



Building a serene future

# Anaxis Asset Management

## ETHICAL MANAGEMENT POLICY



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## Table of contents

1. Positioning.....	5
Objectives .....	5
Strategy.....	5
Aquatic environments.....	5
Ethical standards.....	5
2. Main features of our policy.....	6
Exclusions.....	6
Environment .....	6
Aquatic environments.....	6
Social responsibility .....	6
Governance.....	6
Controversies .....	7
Adverse impact in terms of sustainability.....	7
Impact of sustainability risks.....	7
Methodological limitations of the sustainability approach .....	7
Comprehensiveness and selectivity.....	8
Contribution to United Nations’ Sustainable Development Goals .....	8
SECTOR EXCLUSIONS.....	9
3. Scope of the exclusion policy .....	10
Application to corporate debt .....	10
Contribution to risk management.....	10
Transparency .....	10
4. Exclusion list.....	10
Fossil fuels.....	11
Other activities contributing to global warming .....	11
Polluting industries .....	11
Weapons .....	11
Other activities excluded .....	11
5. Explanatory statement.....	12
Fossil fuels.....	12
Other activities contributing to global warming .....	12
Polluting industries .....	13
Weapons .....	13
Tobacco and drug abuse .....	13
Genetically modified organisms.....	13
6. Controversial weapons.....	14
Reference texts .....	14
Applied principles .....	14

7. Criteria and thresholds.....	15
Criteria definitions .....	15
Activities subject to tighter thresholds .....	15
Controversial weapons .....	16
Other activities excluded .....	16
Associated activities.....	17
Affiliated companies .....	17
Financial instruments.....	17
Market indices .....	17
ENVIRONMENT .....	18
8. Context and strategy.....	19
9. Environmental assessment .....	19
Green bonds.....	19
Sustainability-linked bonds .....	20
The eight environmental criteria .....	20
Focus on climate transition.....	21
Focus on protecting aquatic environments .....	21
Coverage .....	21
Scoring scale .....	22
Issuers scored by CDP .....	22
10. Transition .....	23
Climate target no. 1 .....	23
Scope.....	23
11. Alignment.....	23
Climate target no. 2 .....	23
Technical criteria.....	24
12. Stewardship.....	25
Climate target no. 3 .....	25
Engagement in favour of aquatic environments .....	25
Approach.....	25
Votes .....	26
ETHICAL AND SOCIAL STANDARDS.....	27
13. Human rights and political power .....	28
Aim.....	28
Identifying links and financial contributions .....	28
Country review.....	29
Investment decisions .....	29
Portfolio review .....	29
Source of issuer data.....	30

14. Social responsibility and controversies .....	31
Universal standards .....	31
To take social responsibility issues into account .....	32
Basis for analysis .....	33
15. Governance .....	34
Principles.....	34
Assessment criteria .....	34
Organisation.....	35
IMPLEMENTATION .....	36
16. Integration into our investment process .....	37
Selection and allocation .....	37
Exclusions.....	37
Issuer review .....	37
17. Controls .....	38
Repository .....	38
Order approval.....	38
Monitoring of portfolios .....	38
INFORMATION .....	39

# 1. Positioning

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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.

## Objectives

Our investment policy aims to direct financial flows towards sectors that are compatible with our objectives, i.e. environmental preservation and public health. This requirement has led us to exclude certain sectors of activity due to their outsized impact on global warming, pollution or public health risks. We have also set ourselves the target of reducing the overall carbon intensity of our portfolios by 60% between 2018 and 2030 (an average of 7.5% per year). We are also part of the Net Zero Asset Managers initiative, which aims to achieve carbon neutrality by 2050.

## Strategy

We have defined specific selection criteria to help us reach these goals, with stricter requirements imposed on companies with high greenhouse gas emission intensity. We also engage with individual businesses whose efforts seem insufficient given the scale of the climate challenge and the ambitions behind the Paris Agreement.

## Aquatic environments

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. This concern is reflected in sector exclusions (fertilisers, pesticides, plastic packaging), the use of specific assessment criteria focused on this theme, and engagement with companies that need to improve their practices.

## Ethical standards

Our policy makes reference to ethical standards on topics such as human rights, governance and social responsibility. We incorporate these factors into our investment selection process in a systematic and formalised manner. We also monitor controversies affecting portfolio positions. Our ethics committee looks into serious cases and excludes certain issuers from the portfolios as a result.

## 2. Main features of our policy

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### Exclusions

Anaxis excludes companies belonging to the fossil fuel segment, as well as the weaponry, tobacco and non-therapeutic GMO sectors. Furthermore, we exclude companies with significant activities in the field of fertilisers, pesticides or plastic packaging due to their adverse impact on the sustainability objectives of the European Union. The major areas of concern are pollution as well as damage to ecosystems, to biodiversity and to aquatic resources.

### Environment

Anaxis assesses bond issuers on the basis of their environmental policies and their commitment to the transition to greenhouse gas neutrality. Companies are rated and assigned scores. The criteria applied are all the more stringent the more likely a company's activity is to affect the environment or the climate, as is the case in the fields of transport or cement production. The approach followed favours the selection of companies using the best efforts in their field.

### Aquatic environments

In addition to its commitment to climate action, the management company applies an environmental policy aiming at protecting aquatic environments and water resources. Aquatic environments are especially fragile and poorly protected by national policies. Accordingly, Anaxis Asset Management identifies economic activities that are likely to have a strong impact on aquatic environments, fisheries resources, the quantity and quality of available water reserves, access to drinking water or other water-related issues. Investments in companies operating in these sensitive fields are subject to specific rating criteria on a best-efforts basis.

