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# Candriam Exclusion Policy

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## 1. Introduction

Candriam has demonstrated its long-standing commitment to sustainable and responsible investing for over 25 years. The firm launched its first sustainable strategy in 1996 and is proudly amongst the founding signatories of the 2006 UN Principles for Responsible Investment (PRI). As a recognised leader in sustainability, the firm believes its actions should have a positive impact on all its stakeholders.

This controversial activity policy is the concrete expression of Candriam's sustainability leadership. It defines which activities, due to their widely recognised ethical and economic unsustainability, are to be excluded from Candriam's investments based on **four different levels**:

- **Level 1 Company-Wide Exclusion Policy:** exclusions across all investments of the most controversial and unsustainable activities (controversial weapons, thermal coal and tobacco);
- **Level 2A Exclusion Policy:** an intermediate level adding exclusions relating to conventional weapons, gambling, oppressive regimes and climate-related risks;
- **Level 2B Exclusion Policy:** exclusions related to conventional weapons, gambling, oppressive regimes, and other activities that carry risks for responsible investments.
- **Level 3 SRI Exclusion Policy:** a broad set of exclusions encompassing a wide range of controversial activities from an environmental and social perspective (adult content, alcohol, gambling, etc.).

Candriam recognises the important role that asset managers play in tackling major global challenges, such as climate change, preserving biodiversity or ensuring decent working conditions for all, and strives to be at the forefront of sustainability by advancing its policies and practices.

Each policy, as well as its specific scope of application are described in detail in the sections that follow.

	Level 1 Company-Wide Exclusions <sup>1</sup>	Level 2A Exclusions <sup>1</sup>	Level 2B Exclusions <sup>1</sup>	Level 3 SRI Exclusions <sup>1</sup>
<b>Exclusion of controversial corporate activities:</b>				
<b>Controversial Armaments</b>	<ul style="list-style-type: none"> <li>Any involvement in: Anti-personnel landmines; Cluster bombs; Depleted uranium; Chemical weapons; Biological weapons</li> <li>White phosphorus: 5% revenue threshold</li> </ul>			
		<ul style="list-style-type: none"> <li>Any involvement in nuclear weapons and white phosphorus</li> </ul>		
<b>Thermal Coal</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>		
<b>Tobacco</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>	<ul style="list-style-type: none"> <li>Production: Any involvement</li> <li>Distribution: 5% revenue threshold</li> </ul>		
<b>Conventional Armaments</b>		<ul style="list-style-type: none"> <li>10% revenue threshold</li> </ul>	<ul style="list-style-type: none"> <li>3% revenue threshold</li> </ul>	
<b>Electricity Generation</b>		<ul style="list-style-type: none"> <li>Companies with new coal or nuclear-based projects</li> <li>Carbon intensity above 335gCO<sub>2</sub>/kWh</li> </ul> <p>If carbon intensity data is not available:</p> <ul style="list-style-type: none"> <li>No Paris-aligned commitment</li> <li>Companies without new sustainable energy-based project</li> </ul>		<ul style="list-style-type: none"> <li>Companies with new coal or nuclear-based projects</li> <li>Carbon intensity above 335gCO<sub>2</sub>/kWh</li> </ul> <p>If carbon intensity data is not available:</p> <ul style="list-style-type: none"> <li>No Paris-aligned commitment</li> <li>Companies without new sustainable energy-based project</li> </ul>
<b>Oil &amp; Gas</b>		<p>Unconventional Oil &amp; Gas:</p> <ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>		<p>Unconventional Oil &amp; Gas:</p> <ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>
		<p>Conventional Oil &amp; Gas:</p> <ul style="list-style-type: none"> <li>Less than 40% of revenues derived from natural gas and renewable energy</li> </ul>		<p>Conventional Oil &amp; Gas:</p> <ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b>Corporate Activities in Oppressive Regimes</b>			<ul style="list-style-type: none"> <li>10% revenue threshold (unless plans to exit or suspension of activities)</li> <li>Engagement triggered for certain selected companies with 5 and 10% revenue exposure</li> </ul>	
<b>Adult Content</b>			<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>	
<b>Alcohol</b>			<ul style="list-style-type: none"> <li>10% revenue threshold</li> </ul>	
<b>Animal Testing</b>			<ul style="list-style-type: none"> <li>No responsible policy and no legal requirement to test</li> </ul>	
<b>Gambling</b>			<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>	
<b>GMO</b>			<ul style="list-style-type: none"> <li>10% revenue threshold and no responsible policy</li> </ul>	
<b>Nuclear Power</b>		<ul style="list-style-type: none"> <li>30% revenue threshold<sup>2</sup></li> </ul>		<ul style="list-style-type: none"> <li>30% revenue threshold<sup>3</sup></li> </ul>



Palm Oil		Producers/Distributors that: <ul style="list-style-type: none"> <li>are not RSPO<sup>4</sup> members and derive between 0% and 5% of their revenues from palm oil with less than 20% of this oil being RSPO-certified palm oil, and that have no deforestation policy; or</li> <li>are not RSPO members and derive more than 5% of their revenues from palm oil with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.</li> </ul>		Producers/Distributors that: <ul style="list-style-type: none"> <li>are not RSPO members and derive between 0% and 5% of their revenues from palm oil with less than 20% of this oil being RSPO-certified palm oil, and that have no deforestation policy; or</li> <li>are not RSPO members and derive more than 5% of their revenues from palm oil with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.</li> </ul>
		Buyers that: <ul style="list-style-type: none"> <li>are not RSPO members and whose revenues are dependent on palm oil for more than 5%, with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.</li> </ul>		Buyers that: <ul style="list-style-type: none"> <li>are not RSPO members and whose revenues are dependent on palm oil for more than 5%, with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.</li> </ul>
Mining		UNGP <sup>5</sup> , OECD		UNGP, OECD
<b>Exclusion of sovereign issuers:</b>				
Oppressive regimes	Debt of sovereign or quasi-sovereign entities on Candriam's Oppressive Regimes List			
<b>Norms-based exclusions:</b>				
Norms		Red Flag Companies: Companies with "Red" ratings in any of the four UNGC <sup>6</sup> pillars		
	Out List: Those Red Flag Companies that present the most severe violations of the UNGC <sup>5</sup> Principles			

<sup>1</sup> Candriam's exclusion policies are subject to the constraints inherent to the availability of ESG data and to the underlying data methodologies. Therefore, thresholds are analyzed and implemented on a best-effort basis.

