texts

Our controversial weapons exclusion policy is based on the following texts:

- The Ottawa Anti-Personnel Mine Ban Convention of 3 and 4 December 1997;
- The Oslo Convention on Cluster Munitions of 3 December 2008;
- The 1972 Biological and Toxin Weapons Convention;
- Law No. 98-564 of 8 July 1998 aiming to ban anti-personnel mines;
- Law No. 2010-819 of 20 July 2010 aiming to ban cluster munitions;
- The AFG recommendations prohibiting the financing of cluster munitions and anti-personnel mines.

Applied principles

Our exclusion policy concerns the following controversial weapons:

- Anti-personnel mines;
- Cluster munitions;
- Biological weapons.

Our exclusion policy applies to all companies involved in the development, manufacture, production, acquisition, storage, conservation, supply, sale, import, export, trade, brokerage, transfer, use or financing of these munitions.

Our exclusion policy applies to listed and non-listed companies, irrespective of their legal form, nationality and the locations in which they are involved in controversial activities, even if the activity in question is legally authorised in the countries concerned.

6. Selected criteria

Excluded activities

We set a maximum threshold of 20% of turnover for exposure to excluded activities. This threshold is calculated using aggregate exposure to excluded industries, so that an issuer may be excluded even if each individual activity represents less than 20% of turnover.

Annual reports and other company statements are used as reference material for our analyses. Additional information may be drawn from other sources and by direct contact with companies in order to fine-tune our estimate of their exposure to excluded activities.

The investment committee can decide to lower the threshold in the event of aggravated environmental damages, or if a company breaches local or international standards or fails to respect its sector's best practices.

Associated activities

Our sector exclusion policy covers companies involved in broader industries closely linked to the excluded sectors in two particular situations.

1. For companies providing products or services specifically designed for an excluded sector, the usual 20% threshold is applied. Examples include oil drilling equipment or construction of coal-fired power plants.

2. We also exclude companies providing products or services with a broad range of uses, if more than 50% of turnover is generated from clients in sectors that are not in line with our policy. Examples include chemical additives used for water treatment and hydraulic fracking, and polymers used in the manufacture of plastic packaging and various other materials.

At the discretion of the investment committee, an exception can be made for legitimate services including technical surveillance of installations, health and safety, rescue, fire protection and best practices training. These businesses are not excluded, even if the clients operate within the sectors in question.

Controversial weapons

With regard to controversial weapons, our sector exclusion policy is not based on any thresholds or level of activity. The exclusion policy is applied even if the controversial activity is marginal within the companies in question. Such companies are excluded whether their activity is related to controversial weapons or components used for controversial weapons.

Affiliated companies

Applicable thresholds are determined with respect to the issuer of the security in accordance with the applicable accounting consolidation rules. Due to the specific nature of our private debt investments, we also consider these thresholds at the aggregate level of the companies backing the bond issue in question (this issue may be carried by a special purpose vehicle).

We have not adopted a punitive approach – we aim to encourage a transition towards a healthier economy. This means we do not exclude holding companies controlling excluded companies if the exclusion threshold has not been reached with respect to the holding group. We do not exclude jointly controlled companies either if their activity complies with our policy. For example, the same private equity fund can hold stakes in both excluded and eligible companies. The fact that both companies have the same reference shareholder does not exclude them.

However, an exception is made for controversial weapons; our exclusion policy covers companies directly or indirectly controlling another company involved in this business line, for example if they hold a majority of voting rights, are a reference shareholder or exercise significant economic influence.

Financial instruments

Our sector exclusion policy concerns all types of securities issued by excluded companies, as well as all securities that provide direct or indirect economic or financial exposure to excluded companies, including conditional or marginal exposure.

Market indices

Our sector exclusion policy does not apply to the major market indices. However, we systematically prefer any similar indices implementing an exclusion policy referring explicitly to the Ottawa Treaty and the Oslo Treaty, or whose objective is to respect consensus-based ethical criteria.

7. Integration into our investment process

Our sector exclusion policy is based on a detailed analysis of companies' activity. It can therefore be seamlessly integrated into our investment process based on an in-depth issuer analysis. An issuer's compliance with our sector policy is assessed together with the investment case analysis.

We have drawn up a list of the securities that comprise our investment universe. The chief investment officer is in charge of updating this list, under the supervision of the risk controller. New investment proposals are examined with regard to our sector policy. The list categorises securities as either excluded or eligible. Reasons for excluding securities are stipulated and any supporting documents are archived.

The status of each security is reviewed at least annually in order to take into account any change in activity. If a security held in the portfolio is then excluded, the position must be liquidated within three months.

8. Controls

Compliance with our sector exclusion rules is integrated into our risk control process. Controls are based on the exclusion list.

Before investing, target securities are checked against our exclusion list at the order pre-allocation stage. The pre-allocation system rejects any securities appearing on our exclusion list. An alert is also sent to the operations department and risk controllers. If the proposed securities are not explicitly approved, an alert is then sent to the investment committee, which deliberates on the compliance of the issuer in question.

The percentage of non-compliant securities held in the portfolio is checked daily by the risk controller. Portfolio managers are immediately alerted of any anomalies. The list of any non-compliant securities and the corresponding percentages are also indicated in weekly risk reports.

9. Transitory measures

Overview

In order to enable the seamless transition of our investments, our sector exclusion policy will be applied to existing portfolios in two stages:

- From 31 December 2019, the portfolio weighting of non-compliant securities must be below 5% of net assets;
- From 30 June 2020, no non-compliant securities may be held in the portfolio.

Funds with short-dated maturities

Funds maturing in 2020 and 2021 shall not be obliged to liquidate their existing positions in sectors covered by our exclusion policy, provided that they respect the 5% threshold applicable from 31 December 2019.

Equity investments

The Anaxis AAM European Equities fund requires specific consideration. Our sector exclusion policy is not applied to the fund at this stage. It only applies to our bond investments.

Investment committee discretion

In order to take exceptional circumstances into account, the investment committee may decide to delay the sale of certain securities if their divestment prior to maturity would impair the financial interests of our investors, whether due to market volatility, low liquidity or a pending corporate action. Any such decision would have to be justified in an internal memo and validated by the head of compliance and internal control.

Controversial weapons

Transitory measures do not apply to controversial weapons, as the companies concerned have been formally excluded from all of our portfolios since May 2013.

10. Further information

The Anaxis sector exclusion policy can be consulted on the company website at www.anaxis-esg.com. An update on policy implementation will be included in the ethical investment annual rapport. The 2019 report will be the first to be published. It will be available to investors on our website at the above address.

Further information is available by telephone on +33 (0)9 73 87 13 20 or by email at info@anaxiscapital.com. Investors can also request the list of excluded issuers and portfolio compliance indicators from Anaxis.

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