### Social responsibility

Anaxis ensures that the companies selected comply with ethical standards of human rights and social responsibility. The principles of the UN Global Compact act as a guide for this analysis. The approach is to exclude companies which engage in practices deemed to be unacceptable.

### Governance

Governance is part of the risk analysis performed by the management team. To this end, the analyst relies on a table of factors enabling him/her to identify the major risks associated with the issuer and to assess their severity. The approach taken here prioritises the best practices in each sector (so-called "best-in-class approach").

## Controversies

Anaxis monitors the controversies affecting issuers. Controversies are impartially analysed by our ethics committee. They are assessed according to their severity, their impact, their frequency, and the response given by the relevant company. If a company is excluded from our investment universe due to controversy, the exclusion is set for a defined period, after which the case will be reassessed.

## Adverse impact in terms of sustainability

Assessment of the funds' impact is based on available data, while focussing specifically on environment and then applying a method of analysis intended to ensure that the investments selected do not significantly prejudice the environmental objectives. However, from a regulatory perspective, the management company should not be seen as taking into account the adverse impact of investment decisions on sustainability factors. Indeed, the regulation will require the application of a whole set of technical criteria requiring precise and detailed information from investee companies. However, only a small fraction of the issuers within our investment universe are currently able to provide the required information.

## Impact of sustainability risks

We consider that sustainability risks may affect the performance of portfolios by reducing the credit quality of some issuers or by diminishing available sources of financing. Sustainability risks arise chiefly from climatic events (risks called "physical risks") and from the necessity for these companies to swiftly adapt to changes (risks called "transition risks"). Social aspects (human rights, discrimination, labour relations, accident prevention, etc.) or governance deficiencies may also result in sustainability risks. That is why we have incorporated in our investment selection process the sustainability factors which we believe to be the most significant.

## Methodological limitations of the sustainability approach





- The analysis is based primarily upon information supplied by the companies. Figures are not always audited. Methodologies and scopes selected for use can vary, making comparisons and aggregations questionable.
- In some cases, it is necessary to use assumptions or estimates; for instance, when data on greenhouse gas emissions are not available or as yet incomplete.
- Too few data are available to date to assess indirect greenhouse gas emissions; for instance, those relating to the use of products or services provided by companies (scope 3).
- Some assessment criteria are based upon forecasts, commitments or strategies published by companies. Achievements can turn out to be very different.
- Some criteria are based upon procedures or internal policies published by companies. It is possible that these procedures and policies are only applied partially or not at all.

- Some information may not be recent enough to reflect the current situation of a relevant company; for instance, when this information stems from an annual report or when material changes have occurred within this company.
- An analysis, even a thorough one, may not be able to anticipate a controversy or a future event that might have a material adverse impact.

## Comprehensiveness and selectivity

We conduct non-financial analysis on most (i.e. over 90%) of the assets in the portfolios. The various stages in our analysis allow us to exclude at least one in five securities. Our portfolios are broadly diversified, in terms of both issuer category and geographical region. A vast number of securities are potentially eligible. That is why we assess the selectivity of our sustainable investment process based on the categories of security that usually represent the majority of the allocation of the fund in question.

## Contribution to United Nations' Sustainable Development Goals

 <p>6 CLEAN WATER AND SANITATION</p>	<p>Our exclusion policy targets certain activities that are particularly harmful to the quality of water resources, including fertilisers and pesticides. We are of the view that there are financially viable alternatives. In other sectors with a significant impact on water resources, specific analysis of this theme allows us to focus on the most virtuous companies.</p>
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	<p>Anaxis has decided to exclude companies in the fossil fuel segment from all of its portfolios, as well as those generating electricity or heat from such energy sources. Our investments in the energy sector are therefore focused on renewable energy and aimed at protecting the environment.</p>
 <p>13 CLIMATE ACTION</p>	<p>We have set ourselves ambitious targets to reduce the carbon intensity of most of the portfolios we manage. In the very near future, all our funds will have climate objectives. Anaxis has set itself on a course that should lead to carbon neutrality for all its investment activities. Specific steps and indicators have been defined to help us achieve this goal.</p>
 <p>14 LIFE BELOW WATER</p>	<p>Our decision to exclude producers of fertilisers, pesticides and plastic packaging was largely motivated by our determination to reduce the harmful effects of human activities on aquatic ecosystems. We assess companies' environmental policies as part of our management process. Sensitive activities are assigned a specific score in relation to the water and aquatic environments theme.</p>



# SECTOR EXCLUSIONS

## 3. Scope of the exclusion policy

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### Application to corporate debt

Our exclusion policy 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.

### Contribution to risk management

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.

### Transparency

Our clients benefit from our sector exclusion 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.

## 4. Exclusion list

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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, polluting products, weapons, tobacco and GMOs. The Anaxis exclusion list is represented below.