<sup>2</sup> Threshold applies if carbon intensity not available.

<sup>3</sup> Threshold applies regardless of carbon intensity

<sup>4</sup> RSPO: Roundtable on Sustainable Palm Oil

<sup>5</sup> UNGP: United Nations Guiding Principles

<sup>6</sup> UNGC: United Nations Global Compact



## 2. Level 1 Company-Wide Exclusions

Candriam's *Level 1 Company-Wide Exclusions Policy* targets harmful activities that we believe have a substantial negative impact and carry serious risks from both a financial and a sustainability perspective. Exposure to these activities presents important systemic and reputational risks for the investee companies from an economic as well as environmental and social perspective.

Consequently, Candriam excludes controversial armament, tobacco and thermal coal activities from all its directly managed portfolios and encourages third parties to do the same.

Candriam's *Level 1 Company-Wide Exclusions Policy*<sup>1</sup> applies to all investments made by Candriam via long positions in direct lines in corporate and sovereign issuers and single-name derivatives.

The exclusion thresholds for this Policy are shown in the table that follows:

Exclusion threshold / criteria <sup>1</sup>	
<b><u>Exclusion of controversial corporate activities:</u></b>	
<b>Controversial Armaments</b>	<ul style="list-style-type: none"> <li>Any involvement in: Anti-personnel landmines; Cluster bombs; Depleted uranium; Chemical weapons; Biological weapons</li> <li>White phosphorus: 5% revenue threshold</li> </ul>
<b>Thermal Coal</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>
<b>Tobacco</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b><u>Exclusion of sovereign issuers:</u></b>	
<b>Oppressive regimes</b>	Debt of sovereign or quasi-sovereign entities on Candriam's Oppressive Regimes List
<b><u>Norms-based exclusions:</u></b>	
<b>Norms</b>	Out List: Those Red Flag Companies <sup>2</sup> that present the most severe violations of the UNGC <sup>3</sup> Principles

<sup>1</sup> Candriam's exclusion policies are subject to the constraints inherent to the availability of ESG data and to the underlying data methodologies. Therefore, thresholds are analyzed and implemented on a best-effort basis.

<sup>2</sup> Red Flag Companies: Companies with "Red" ratings in any of the four UNGC pillars.

<sup>3</sup> UNGC: United Nations Global Compact

Please find below further details about Candriam's approach and exclusion thresholds applied to each of these controversial activities.

<sup>1</sup> A fund subject to Candriam's *Level 1 Company-Wide Exclusions Policy* may have indirect exposure to some of the activities mentioned within the policy if investments in such activities are made through index derivatives or External funds/ETF not managed by Candriam.



## 2.1. Armaments

### Candriam's Approach

#### Direct vs. indirect involvement

In the assessment of armaments as a controversial activity, we distinguish between direct and indirect involvement:

- **Direct involvement:** A company is considered to be directly involved in armaments systems when it produces / manufactures / services / sells / trades:
  - Complete arms systems;
  - Critical components of an arms system;
  - Critical services related to an arms system.

Components and services are considered critical components / services when they meet the following two conditions:

- The components/services are specifically designed to be used within, or in relation to arms system;
- The components/services play a role in the lethality of arms systems. In this case, components and services are called "key components & services".

The components and services sold to military clients that are not specifically designed for arms systems and that are not key components in arms systems fall into the category of "dual-use or general-purpose goods and/or services". They include notably: catering equipment & services, housing products & services, transport equipment & services, uniforms, advertising services, office computers, cleaning services, electricity equipment & services, assurance services, the organization of weapon fairs, etc.

- **Indirect involvement:** A company can be indirectly involved in armaments through shareholding, i.e. when a company owns stocks in other companies that are directly involved in arms systems and their critical components / services.

#### Conventional v.s. controversial armaments

Also, when assessing a company's involvement in armaments, Candriam's approach also takes into account the type of armament. Candriam's approach thus distinguishes between **conventional armaments** and **controversial armaments**.

Under Candriam's current approach, controversial armaments are: Anti-personnel landmines; cluster bombs; nuclear weapons; depleted uranium weapons; chemical weapons; biological weapons; white phosphorus. These armaments have been identified as controversial armaments because they have faced considerable criticism with regards to three criteria:

- The indiscriminate nature of the weapons at the time of use: i.e., when the weapon used does not only strike military targets but is also likely to result in civilian casualties, in damages to civilian infrastructure and in other collateral damages.
- Being identified as weapons systems that cause both superfluous injury and unnecessary suffering.
- The potential long-term humanitarian impacts of these armaments, which can negatively impact human health and/or hinder the development and reconstruction of former war-torn regions.

For further information on our methodology and data providers for armaments, please refer to the Appendix.

## Candriam Exclusion Thresholds

At the firm level, Candriam excludes from all its investments all companies that:

- are directly involved in the development, production, testing, maintenance and sale of one or more of the following controversial weapons: Anti-personnel landmines; cluster bombs; depleted uranium; chemical weapons and/or biological weapons regardless of the sales/revenues; white phosphorous weapons exceeding the thresholds below:
  - Companies that derive more than 5% of their total sales/revenues from the production, manufacturing, trade, testing or maintenance of white phosphorous weapons; the 5% threshold is used to acknowledge the fact that phosphorous is a dual-use substance.
- Companies that own a stake (shareholding) of more than 50% in any company that is directly involved in those controversial armaments.

Producers of components and services sold for the purpose of manufacturing nuclear weapons do not fall under the scope of this policy. Therefore, Candriam deems eligible the companies involved in the production of components or services for the purpose of lawfully producing nuclear weapons for countries allowed to possess nuclear weapons under international law.

## 2.2. Tobacco

### Candriam's Approach

Candriam acknowledges that the consumption and use of tobacco products in any quantity results in societal and health problems and is a major cause of death.

Tobacco products manufactured and retailed by companies include cigarettes and cigars, as well as other products such as chewing tobacco, creamy snuff and dipping tobacco. Cigarettes account for the largest share of manufactured tobacco products.

### Candriam Exclusion Thresholds

Our policy excludes all companies directly involved in the tobacco industry that derive more than 5% of their revenues from the manufacturing or retailing of tobacco products.

Candriam does not sanction a priori companies indirectly involved in the tobacco industry through supporting products and/or services (e.g. providers of packaging materials) as their operations are not solely geared to the tobacco industry. However, if companies have developed products and production systems tailored to the tobacco industry, they will be excluded.