## Fossil fuels

- Exploration, extraction, production and refining of coal, petroleum, natural gas and other fossil fuels
- Production of electricity, heat or other forms of energy from fossil fuels
- Equipment and services dedicated to fossil fuels (including with a view to saving energy or improving processes)
- Transport, distribution and storage of fossil fuels (including oil pipelines, gas pipelines, oil terminals, natural gas liquefaction terminals, maritime transport by tankers, distribution of heating oil)

## Other activities contributing to global warming

- Storage and landfill of waste without greenhouse gas capture
- Incineration without energy recovery
- Unsustainably managed logging
- Peatland farming

## Polluting industries

- Production of fertilisers, weedkillers, insecticides, fungicides and other pesticides
- Plastic packaging production (including from recycled waste)
- Other activities as defined by the ethics committee (depending on the sustainable investment objectives of each portfolio)

## 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 activities excluded

- **Activities harmful to health**  
Tobacco, recreational cannabis and other products of similar use (including plantations, processing, production and distribution of cigarettes, by-products of all kinds)
- **Activities potentially harmful to biodiversity**  
Production of GMOs for non-therapeutic use (especially in the agricultural sector)

## 5. Explanatory statement

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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 investments. It also responds to the real social and environmental concerns outlined below.

Our policy excludes business sectors incompatible with the *France finance verte* Greenfin label (April 2019 version) introduced by the Ministry of Ecological and Solidarity Transition (MTES). It also covers sectors recommended for exclusion by the Global Investor Coalition on Climate Change (GICC, *Low Carbon Investment (LCI) Registry, Taxonomy of Eligible Investments*, 14 October 2015 version).

### 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, tar sands extraction, hydraulic fracking, Arctic drilling or deep-water drilling. For this reason, Anaxis excludes these forms of production.

Although natural gas (methane) can be considered less-polluting than other fossil energy sources, its continued use is not compatible with the need to reduce greenhouse gas emissions. It is therefore also covered by our exclusion policy. We also rule out activities aimed at improving the performance, efficiency or yield of fossil fuel sectors. Following the reasoning of the MTES and the GICC on this point, we feel that efforts must focus on the transition to sustainable energy sources and that activities helping to prolong the use of fossil fuels should not be supported.

### Other activities contributing to global warming

The activities mentioned under this heading contribute significantly to global warming, and therefore to the degradation of natural environments. They do not implement the practices necessary to limit, optimise or compensate for greenhouse gas emissions.

In the case of peatlands, it should be noted that they are composed of partially decomposed organic matter and store large amounts of carbon. Agricultural practices threaten peatlands due to soil drainage and fires caused by land clearing. These fires can be accidental, for example when burning gets out of hand, or criminal, as a means of settling disputes or driving out locals. Peatlands dried out by drainage are highly flammable. Huge fires have occurred, for example in the Amazon, Congo, and Indonesia, where they were responsible for 42% of the country's CO<sub>2</sub> emissions in 2015.

## Polluting industries

This exclusion factor specifically aims to protect drinking water resources, 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 and drug abuse

The use of tobacco and certain other addictive products is legal (with major differences depending on the country). It 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.

## 6. Controversial weapons

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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 complies with the obligations and recommendations arising from 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;
- Chemical weapons;
- Nuclear 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.

## 7. Criteria and thresholds

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### Criteria definitions

We set a maximum threshold for exposure to the activities covered by our sector policy. This threshold is expressed as a percentage of turnover. It is calculated by aggregating exposure to excluded industries, meaning that an issuer may be excluded even if each activity, taken individually, represents a lower percentage of turnover. We also apply absolute thresholds, as set out below, in order to exclude very large groups with extensive operations in the coal segment. Lastly, we have specific procedures for certain controversial activities that are particularly harmful to the environment.

Companies' annual reports and corporate statements are used as reference material. Additional information may be drawn from other sources – including the Global Coal Exit List – and from 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 good practices.

### Activities subject to tighter thresholds

#### **Fossil fuels**

##### Conventional activities

Activities directly related to the generation of energy from fossil materials are subject to a threshold of 5% of turnover. These activities are: (i) exploration, extraction, production and refining of fossil fuels, (ii) fossil fuel-based generation of electricity, heat or other forms of energy.

##### Coal and controversial activities

In addition to the exclusions indicated above, to take into account the danger posed by certain existing operations, Anaxis undertakes to keep its portfolio allocation in coal and non-conventional oil and gas activities below 1%, and to completely exclude these activities by 2030.

##### Absolute thresholds

In the case of coal, we also apply limits in the form of absolute levels, in order to avoid the continuation of significant activities within mining or energy giants. We therefore exclude:

- mining companies extracting more than 10 million tonnes of coal per year;
- electricity producers with an installed capacity of more than 5 gigawatts in coal-fired power stations.

### New controversial projects

Companies developing new projects in one of the following areas are also excluded, even if they fall within the 5% threshold:

- coal mining,
- construction, extension or modernization of coal-fired power stations,
- shale gas exploitation,
- tar sands extraction,
- hydraulic fracking,
- deep water drilling,
- Arctic drilling, the definition adopted for the Arctic being that of the AMAP (Arctic Monitoring and Assessment Program), a working group of the Arctic Council.

To do this, we use the lists drawn up by the Urgewald association concerning companies involved in fossil fuels: Global Coal Exit List and Global Oil and Gas Exit List. Any company identified in one of these lists as having new coal or unconventional fossil fuel projects ("upstream - unconventional expansion" or "midstream expansion") is automatically excluded from all of our portfolios.

From 2030, this principle will be extended to all fossil fuels. Companies developing new projects in oil or natural gas production, or electricity generation from fossil fuels will no longer be eligible for our portfolios after this date, regardless of the percentage of turnover they derive from these activities.

### Tobacco and similar products

Because of its impact on public health, producers of tobacco, recreational cannabis and other products of similar use are limited to the threshold of 5% of turnover.

### Weapons

In order to take into account the peculiarities of this sensitive sector, and to help reinforce generally accepted ethical standards, issuers are excluded if such production exceeds 10% of turnover.

## 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.

## Other activities excluded

The other activities mentioned in the description of our scope of exclusion are subject to a threshold of 20% of turnover.



## 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, a 20% threshold is applied. Examples include oil drilling equipment or construction of gas-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.

## 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 corporate 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, and whose objective is to respect consensus-based ethical criteria.

# ENVIRON- MENT

## 8. Context and strategy

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The environmental criteria used by Anaxis during the investment analysis process complement the sector exclusion policy. The exclusion policy presented above is specifically aimed at business sectors where we believe it is unreasonable to make new investments. Developing or even maintaining such activities (especially those relating to fossil fuels) is incompatible with the transition to an economy with low greenhouse gas emissions.

Alongside sector exclusions, Anaxis is adopting a strategy designed to incentivise emissions reductions by companies that supply legitimate long-term products and services. In the corporate bond space (accounting for most of our investments), many issuers still have a long way to go in terms of measuring emissions and implementing strategies to reduce their environmental impact. This is particularly true of companies whose shares are not listed on the stock market.

In this context, Anaxis has decided to take a pragmatic approach allowing for environmental analysis of the portfolios as a whole. Stricter requirements are applied to companies whose activity is likely to have a larger impact on the environment. Particular attention is paid to the themes of the transition to carbon neutrality and protecting aquatic environments. Specific criteria have been defined in relation to these two topics, giving rise to separate scores.

Whenever an investment is planned, Anaxis analyses the company's environmental policy and assesses the results obtained. The most committed companies are prioritised in portfolio allocations and those whose efforts are judged insufficient in relation to the nature of their activities are excluded. In certain cases, Anaxis may also engage with individual companies so as to encourage those not yet meeting the necessary criteria to better adapt to the challenges, risks and development opportunities linked to the environment.

## 9. Environmental assessment

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### Green bonds

Green bonds are eligible if they are certified by a recognised body that has assessed their actual contribution to financing projects that facilitate ecological transition. This remains the case even when the issuer itself does not belong to one of the sectors permitted by our sector policy. For example, a green bond issued by an oil company is considered eligible if the related funds are exclusively used to finance the development of a precisely defined renewable energy project monitored by an independent auditor.

## Sustainability-linked bonds

By contrast, securities referred to as sustainability-linked bonds (SLBs) are not automatically eligible. The general principle behind such instruments is that the coupon will increase several years after issue if the company fails to meet a defined environmental target. It is therefore necessary to assess the suitability of this target and determine whether it fulfils our own environmental criteria. In practice, it is unlikely that an SLB issued by a company in an excluded sector will meet our criteria.

## The eight environmental criteria

Our environmental analysis of companies is based on the following analysis grid.

1	Publication of relevant and reliable environmental information with respect to the company's activities. Existence of a CSR report or a dedicated section in the annual report.
2	Existence of an analysis of environmental risks.
3	Existence of procedures tailored to managing environmental risks.
4	Clear and lasting reduction in environmental impacts over time.
5	Appropriate targets to reduce environmental impacts. No deferral of reduction efforts to a later date.
6	Strategic commitment to ecological transition. Choices (business model, projects, investments, collective initiatives) that reflect this commitment.
7	Existence of specific environmentally friendly programmes to which substantial resources are allocated (site remediation, NGO support) or an active approach to promoting environmental causes within the business sector.
8	Development of innovative solutions that can be used by other players or serve as a model within the industry, or investment in research programmes specifically focused on protecting the environment or restoring natural habitats.

## Focus on climate transition

Where a company's potential impact on global warming is deemed significant, we adapt these general criteria to focus specifically on climate transition. More precisely, we examine the following points:

- The company must publish reliable emissions data, for the relevant scope, using a suitable methodology given the nature of its sector.
- The company must have targets to reduce its greenhouse gas emissions that are consistent with the aim of achieving carbon neutrality by 2050, with effects expected in the near future.
- Forecast emissions must not peak later than the current year.
- The greenhouse gas reduction strategy presented by the company must be serious, factual and credible, especially as regards investment plans and the business model.
- This strategy must not be overly reliant on a carbon offset scheme.

These five requirements allow us to identify companies whose climate transition trajectory is in line with the Paris Agreement targets.

A small number of companies have already upgraded their processes and structure to ensure that their activities produce zero net greenhouse gas emissions. Such companies are eligible for investment. However, such cases are unlikely to emerge at present in the emission-intensive sectors that are the particular focus of this section of our ethical management policy.

## Focus on protecting aquatic environments

Anaxis has established a system for classifying business sectors based on their potential impact on aquatic environments, marine biodiversity, fishery resources, traditional fishing activities, water resources, access to drinking water and other key water-related themes. When a company engages in activities considered sensitive in this regard, specific analysis is conducted to assess the company's transparency, risk management, objectives, strategy and investments in relation to the theme or themes identified.

## Coverage

Anaxis is committed to conducting environmental analysis of all positions in each of the portfolios it manages. However, a tolerance threshold of 10% (as a percentage of the fund's AUM) is applied, to ensure that the investment team always has the scope to react to events. This is especially important in the primary market, where decisions must be made very quickly. The degree of coverage is reviewed at the start of each month and unscored positions are flagged for analysis in the following three months.

## Scoring scale

We have selected the following scoring scale. We establish a link to the criteria we use by imposing a minimum requirement for each score and assigning a meaning to each of the possible levels. Scores can be modulated using the “-” symbol, depending on the quality of available information, when certain mandatory criteria have only been partially met.