## 2.3. Thermal coal

### Candriam's Approach

Exploration, extraction, processing, transportation and distribution are considered direct involvement in the thermal coal industry. Given the absence of alternatives to metallurgical coal in the production of steel, metallurgical coal is not considered for exclusion. Synthesis of liquid or gasified fuel from coal is also excluded on a best-effort basis given the challenges related to the reliability of data.

### Candriam Exclusion Thresholds

Candriam excludes from investments all companies that are directly involved in the thermal coal industry and deriving more than 5% of their revenues from coal.

The exclusion of companies developing new projects is appreciated without a minimum revenue threshold.

New projects are considered effective when the final investment decision (FID) has been taken. Some situations before the effective commissioning (permitting, announcement) might also trigger exclusions on a case-by-case basis.

We recognize that the transition to net zero is a journey, with associated socio-economic challenges. While this reality must be taken into account, it should not be a reason to drift away from scientific Paris-aligned pathways. As such, companies that derive between 5% and 10% from coal power generation can be investable only if they meet the three conditions outlined below, which are paramount in demonstrating alignment with the Paris goals:

- Not developing new coal projects, and decreasing the share of coal in activities;
- Having committed to phase out coal totally by 2027 in developed economies, and by 2030 in developing economies;
- Having specific carbon emissions from generation in line with the IEA 1.5 Net Zero trajectory

The achievement of the above conditions has to be constantly monitored through dedicated engagement.

## 2.4. Oppressive regimes: Sovereign issuers

### Candriam's Approach

Candriam's list of Oppressive Regimes is comprised of countries in which human rights are severely breached on a regular basis, fundamental liberties are systematically denied and the security of people is not guaranteed due to government failure and systematic ethical breaches. We also extremely carefully consider totalitarian states or those countries in which the government is involved in war against its own people. To establish the Oppressive Regimes list, we use data provided by external sources, such as the Freedom House's Freedom in the World Index, the World Bank Governance Indicators, and the Economist Intelligence Unit's Democracy Index, which inform our qualitative review of non-democratic countries.

## Candriam Exclusion Thresholds

Debt issued by sovereign or quasi-sovereign entities that are on the Oppressive Regimes list is not eligible for investment in strategies subject to our *Level 1 Exclusions Policy*.

### 2.5. Norms-based analysis

Candriam’s norms-based analysis determines whether a company complies with the 10 principles of the United Nations Global Compact for each of the main categories: **Human Rights (HR)**, **Labour Rights (L)**, **Environment (ENV)** and **Anti-Corruption (COR)**.

Information regarding current, suspected and/or related incidents or breaches of international standards are collected through external research combined with internal analyses performed by our ESG analysts.

Subsequent to the identification of any breaches of the Global Compact principles, the analysis uses several parameters to evaluate the severity and magnitude of the breaches:

- **Temporal proximity:** when did the incident happen and how long did it last?
- **Magnitude:** what financial costs and environmental damage are related to the incident?
- **Credibility:** does the incident involve allegations, legal proceedings, etc.?
- **Recurrence:** is this a one-off incident or is there proof of repeated incidents over a given period?

**Emphasis is also placed on a company's response when an incident occurs.** A company that takes positive, responsible measures to ensure that future breaches do not occur is considered more favourably than a company that does not acknowledge its responsibility and/or does not take any corrective measures.

Based on this information and in accordance with the evaluation framework described above, the colour code is determined as follows for each of the four main categories.

Green	- No evidence of repeated or significant violations of the Global Compact principles
Orange	- Evidence of repeated violations of the Global Compact principles but these do not appear to be significant; or - Evidence of significant violations of the Global Compact principles but these do not appear to be repetitive; or - Evidence of repeated and significant violations of the Global Compact principles, but the company has taken appropriate corrective measures/actions
Red	- Evident of repeated and significant violations of Global Compact principles and the organisation has no appropriate response/behaviour

Companies classified as “Red Flag Companies” are those with severe to very severe controversies in terms of impact, duration, frequency and/or lack of response from the management of the company.

In Candriam’s *Level 1 Company-Wide Exclusions Policy*, we exclude a sub-set of “Red Flag Companies”, which is composed of those companies with the most severe violations of the UNGC Principles.



### 3. Level 2A Exclusions

Candriam's *Level 2A Exclusions Policy* targets harmful activities that we believe have a substantial negative impact and carry serious risks from both a financial and a sustainability perspective. Exposure to these activities presents important systemic and reputational risks for the investee companies from an economic as well as environmental and social perspective.

Moreover, considering that climate change is the pivotal sustainability challenge for the near future, Candriam's *Level 2A Exclusions Policy* takes this into account and accordingly emphasizes environmental issues. The aim is to help tackle climate change by excluding activities that do significant harm to the environment. We believe that supporting environmental sustainability can also have positive repercussions on social issues.

Candriam's *Level 2A Exclusions Policy*<sup>2</sup> applies to investments made by Candriam via long positions in direct lines in corporate and sovereign issuers and single-name derivatives.

As regards the *Level 2A Exclusions Policy*, Candriam excludes controversial armament, tobacco and thermal coal activities and encourages third parties to do the same. These activities carry substantial systemic risks regarding society and the global economy.

The application of Candriam's *Level 2A Exclusions Policy* also involves the exclusion of conventional weapons. This is in line with many sustainable investors' approach and various standards that consist in excluding this activity due to the adverse nature of armaments which have often served to infringe on human rights and led to devastating effects on human lives and the overall well-being of society. The challenge of obtaining granular information on end users and end uses of weapons is an additional factor supporting this exclusion.

Portfolios subject to Candriam's *Level 2A Exclusions Policy* exclude gambling activities, too, as such activities can potentially be intertwined with illegal activities and corruption, and could therefore generate reputational risks for Candriam and our clients. This reflects the concerns of many responsibility-oriented investors as well as certain independent ESG frameworks.

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<sup>2</sup> Please note that the exclusions of Candriam's *Level 2A Exclusions Policy* may not necessarily be implemented in the case of investments in ETFs, index funds (or other financial instruments linked to indices such as derivatives), hedge funds, absolute return funds or third-party funds. Accordingly, a fund subject to the *Level 2A Exclusions Policy* may have indirect exposure to some of the activities mentioned within the policy if investments in such activities are made through the aforementioned types of vehicles.

The exclusion thresholds for the aforementioned activities are outlined in the table that follows.