Score	Interpretation	Criteria
A	Vanguard company as regards implementing best practices for the activity in question.	Criteria 1 to 6 are met, as well as either criterion 7 or 8.
B	Good management of environmental impacts through ambitious and effective policies.	Criteria 1 to 6 are met.
C	Good analysis of environmental risks and a clear awareness, at the highest level, of their strategic importance, constituting the first step towards a more sustainable approach.	Criteria 1 to 3 are met.
D	Publication of reliable and relevant indicators from an environmental standpoint.	Criterion 1 is met.
E	Insufficient consideration of environmental factors or failure to publish the necessary information for assessment.	Criterion 1 is not met.
F	Not assessed.	

## Issuers scored by CDP

If the company (or the group to which it belongs) meets the transparency requirements of the Carbon Disclosure Project (CDP), our analysis may be based on a detailed report covering its environmental policy, the objectives it has set, its chosen methodologies, resources deployed and results obtained. The CDP assigns separate scores for the issues of climate transition and management of water-related risks.

## 10. Transition

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### Climate target no. 1

Anaxis aims to achieve carbon neutrality across its entire product range by 2050. We have also set ourselves the interim target of reducing the portfolios' greenhouse gas emission intensity by 60% between the chosen reference year (2018) and 2030. This target implies an average annual reduction in carbon intensity of 7.5%. We are gradually incorporating this into our UCITS documentation in the form of sustainable investment objectives within the meaning of Article 9 of the EU SFDR.

### Scope

Scope 1 and 2 emissions are taken into account. These are direct emissions from sources held or controlled by the company (scope 1) or linked to the energy consumption (electricity, heat, steam) required to manufacture the products or provide the services offered (scope 2). Indirect emissions (scope 3) resulting from the manufacture of purchased goods and raw materials (upstream) or from the use of the products by customers (downstream) are not taken into account at this stage owing to a lack of sufficiently representative data.

## 11. Alignment

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### Climate target no. 2

In order to make a tangible contribution to the transition to a low-emissions economy and achieve our aim of reducing the carbon intensity of the portfolios under management, we have set an alignment target for the companies whose securities are held in the portfolios. We have chosen to measure the extent to which our investments in sensitive sectors are in companies meeting one of the following three criteria:

- neutrality in terms of greenhouse gas emissions (or very close to neutrality);
- alignment with a satisfactory trajectory (prioritising the IPCC's P1 scenario);
- on track to achieve alignment.

We are aiming for this percentage to be 100% by 2030, with an interim target of 70% by the end of 2026. This target applies to our investment activities as a whole and to each individual fund in our range.

## Technical criteria

### **Neutrality**

Anaxis has set 12 tonnes of CO<sub>2</sub> equivalent per EUR 1 million in turnover as the intensity threshold below which a company is considered to be approximately neutral in terms of greenhouse gas emissions. This figure represents the sum total of the carbon intensity from scopes 1, 2 and 3 emissions (where scope 3 is deemed significant).

### **Issuers considered**

In the case of bond issuers, instruments may be issued by various group entities. Alignment is assessed at the level of the issuer or activity, although the performance and commitment of the group as a whole may also be taken into account where this appears relevant.

### **Alignment**

We consider a company to have achieved alignment if it has received a climate score of B or higher on our internal scale.

### **On track to achieve alignment**

For the purposes of implementing our alignment target, a company is considered to be on track to achieve alignment if it meets the following three requirements, which correspond to a rating of B- on our climate assessment scale:

- it publishes its scope 1 and 2 emissions, as well as material scope 3 emissions;
- it has set a short- or medium-term target for reducing scope 1 and 2 emissions, as well as material scope 3 emissions;
- it has put forward a plan indicating how these objectives are to be met.

### **Sensitive sectors for the climate**

We consider certain sectors sensitive with respect to their potential impact on global warming based on recommendations from the PAII, and the IIGCC and NZAM initiatives. Anaxis also identifies sensitive sectors on the basis of their greenhouse gas emission intensity.



## 12. Stewardship

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### Climate target no. 3

Anaxis has decided to set up an engagement strategy in accordance with the recommendations of the Net Zero Asset Managers initiative. We have chosen to assess our degree of engagement by measuring the extent to which our investments in sensitive sectors are in companies meeting one of the following three criteria:

- overall neutrality in terms of greenhouse gas emissions,
- alignment with a trajectory consistent with the target of neutrality,
- the subject of individual or collective engagement efforts.

The target percentage is 100% although temporary deviation of up to 10% is permitted, since engagement efforts need preparation and cannot all be launched simultaneously. This target is applied within each portfolio under management. In sectors with high emissions, it means that all portfolio companies whose alignment is deemed unsatisfactory must be the subject of engagement efforts.

### Engagement in favour of aquatic environments

Portfolio companies whose activity is likely to have a significant adverse impact on aquatic environments or water resources (such as those in the fishing, agriculture or mining industries) are also included in Anaxis' individual engagement process. Specific criteria are used to analyse companies presenting this risk. Those found to have unsatisfactory practices, policies and targets are the subject of engagement efforts focused on this specific environmental theme.

### Approach

Our individual engagement efforts, whether in favour of protecting aquatic environments or the transition to a low-carbon economy, all follow the same approach, which is outlined below.