Exclusion thresholds / criteria <sup>1</sup>	
<b>Exclusion of controversial corporate activities:</b>	
<b>Controversial Armaments</b>	<ul style="list-style-type: none"> <li>Any involvement in: Anti-personnel landmines; Cluster bombs; Depleted uranium; Chemical weapons; Biological weapons</li> <li>Any involvement in nuclear weapons and white phosphorus</li> </ul>
<b>Thermal Coal</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>
<b>Tobacco</b>	<ul style="list-style-type: none"> <li>Production: Any involvement</li> <li>Distribution: 5% revenue threshold</li> </ul>
<b>Conventional Armaments</b>	<ul style="list-style-type: none"> <li>10% revenue threshold</li> </ul>
<b>Electricity Generation</b>	<ul style="list-style-type: none"> <li>Companies with new coal or nuclear-based projects</li> <li>Carbon Intensity above 335gCO<sub>2</sub>/kWh</li> </ul> <p>If data is not available on Carbon Intensity:</p> <ul style="list-style-type: none"> <li>No Paris-aligned commitment</li> <li>Companies without new sustainable energy-based project</li> </ul>
<b>Oil &amp; Gas</b>	<b>Unconventional O&amp;G:</b>
	<ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>
	<b>Conventional O&amp;G:</b>
	<ul style="list-style-type: none"> <li>Less than 40% of revenues derived from natural gas and renewable energy</li> </ul>
<b>Gambling</b>	<ul style="list-style-type: none"> <li>10% revenue threshold</li> </ul>
<b>Nuclear Power</b>	<ul style="list-style-type: none"> <li>30% revenue threshold<sup>2</sup></li> </ul>
<b>Palm Oil</b>	Producers/Distributors that:
	<ul style="list-style-type: none"> <li>are not RSPO<sup>3</sup> members and derive between 0% and 5% of their revenues from palm oil with less than 20% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place; or</li> <li>are not RSPO members and derive more than 5% of their revenues from palm oil with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place.</li> </ul>
	Buyers that:
	<ul style="list-style-type: none"> <li>are not RSPO members and whose revenues are dependent on palm oil for more than 5%, with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.</li> </ul>
<b>Mining</b>	UNGP <sup>4</sup> , OECD
<b>Exclusion of sovereign issuers:</b>	
<b>Oppressive regimes</b>	Debt of sovereign or quasi-sovereign entities on Candriam's Oppressive Regimes List
<b>Norms-based exclusions:</b>	
<b>Norms</b>	Red Flag Companies: Companies with "Red" ratings in any of the four UNGC <sup>5</sup> pillars

<sup>1</sup> Candriam's exclusion policies are subject to the constraints inherent to the availability of ESG data and to the underlying data methodologies. Therefore, thresholds are analyzed and implemented on a best-effort basis.

<sup>2</sup> Threshold applies if carbon intensity not available.

<sup>3</sup> RSPO: Roundtable on Sustainable Palm Oil

<sup>4</sup> UNGP: United Nations Guiding Principles

<sup>5</sup> UNGC: United Nations Global Compact

Please, find below details about Candriam's approach and exclusion thresholds applied to each of these controversial activities.



### 3.1. Armaments

#### Candriam's Approach

##### Direct vs. indirect involvement

In the assessment of armaments as a controversial activity, we distinguish between direct and indirect involvement:

- **Direct involvement:** A company is considered to be directly involved in armaments systems when it produces / manufactures / services / sells / trades:
  - Complete arms systems;
  - Critical components of an arms system;
  - Critical services related to an arms system.

Components and services are considered critical components / services when they meet the following two conditions:

- The components/services are specifically designed to be used within, or in relation to arms system;
- The components/services play a role in the lethality of arms systems. In this case, components and services are called "key components & services".

The components and services sold to military clients that are not specifically designed for arms systems and that are not key components in arms systems fall into the category of "dual-use or general-purpose goods and/or services". They include notably: catering equipment & services, housing products & services, transport equipment & services, uniforms, advertising services, office computers, cleaning services, electricity equipment & services, assurance services, the organization of weapon fairs, etc.

- **Indirect involvement:** A company can be indirectly involved in armaments through shareholding, i.e. when a company owns stocks in other companies that are directly involved in arms systems and their critical components / services.

##### Conventional v.s. controversial armaments

Also, when assessing a company's involvement in armaments, Candriam's approach also takes into account the type of armament. Candriam's approach thus distinguishes between **conventional armaments** and **controversial armaments**.

Under Candriam's current approach, controversial armaments are: Anti-personnel landmines; cluster bombs; nuclear weapons; depleted uranium weapons & armor; chemical weapons; biological weapons; white phosphorus. These armaments have been identified as controversial armaments because they have faced considerable criticism with regards to three criteria:

- The indiscriminate nature of the weapons at the time of use: i.e., when the weapon used does not only strike military targets but is also likely to result in civilian casualties, in damages to civilian infrastructure and in other collateral damages.
- Being identified as weapons systems that cause both superfluous injury and unnecessary suffering.



- The potential long-term humanitarian impacts of these armaments, which can negatively impact human health and/or hinder the development and reconstruction of former war-torn regions.

For further information on our methodology and data providers for armaments, please refer to the Appendix.

## **Candriam Exclusion Thresholds**

At the firm level, Candriam excludes from all its investments all companies that:

- are directly involved in the development, production, testing, maintenance and sale of one or more of the following controversial weapons anti-personnel landmines, cluster bombs, nuclear weapons, depleted uranium, chemical weapons, biological weapons or white phosphorous regardless of the sales/revenues.
- Companies that own a stake (shareholding) of more than 50% in any company that is directly involved in those controversial armaments.

## **3.2. Tobacco**

### **Candriam's Approach**

Candriam acknowledges that the consumption and use of tobacco products in any quantity results in negative societal and health problems and is a major cause of death.

Tobacco products manufactured and retailed by companies include cigarettes and cigars, as well as other products such as chewing tobacco, creamy snuff and dipping tobacco. Cigarettes account for the largest share of manufactured tobacco products.

### **Candriam Exclusion Thresholds**

Our policy excludes all companies directly involved in the tobacco industry that derive any revenues from the manufacturing or more than 5% of their revenues from retailing of tobacco products.

Candriam does not sanction a priori companies indirectly involved in the tobacco industry through supporting products and/or services (e.g. providers of packaging materials) as their operations are not solely geared to the tobacco industry. However, if companies have developed products and production systems tailored to the tobacco industry, they will be excluded.

### 3.3. Thermal coal

#### Candriam's Approach

Exploration, extraction, processing, transportation and distribution are considered direct involvement in the thermal coal industry. Given the absence of alternatives to metallurgical coal in the production of steel, metallurgical coal is not considered for exclusion. Synthesis of liquid or gasified fuel from coal is also excluded on a best-effort basis given the challenges related to the reliability of data.

#### Candriam Exclusion Thresholds

Candriam excludes from investments all companies that are directly involved in the thermal coal industry and deriving more than 5% of their revenues from coal.

The exclusion of companies developing new projects is appreciated without a minimum revenue threshold.

New projects are considered effective when the final investment decision (FID) has been taken. Some situations before the effective commissioning (permitting, announcement) might also trigger exclusions on a case-by-case basis.

We recognize that the transition to net zero is a journey, with associated socio-economic challenges. While this reality must be taken into account, it should not be a reason to drift away from scientific Paris-aligned pathways. As such, companies that derive between 5% and 10% from coal power generation can be investable only if they meet the three conditions outlined below, which are paramount in demonstrating alignment with the Paris goals:

- Not developing new coal projects, and decreasing the share of coal in activities;
- Having committed to phase out coal totally by 2027 in developed economies, and by 2030 in developing economies;
- Having specific carbon emissions from generation in line with the IEA 1.5 Net Zero trajectory

The achievement of the above conditions has to be constantly monitored through dedicated engagement.

### 3.4. Conventional armaments

In addition to the Controversial Armament exclusions mentioned above, **Candriam's Level 2A exclusions** exclude all companies that:

- Derive more than 10% of their total sales/revenues from the production, manufacturing, trade, testing or maintenance of conventional armaments and/or of critical components / services for conventional armaments;
- Own a stake (shareholding) of more than 10% in any company that is directly involved either in conventional armaments or in controversial armaments.

### 3.5. Gambling

#### Candriam's Approach

Candriam acknowledges the controversial nature of gambling as well the vulnerabilities of stakeholders who engage in this activity. For companies respecting the defined threshold mentioned below, but which are more actively involved in gambling and/or the manufacturing of gambling products (games), we will assess if these companies comprehensively address product risks and monitor sales practices to protect vulnerable consumers, such as minors.

To this end, for companies that respect the determined threshold, we may also take into consideration if they have implemented a responsible policy:

- For companies **directly involved** in gambling (machines or software manufacturers, casinos, lotteries, bookmakers, gambling websites, outlets with slot machines, gambling broadcasts), we verify if they have policy that addresses design, behavioral transparency and customer support.
- For Companies **indirectly involved** in gambling through intermediary gambling access services (e.g., online payment service providers, general retailers, airports hosting gambling products), we verify if they have policy which seeks to offer better consumer protection (e.g., limited access to “gambling channels” by password access).

The establishment of a policy is not a hard criteria, but provides us with further insight on a company's responsible practices.

#### Candriam Exclusion Thresholds

Our policy excludes directly or indirectly derive more than 10% of their total revenues (even through shareholdings) from gambling activities.

### 3.6. Oil & gas

#### Candriam's Approach

In the assessment of energy sources, we believe that a distinction should be made between oil & gas supply originating from conventional and unconventional extraction. The main difference results from the techniques required for the extraction and the nature of the reservoir.

Conventional oil and gas are derived from formations that are simpler to extract compared to unconventional oil & gas which require complex extraction methods with negative impacts on the environment. The extraction of unconventional resources tends to require more energy as well as more water and chemical inputs in the case of hydraulic fracturing techniques. As such, unconventional methods are more carbon- and water-intensive than conventional projects. Depending on the type of resource, unconventional methods can also cause more land disturbance (including deforestation) and higher levels of wastewater.

We categorize the following activities and sources as follows:

- **Unconventional oil & gas extraction:** the extraction of tar/oil sands, shale gas/oil, tight gas/oil, coalbed methane and Arctic drilling
- **Conventional oil & gas extraction:** conventional oil and conventional natural gas, including gas condensate.

Candriam acknowledges that transitioning into a low-carbon economy requires time. For this reason, our approach also takes into consideration the energy transition strategy of companies involved in the conventional oil & gas industry, with very clear and ambitious thresholds that are in line with Paris-aligned trajectories. Exposure to unconventional oil & gas, on the other hand, is considered incompatible with the energy transition given the associated negative environmental impacts.

### Candriam Exclusion Thresholds

Candriam excludes companies generating more than 5% of revenues from the exploration and production of unconventional oil and gas. Candriam excludes companies involved in the exploration and production of conventional oil and gas when revenues from natural gas and/or renewables are below 40%.

Activities	Exclusion Thresholds
<b>Unconventional Oil &amp; Gas</b>	Revenues > 5%
<b>Conventional Oil &amp; Gas</b>	Revenue based on natural gas or renewable energy < 40%

### 3.7. Electricity generation

#### Candriam's Approach

As the level of emissions varies across electricity generation sources, it is important to assess the level of greenhouse gasses emitted per KWh to measure companies' alignment with a 2°C trajectory. For this reason, we incorporate the carbon intensity of power producers in our sustainability assessment.

As data on the carbon intensity of issuers is not always available, we have established other indicators demonstrating an issuer's alignment with the Paris Agreement. Indeed, in the analysis of power producers, we also assess if they are on a transition path in line with the Paris Agreement goals and a 2-degree scenario based on other metrics such as investment plans and credibility of net zero targets. The metrics used are forward-looking and evolve over time to take into consideration the evolution of companies towards a transition path.

Candriam believes that an increasing use of coal in electricity generation is not aligned with the Paris Agreement. On the other hand, while Candriam considers nuclear energy to be an intermediary solution, we acknowledge the financial risks as well as the controversies surrounding it. In particular because of the very



low probability but high impact potential of accidents and because of the issues pertaining to the long-term disposal on nuclear waste.

### **Candriam Exclusion Thresholds**

Candriam excludes from all its investments power-producing companies with a carbon intensity of over 335 gCO<sub>2</sub>/kWh for 2024, or with a trend towards increasing coal and nuclear power generation capacity.

In case no data on electricity power producers' carbon intensity is available, we seek alternative sources of information and demonstration of good practice. The energy mix is a meaningful but not sufficient indicator. It is necessary that the use of thermal coal power in electricity production does not increase, unlike the use of renewable energies, both in production and capacity. In addition, alignment with the Paris Agreement has to be demonstrated, and in particular through a robust SBTi target, a sufficient use of its capital expenditure for this purpose or deriving the main part of revenues from the use of renewable energies in electricity production.