#### **Identifying relevant companies**

The ethics committee draws up the list of companies with which Anaxis should engage in dialogue. Every three months, the committee reviews the progress made in each case and updates the engagement list. In the first instance, our approach is primarily aimed at companies in sectors deemed sensitive in terms of their impact on the climate or aquatic environments. A list of sectors has been compiled based on the recommendations of the Net Zero Asset Managers initiative. However, this list is not restrictive. Companies operating in other fields may also be the subject of individual engagement efforts where the committee deems this appropriate.

### **Dialogue and monitoring**

Anaxis seeks to engage in dialogue at the highest possible level of the organisational structure, depending on the contacts available. The committee assesses the quality of responses and the progress made by the company on a quarterly basis. Progress is deemed significant if it leads to an improvement in the company's score on the theme covered by the engagement process (climate or aquatic environments).

Moreover, in accordance with our aim of making an effective contribution to climate transition, whenever we know or have good reason to believe that an eligible company holds coal assets (mines, electricity plants, etc.), our engagement strategy goes hand in hand with a specific request: we ask the company to send us within three months, a clear and detailed strategy for the gradual closure (and not the sale) of existing coal assets by 2030 at the latest.

### **Practical consequences**

1. If the score improves but remains insufficient, our engagement is extended for another year. Positions can be managed as normal during this period.
2. When there is no significant progress by the deadline set, the company is informed that it will become ineligible for our portfolios at the end of a final six-month period. Where applicable, portfolio managers will have to sell equity securities within three months and will no longer be able to buy the company's bonds or subscribe to its issues on the primary market.

### **Communication about new issues**

Companies that are the subject of individual engagement efforts must be informed as early as possible of our environmental criteria and their implications for our potential participation in primary issues planned by such issuers (especially as regards bond issues).

## Votes

The votes we cast at meetings must be consistent with our climate transition objective. The company must be informed of our voting intentions in advance as part of the engagement process. Our voting decisions must then be made public and explained where necessary. Our voting policy is described in a separate document.

# ETHICAL AND SOCIAL STANDARDS

## 13. Human rights and political power

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### Aim

Anaxis refuses to help finance the economic activities of authoritarian states. That is why we seek to ensure that the portfolios under management do not invest in securities issued by companies linked to states, public bodies or political figures involved in violations of fundamental rights. We have established a specific procedure covering companies and their shareholders, allowing us to determine the nature of beneficial owners and of the people or entities exercising significant control over the companies in question.

The matter of sovereign states is particularly important in our view. The stakes are high as far as human rights are concerned, yet sovereign issuers and public companies are afforded considerable leeway by the business community. We have therefore decided to separate out this ethical issue to offer an objective response, unaffected by financial concerns. In this context, we pay particular attention to companies from emerging markets, although our analysis covers every case where there may be a link between a company and a political authority.

### Identifying links and financial contributions

Whenever a new investment is planned, and then at regular intervals for existing portfolio positions, we search for potential links between the issuer and a political authority. Such links could take the form of:

- shareholder status,
- significant economic benefit,
- preponderant decision-making power or influence (for example owing to economic dependency or the presence of directors appointed by the state).

Any link may be direct or indirect. The political authority in question could be a sovereign state, a public body, a political figure, a political structure such as a party, or an entity whose activities are reserved for politicians, administrative agents or public-sector employees. The strength of the link is assessed on the basis of the balance of power among the various stakeholders and the way the company is actually run.

This analysis is intended to be as comprehensive as possible and cover all identified links. An in-depth review of each individual situation is carried out to determine whether investing in the company concerned would constitute a significant contribution to the economic activities of the state or of the representatives of the political authorities with which we have been able to establish a link.

## Country review

Whenever there is a link between the company under review and a political entity or figure, we closely examine the human rights situation in the relevant state. This analysis draws on the reports of the United Nations Human Rights Council, the work of NGOs such as Amnesty International and Human Rights Watch and testimonials compiled by independent media outlets. We conclude each analysis by assigning the situation to one of three levels: acceptable, mediocre or concerning. The use of the death penalty is handled separately.

The situation is deemed **acceptable** if the country does not employ the death penalty; if the rule of law is generally respected; if institutions ensure the independence of the justice system, the right to effective remedies, and the exercise of fundamental freedoms; and if the government makes a concerted effort to combat all forms of violence, discrimination, offences against human dignity and violations of labour law.

The situation is deemed **mediocre** if the country's institutions and laws are broadly in line with international standards but there are significant weaknesses as regards important aspects of human rights, labour law, fundamental freedoms or combatting discrimination.

The situation is deemed **concerning** if the country systematically flouts fundamental freedoms, possesses a dictatorial political or judicial system, engages in torture or implements discriminatory, repressive or criminal policies.

## Investment decisions

Objective analysis of the human rights situation in the various countries identified allows us to draw clear conclusions. We therefore avoid financing the economic activities of authoritarian states: we do not buy securities issued by companies with which such states have close links. The same applies to sovereign bonds and any other financial instrument where the same type of link exists (including derivatives and the issues of local administrative structures).

## Portfolio review

We conduct initial checks before purchasing a position and then carry out periodic reviews of the portfolios. Such reviews are carried out on a biannual basis because links based on influence tend to be stable, and because it takes time to assess changes in the human rights situation within a country. If a position no longer meets our ethical criteria, for example owing to a deterioration in the political context in a country or following a capital operation, an alert is issued and the company must be removed from the portfolios within three months. If specific circumstances mean that extra time is required, this must be justified by the investment committee.

During periodic reviews of existing positions, we assess the extent to which the portfolios under management help finance the economic activities of various states. This contribution is calculated, for each position, as (1) the fund's allocation to securities issued by the company, multiplied by (2) the state's equity stake in this company, or, where relevant, a higher percentage to reflect the state's actual influence or economic benefit. Positions are then aggregated by state.