### **3.8. Mining**

Candriam acknowledges that while playing a key role in our modern economies and in the transition, mining activities face tremendous environmental and social challenges. The extraction of minerals and metals has historically been associated with long-lasting and sometimes irreversible impacts on ecosystems and local communities. It is therefore absolutely crucial to ensure that mining activities are conducted responsibly and with due consideration given to all stakeholders.

Our policy excludes all companies directly involved in the extraction and smelting of metals and minerals that:

- have not put in place relevant ESG risk management systems, in accordance with widely recognized international standards such as the UN Guiding Principles, the VPSHR, and the OECD Guidelines,
- have been found guilty of severe ESG controversies.

### **3.9. Palm oil**

#### **Candriam's Approach**

Candriam acknowledges that the production, processing, sale, and/or use of palm oil has a very complex value chain and has been linked to deforestation (including land clearing activities, conversion of peatland areas) and biodiversity loss globally. Deforestation linked to palm oil supply chains results in devastating environmental impacts such as: forest loss and the loss of animal habitats (e.g. Asian rhinos, elephants, tigers, and orangutans), particularly in Southeast Asian regions from which 85% of global palm oil production is derived. Various reports of forced labor and child labor cases tainting the palm oil value chains have also been prevalent from the level of plantations, mills, refineries to the manufacturing of food and/or non-food products.

Despite that, Candriam recognizes that palm oil remains an invaluable ingredient in a variety of food and non-food



items given its relatively high yields compared to any other oil crops. It can produce up to 20 times as much oil per hectare from palm versus other oil crop alternatives.<sup>3</sup> It accounts for around 40% of the current global annual demand for vegetable oil as food, animal feed and fuel.<sup>4</sup>

Candriam considers palm oil producers and distributors as companies whose business activities are primarily **producing, manufacturing, or distributing/selling** of oil palm products. All companies whose business activities primarily consume or use palm oil for production or for inclusion as **ingredients** in the end-products that these companies sell are considered palm oil buyers.

<sup>3</sup><https://ourworldindata.org/palm-oil>  
<sup>4</sup><https://publications.jrc.ec.europa.eu>

## Candriam Exclusion Thresholds

Companies' exposure to palm oil-related controversies linked to deforestation and/or biodiversity risks is systematically assessed based on various elements that provide assurances towards sustainable palm oil production and consumption practices. Such elements include:

1. the total revenues coming from palm oil production, distribution, or ingredients,
2. RSPO membership/affiliation,
3. Percentage of certified palm oil, and
4. The presence of a deforestation policy.

We acknowledge that the efficiency and credibility of palm oil sustainable certification have been debated by some stakeholders. Indeed, such certification only serves as a tool in the supply chain due diligence toolkit. Therefore, the above elements are primary criteria, however not exhaustive. **We also integrate additional checks based on a best effort approach in assessing the palm oil-tied company's exposures to controversies on land use and biodiversity and their overall due diligence.**

Our policy excludes producers and distributors that:

- are not RSPO members and derive between 0% and 5% of their revenues from palm oil with less than 20% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place; or
- are not RSPO members and derive more than 5% of their revenues from palm oil with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place.

Our policy also excludes buyers that are not RSPO members and whose revenues are dependent on palm oil for more than 5%, with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.

Please, note that we systematically exclude companies with a clear tie to palm oil dependency but no disclosure of their dependent revenues and percentages of certified palm oil, nor evidence of a deforestation policy.

On top of this policy, a company's exposure to palm oil-related activities is also evaluated based on the relevant controversies that the company has been allegedly involved in, and the company's responsiveness in addressing, mitigating and remedying said controversies. All of this allows for an additional layer of screening for companies under the coverage of Candriam's activities.

Additionally, in our norms-based analysis, particular attention is given to possible breaches of the environmental and human rights principles of the Global Compact in relation to the activities of companies exposed to palm oil.



### 3.10. Nuclear power

#### Candriam's Approach

Despite the benefits of nuclear power as a low-carbon and low-marginal cost energy (compared to coal, for instance) that reduces supply-insecurity risk, there is significant controversy surrounding the use of nuclear power as a viable and sustainable alternative to other forms of energy due to the significant environmental, safety and security risks and liabilities related to nuclear reaction, nuclear waste, power plant decommissioning and nuclear fuel proliferation.

Nuclear power, as long as it is operated under the highest safety/security conditions, is currently a proven and needed alternative to fossil fuels and will be part of this century's energy landscape. However, Candriam acknowledges that the benefits of nuclear power in terms of mitigation of climate change and security of supply are counterbalanced by significant safety, environmental and security risks.

#### Candriam Exclusion Thresholds

Candriam's Level 2A Exclusions Policy excludes all companies, directly or indirectly and only if no carbon intensity is available, derive more than 30% of their revenues from the extraction, conversion and enrichment of uranium to produce nuclear fuel, the irradiation of the fuel in a nuclear reactor and/or the reprocessing/disposal of spent nuclear fuel and other nuclear waste.

### 3.11. Oppressive regimes: Sovereign issuers

#### Candriam's Approach

Candriam's list of Oppressive Regimes is comprised of countries in which human rights are severely breached on a regular basis, fundamental liberties are systematically denied and the security of people is not guaranteed due to government failure and systematic ethical breaches. We also extremely carefully consider totalitarian states or those countries in which the government is involved in war against its own people. To establish the Oppressive Regimes list, we use data provided by external sources, such as the Freedom House's Freedom in the World Index, the World Bank Governance Indicators, and the Economist Intelligence Unit's Democracy Index, which inform our qualitative review of non-democratic countries.

#### Candriam Exclusion Thresholds

Debt issued by sovereign or quasi-sovereign entities that are on the Oppressive Regimes list is not eligible for investment in strategies subject to our *Level 2A Exclusions Policy*.

### 3.12. Norms-based analysis

Candriam's norms-based analysis determines whether a company complies with the 10 principles of the United Nations Global Compact for each of the main categories: **Human Rights (HR), Labour Rights (L), Environment (ENV) and Anti-Corruption (COR)**.

Information regarding current, suspected and/or related incidents or breaches of international standards are collected through external research combined with internal analyses performed by our ESG analysts.

Subsequent to the identification of any breaches of the Global Compact principles, the analysis uses several parameters to evaluate the severity and magnitude of the breaches:

- **Temporal proximity:** when did the incident happen and how long did it last?
- **Magnitude:** what financial costs and environmental damage are related to the incident?
- **Credibility:** does the incident involve allegations, legal proceedings, etc?
- **Recurrence:** is this a one-off incident or is there proof of repeated incidents over a given period?

**Emphasis is also placed on a company's response when an incident occurs.** A company that takes positive, responsible measures to ensure that future breaches do not occur is considered more favourably than a company that does not acknowledge its responsibility and/or does not take any corrective measures.

Based on this information and in accordance with the evaluation framework described above, the colour code is determined as follows for each of the four main categories.



Candriam's *Level 2A Exclusions Policy* excludes all "Red Flag Companies", i.e. companies with severe to very severe controversies in terms of impact, duration, frequency and/or lack of response from the management of the company.

## 4. Level 2B Exclusions

Candriam's *Level 2B Exclusions Policy*<sup>2</sup> targets harmful activities that we believe have a substantial negative impact and carry serious risks from both a financial and a sustainability perspective. Exposure to these activities presents important systemic and reputational risks for the investee companies from an economic as well as environmental and social perspective.

Candriam's *Level 2B Exclusions Policy* applies to investments made by Candriam via long positions in direct lines in corporate and sovereign issuers and single-name derivatives.

As regards the *Level 2B Exclusions Policy*, Candriam excludes controversial armament, tobacco and thermal coal activities and encourages third parties to do the same. These activities carry substantial systemic risks regarding society and the global economy. Candriam's *Level 2B Exclusions Policy* also targets a number of activities that, with the gradual rise of ESG investing, are no longer considered pertinent by many responsible investors due to their potential repercussions on human, societal and animal welfare. These include for example adult content, conventional weapons, alcohol, gambling, GMO and animal testing. It aims at reducing exposure to stranded assets, litigation risk, and further negative financial impact as a consequence of changes in regulation or social norms.

The complete of activities excluded under Candriam's *Level 2B Exclusions Policy*, and their respective exclusion thresholds or criteria, are provided below.

Exclusion threshold / criteria <sup>1</sup>	
<b>Exclusion of controversial corporate activities:</b>	
<b>Controversial Armaments</b>	<ul style="list-style-type: none"> <li>Any involvement in: Anti-personnel landmines; Cluster bombs; Depleted uranium; Chemical weapons; Biological weapons</li> <li>Any involvement in nuclear weapons and white phosphorus</li> </ul>
<b>Thermal Coal</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>
<b>Tobacco</b>	<ul style="list-style-type: none"> <li>Production: Any involvement</li> <li>Distribution: 5% revenue threshold</li> </ul>
<b>Conventional Armaments</b>	<ul style="list-style-type: none"> <li>3% revenue threshold</li> </ul>
<b>Corporate Activities in Oppressive Regimes</b>	<ul style="list-style-type: none"> <li>10% revenue threshold (exceptions may apply, e.g plans to exit or suspension of activities)</li> <li>Engagement triggered for certain selected companies with 5 and 10% revenue exposure</li> </ul>
<b>Adult Content</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b>Alcohol</b>	<ul style="list-style-type: none"> <li>10% revenue threshold</li> </ul>
<b>Animal Testing</b>	<ul style="list-style-type: none"> <li>No responsible policy and no legal requirement to test</li> </ul>
<b>Gambling</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b>GMO</b>	<ul style="list-style-type: none"> <li>10% and no responsible policy</li> </ul>
<b>Exclusion of sovereign issuers:</b>	

<sup>2</sup> Please note that the exclusions of Candriam's *Level 2B Exclusions Policy* may not necessarily be implemented in the case of investments in ETFs, index funds (or other financial instruments linked to indices like derivatives), hedge funds, absolute return funds or third-party funds. Accordingly, a portfolio subject to the *Level 2B Exclusions Policy* may have indirect exposure to some of the activities mentioned within the policy if investments in such activities are made through the aforementioned types of vehicles.

<b>Oppressive regimes</b>	Debt of sovereign or quasi-sovereign entities on Candriam's Oppressive Regimes List
<b><u>Norms-based exclusions</u></b>	
<b><u>Norms</u></b>	Red Flag Companies: Companies with "Red" ratings in any of the four UNGC <sup>2</sup> pillars

<sup>1</sup> Candriam's exclusion policies are subject to the constraints inherent to the availability of ESG data and to the underlying data methodologies. Therefore, thresholds are analyzed and implemented on a best-effort basis.

<sup>2</sup> UNGC: United Nations Global Compact

Please find below further details on Candriam's approach and exclusion thresholds applied to each of these controversial activities.



## 4.1. Armaments

### Candriam's Approach

#### Direct vs. indirect involvement

In the assessment of armaments as a controversial activity, we distinguish between direct and indirect involvement:

- **Direct involvement:** A company is considered to be directly involved in armaments systems when it produces / manufactures / services / sells / trades:
  - Complete arms systems;
  - Critical components of an arms system;
  - Critical services related to an arms system.

Components and services are considered critical components / services when they meet the following two conditions:

- The components/services are specifically designed to be used within, or in relation to arms system;
- The components/services play a role in the lethality of arms systems. In this case, components and services are called "key components & services".

The components and services sold to military clients that are not specifically designed for arms systems and that are not key components in arms systems fall into the category of "dual-use or general-purpose goods and/or services". They include notably: catering equipment & services, housing products & services, transport equipment & services, uniforms, advertising services, office computers, cleaning services, electricity equipment & services, assurance services, the organization of weapon fairs, etc.

- **Indirect involvement:** A company can be indirectly involved in armaments through shareholding, i.e. when a company owns stocks in other companies that are directly involved in arms systems and their critical components / services.

#### Conventional v.s. controversial armaments

Also, when assessing a company's involvement in armaments, Candriam's approach also takes into account the type of armament. Candriam's approach thus distinguishes between **conventional armaments** and **controversial armaments**.

Under Candriam's current approach, controversial armaments are: Anti-personnel landmines; cluster bombs; nuclear weapons; depleted uranium weapons & armor; chemical weapons; biological weapons; white phosphorus. These armaments have been identified as controversial armaments because they have faced considerable criticism with regards to three criteria:

- The indiscriminate nature of the weapons at the time of use: i.e., when the weapon used does not only strike military targets but is also likely to result in civilian casualties, in damages to civilian infrastructure and in other collateral damages.

- Being identified as weapons systems that cause both superfluous injury and unnecessary suffering.
- The potential long-term humanitarian impacts of these armaments, which can negatively impact human health and/or hinder the development and reconstruction of former war-torn regions.

For further information on our methodology and data providers for armaments, please refer to the Appendix.