## Source of issuer data

Our analysis draws on information from a wide variety of sources:

- companies' annual reports,
- bond issue prospectuses,
- websites or corporate presentation documents of the relevant groups or their shareholders,
- online press,
- publications and financial analysis supplied by certain brokers,
- reports by independent financial research agencies such as CreditSights, Lucrator Analytics and Spread Research,
- summaries from Moody's rating agency,
- data compiled by the Bloomberg database.

Data sources vary on a case-by-case basis. Information is obtained as a result of research seeking to identify all significant links between a company and a political authority. Very little information is available on certain companies. When it proves impossible to obtain a reasonable amount of information on a company's shareholders or beneficial owners, the company cannot be considered eligible. Instead, it must be excluded from the portfolios under management.

## 14. Social responsibility and controversies

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### Universal standards

Our investment criteria for corporate social responsibility make reference to universal standards, as defined in the United Nations Global Compact in particular. The issues raised cover vital themes such as human rights, labour, the environment and the fight against corruption. Specifically, when we analyse investments, we assess issuers' compliance with the Ten Principles of the Global Compact. Issuers in the portfolio must meet the following requirements.

#### **Human rights**

1. To support and respect the protection of internationally proclaimed human rights.
2. To make sure that they are not complicit in human rights abuses.

#### **Labour**

3. To uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. To contribute to the elimination of all forms of forced and compulsory labour.
5. To contribute to the effective abolition of child labour.
6. To contribute to the elimination of discrimination in respect of employment and occupation.

#### **Environment**

7. To support a precautionary approach to environmental challenges.
8. To undertake initiatives to promote greater environmental responsibility.
9. To encourage the development and diffusion of environmentally friendly technologies.

#### **Anti-corruption**

10. To work against corruption in all its forms, including extortion and bribery.

## To take social responsibility issues into account

### **General approach**

In the first instance, we focus on cases involving serious violations where unacceptable deliberate behaviour or inexcusable negligence is likely to call into question our investment. The analysis is primarily centred on the facts and companies' concrete actions in relation to social responsibility. Statements of intent and formal procedures are considered less valuable.

### **Responsibility of the management team**

The management team assesses compliance with the Ten Principles as part of its analysis of planned investments within the portfolios. This key component of our ethical management process draws on information collected when the issuer's analysis file was compiled. In the first instance, it relies on managers acting responsibly, under the collective supervision of the investment committee.

### **Ethics committee decisions**

Given what is at stake, problematic cases are referred to the ethics committee. The committee issues reasoned decisions on whether to exclude issuers, in conjunction with the management team. Where applicable, the committee can decide to exclude the issuer for a period of up to two years, depending on:

- (i) the severity of the breach,
- (ii) the measures taken by the company to resolve the issue, and
- (iii) the procedures implemented to prevent further breaches in future.

At the end of the exclusion period, the ethics committee reviews the file to assess the company's progress. The committee can then decide to either return the company to the list of eligible issuers or extend its exclusion.

### **Monitoring positions**

Controversies are monitored on a monthly basis in order to identify new cases that are problematic from an ethical standpoint. Any concerning new controversies identified during the review are discussed by the ethics committee within three months, as soon as we have been able to compile a full file.

Members of the management team, and staff members more broadly, must inform the ethics committee without delay of any controversy or concerning situation affecting a company whose securities are held in the portfolios or in which an investment is being considered.

### **Implementing decisions**

When a company is excluded as part of the controversy analysis process, the corresponding positions must be sold within three months. However, the investment committee may decide to delay the sale if it believes that selling a position too quickly would run counter to the legitimate interests of investors (for example, owing to market volatility, low liquidity or a pending corporate action). The reasons behind such a decision must be set out in a document submitted to the ethics committee for approval.



## Basis for analysis

### **Internal analysis**

Our analysis is primarily based on the following:

- Information provided in annual reports, specific reports and the company's other publications or statements
- Auditors' comments
- Notes in issue prospectuses
- Financial analysis from brokers, rating agencies and independent companies
- Controversies borne out by established facts
- Critiques drafted by NGOs that are recognised for their professionalism
- Investigations published by investigative media outlets and international consortia of renowned journalists
- Conclusions from administrative enquiries, injunctions and warnings issued by legitimate authorities.
- Sentences issued by a civil, criminal or administrative authority or an industrial tribunal
- Arbitration and other forms of conflict resolution
- International sanctions or the inclusion of the company, its directors, its beneficiaries or related persons or entities on blacklists
- Reports by the United Nations Commission on Human Rights or other bodies on specific topics (labour law, refugees, corruption, discrimination, etc.).

### **External support**

Anaxis has retained the services of ISS to provide ongoing and systematic monitoring of any controversies surrounding the companies in the portfolio or in which new investments are being considered. The ethics committee conducts individual analysis of all portfolio companies in the ISS red category. The committee compiles an analysis file on each company and then drafts a decision report to ensure that it is making fully informed and reasoned decisions on potential exclusions.

The committee has full discretion to examine and potentially exclude companies other than those in the ISS red category. Depending on its assessment of the seriousness of the situation, the committee may take up cases that have not been identified by the ISS as concerning or that are not covered by the agency. The committee must also issue a reasoned decision on all cases presented to it by the management team, another member of the team, a client or an external service provider.

# 15. Governance

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## Principles

The criteria that must be taken into account in investment decisions are set out below. Other elements may also feed into the analysis, on a case-by-case basis, at the discretion of the analyst or portfolio manager responsible for the file. Companies are scored on a scale of 1 (low risk) to 4 (very high risk). Any positions in companies receiving a score of 4 must be sold.

## Assessment criteria

Specific comments must be issued to justify the scores given. We think that good governance should be guided by the general principles set out below:

- **Transparency and quality of information**
  - Publication of full and accurate financial information on a regular and ad-hoc basis
  - Coherence of the strategy
  - Communication of the targets set, investments and projects
  - Ease of access to information and availability of directors for discussions with investors
- **Organisation**
  - Independence and effective role of directors
  - Qualified management team
  - Existence of supervisory bodies and balance of power
  - High-quality internal control and audits
- **Respect for the interests of the various stakeholders**
  - Alignment of directors' interests with those of other stakeholders and absence of abuses
  - Prevention of risks of conflicts of interest (e.g. in the event of intragroup lending)
  - Absence of any action that is detrimental to creditors (e.g. unexpected or excessive dividend payouts, changes in financial strategy) and management of any restructuring
  - Management of social conflicts and protection of workers
- **Integrity**
  - Avoidance of involvement in fraud or corruption cases or in controversies
  - Absence of links to tax havens, authoritarian governments or questionable clients
  - Regulatory compliance and absence of financial irregularities
  - Clear and legitimate group structure

## Organisation

### **Responsibility of the management team**

The stipulated criteria form an integral part of the files used to assess investment opportunities and subsequently review portfolio positions, on an equal footing with the assessment of financial information and creditworthiness. Furthermore, portfolio managers are responsible for ensuring that these criteria directly feed into a comprehensive assessment of the financial risk associated with each investment. These governance criteria are a key aspect of our investment process. They are reviewed by the investment committee as part of its routine duties.

### **Monitoring positions**

We carry out an annual review of the portfolios' governance risk so as to cover all positions held over this period. The coverage level is permitted to temporarily vary by up to 10%, as delays caused by portfolio rotation make flexibility essential.

### **Implementing decisions**

When a decision is made to sell a company owing to a deterioration in its governance score, the corresponding positions must be sold within three months. If specific circumstances mean that extra time is required, this must be approved and justified by the investment committee in the interests of investors. No security may be bought or kept in the portfolio if the issuer has a governance score of 4.

# IMPLEMEN- TATION

## 16. Integration into our investment process

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### Selection and allocation

Our ethical management policy is based on a detailed analysis of the structure and activity of companies. It can therefore be seamlessly integrated into our investment process. In most cases, issuers' compliance with our ethics policy is assessed when the investment case is examined. The companies with the highest scores are prioritised in the allocations in accordance with the rules for each UCITS.

### Exclusions

Once our analysis is complete, an issuer may be excluded from the investment universe of a portfolio for one of the following reasons:

1. Exceeding the limit for activity in an excluded sector
2. Involvement in the coal segment in excess of the absolute thresholds tolerated
3. Participation in controversial new projects in the fossil fuel sector
4. Involvement in polluting activities that the ethics committee has excluded for the fund in question
5. Activity linked to weapons banned by international treaties
6. Major environmental damage
7. Lack of alignment with a satisfactory climate transition trajectory
8. Failure to provide a convincing response to individual engagement efforts
9. Insufficient response to issues linked to water and aquatic environments
10. Links to an authoritarian state
11. Violation of the Ten Principles of the Global Compact
12. Implication in a concerning controversy
13. Excessive governance risks

### Issuer review

Aspects regarding activity type, environment, climate transition, preservation of aquatic environments, individual engagement, governance and controversies are reviewed for each company in the portfolio on an annual basis, or more frequently as set out in the corresponding sections. This review frequency allows us to take changes within companies into account and keep the portfolios properly aligned with the targets we have set in relation to the environment and the transition to neutrality in terms of greenhouse gas emissions for the economy.

Our assessment of companies' human rights performance is regularly reviewed to ensure that all positions are covered over a two-year period. Where specific events or circumstances so dictate, a case is reviewed by the investment committee as soon as it has been possible to compile the necessary information.

## 17. Controls

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### Repository

Compliance with our ethical management criteria is integrated into our risk control process. Controls are based on a repository of securities covering the investment universe. Reasons for excluding securities are stipulated and any supporting documents are archived. The chief investment officer is in charge of updating this repository, under the supervision of the risk controller. In particular, any new investment proposals are examined in light of the criteria of our ethical management policy.

### Order approval

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 then sent to those in charge of operations and risk control. 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.

### Monitoring of portfolios

The percentage of non-compliant securities held in the portfolio is checked on a weekly basis by the risk controller. Portfolio managers are immediately alerted of any anomalies. The list of any non-compliant securities and the corresponding percentages are indicated in weekly risk reports. If the review of a security in the portfolio reveals that the issuer no longer meets our ethical management criteria, the corresponding position must generally be sold within three months.

# INFORMATION

The Anaxis ethical management policy can be consulted on the company website at:

[www.anaxis-esg.com](http://www.anaxis-esg.com)

An update on policy implementation is included in the ethical investment annual rapport. The report is available on our website, at the same address.

Further information is available by email at:

[info@anaxis-am.com](mailto:info@anaxis-am.com)

Investors can also request the list of excluded issuers and portfolio compliance indicators from Anaxis.

## Anaxis Asset Management

9, rue Scribe

75009 Paris, France

[info@anaxis-am.com](mailto:info@anaxis-am.com)