## Candriam Exclusion Thresholds

At the firm level, Candriam excludes from all its investments all companies that:

- are directly involved in the development, production, testing, maintenance and sale of one or more of the following controversial weapons anti-personnel landmines, cluster bombs, nuclear weapons, depleted uranium, chemical weapons, biological weapons or white phosphorous regardless of the sales/revenues.
- Companies that own a stake (shareholding) of more than 50% in any company that is directly involved in those controversial armaments.

### 4.2. Tobacco

#### Candriam's Approach

Candriam acknowledges that the consumption and use of tobacco products in any quantity results in negative societal and health problems and is a major cause of death.

Tobacco products manufactured and retailed by companies include cigarettes and cigars, as well as other products such as chewing tobacco, creamy snuff and dipping tobacco. Cigarettes account for the largest share of manufactured tobacco products.

#### Candriam Threshold Exclusion Level

Our policy excludes all companies directly involved in the tobacco industry that derive any revenues from the manufacturing or more than 5% of their revenues from retailing of tobacco products.

Candriam does not sanction a priori companies indirectly involved in the tobacco industry through supporting products and/or services (e.g. providers of packaging materials) as their operations are not solely geared to the tobacco industry. However, if companies have developed products and production systems tailored to the tobacco industry, they will be excluded.

### 4.3. Thermal coal

#### Candriam's Approach

Exploration, extraction, processing, transportation and distribution are considered direct involvement in the thermal coal industry. Given the absence of alternatives to metallurgical coal in the production of steel, metallurgical coal is not considered for exclusion. Synthesis of liquid or gasified fuel from coal is also excluded on a best-effort basis given the challenges related to the reliability of data.

## Candriam Exclusion Thresholds

Candriam excludes from investments all companies that are directly involved in the thermal coal industry and deriving more than 5% of their revenues from coal.

The exclusion of companies developing new projects is appreciated without a minimum revenue threshold.

New projects are considered effective when the final investment decision (FID) has been taken. Some situations before the effective commissioning (permitting, announcement) might also trigger exclusions on a case-by-case basis.

We recognize that the transition to net zero is a journey, with associated socio-economic challenges. While this reality must be taken into account, it should not be a reason to drift away from scientific Paris-aligned pathways. As such, companies that derive between 5% and 10% from coal power generation can be investable only if they meet the three conditions outlined below, which are paramount in demonstrating alignment with the Paris goals:

- Not developing new coal projects, and decreasing the share of coal in activities;
- Having committed to phase out coal totally by 2027 in developed economies, and by 2030 in developing economies;
- Having specific carbon emissions from generation in line with the IEA 1.5 Net Zero trajectory

The achievement of the above conditions has to be constantly monitored through dedicated engagement.

### 4.4. Conventional armaments

In addition to the Controversial Armament exclusions mentioned above, **Candriam's Level 2B exclusions** exclude all companies that:

- Derive more than 3% of their total sales/revenues from the production, manufacturing, trade, testing or maintenance of conventional armaments and/or of critical components / services for conventional armaments;
- Own a stake (shareholding) of more than 10% in any company that is directly involved either in conventional armaments or in controversial armaments.

### 4.5. Adult content

#### Candriam's Approach

We have chosen to extend the standard definition of 'adult content' to 'violent content' (portrayals of acts of physical aggression by one human being against another). Our definition thus includes any content that delivers material not appropriate for all audiences, i.e., that which appeals to primary violence drives or provides explicit portrayals of sexual subject matter.



## Candriam Exclusion Thresholds

Our policy excludes all pure players in the field of adult content as well as any company which derives more than 5% of its revenues from adult content, whether or not through shareholding.

### 4.6. Alcohol

#### Candriam's Approach

Candriam acknowledges that the excessive and chronic consumption and use of alcohol products can result in societal problems such as health problems and road accidents. Company exposure to the manufacture and/or sale of alcohol products is systematically assessed when a company is screened from an ESG perspective.

#### Candriam Exclusion Thresholds

Our policy excludes companies directly involved in alcohol – i.e. brewers, distillers, vintners, retailers, owners and operators of alcohol establishments, restaurants that serve alcohol – as well as alcohol retailers that derive more than 10% of their revenues from the manufacture or sale of alcoholic products.

### 4.7. Animal testing

#### Candriam's Approach

Candriam promotes the use of alternative methods to replace animal experimentation whenever the ability to assess a product's safety is not compromised. Nevertheless, Candriam also acknowledges that, whilst alternative methods can serve to assess whether a new compound has the desired effect on isolated cells or tissues and can be helpful for the screening and initial steps of hazard identification, they cannot systematically replace in vivo research. Hence, animal research can bridge the gap between non-animal methods and human tests.

Candriam therefore favors sustainable and responsible investment in companies involved in animal testing that comprehensively address (in a responsible policy) and comply with the "three R" principles of Replacement, Reduction and Refinement, which seek to use alternative methods, reduce the number of animals used and minimize the pain and distress experienced by animals.

#### Candriam Exclusion Thresholds

Our policy excludes all companies that perform animal tests on products for which:

- there is no legal obligation and the company has no responsible policy (the three Rs policy); or
- animal testing is prohibited.

### 4.8. Gambling

#### Candriam's Approach

Candriam acknowledges the controversial nature of gambling as well the vulnerabilities of stakeholders who engage in this activity. For companies respecting the defined threshold mentioned below, but which are more actively

involved in gambling and/or the manufacturing of gambling products (games), we assess if these companies comprehensively address product risks and monitor sales practices to protect vulnerable consumers, such as minors.

To this end, for companies that respect the determined threshold, we may also take into consideration if they have implemented a responsible policy as follows:

- For companies **directly involved** in gambling (machines or software manufacturers, casinos, lotteries, bookmakers, gambling websites, outlets with slot machines, gambling broadcasts), we verify whether they have policy that addresses design, behavioral transparency and customer support.
- For companies **indirectly involved** in gambling through intermediary gambling access services (e.g., online payment service providers, general retailers, airports hosting gambling products), we verify whether they have policy which seeks to offer better consumer protection (e.g., limited access to “gambling channels” by password access).

The establishment of a policy is not a hard criterion but provides us with further insight into a company’s responsible practices.

## Candriam Exclusion Thresholds

Our policy excludes directly or indirectly involved companies that derive more than 5% of their total revenues (even through shareholdings) from gambling activities.

## 4.9. Genetic modification

### Candriam’s Approach

A genetically modified organism (GMO) is an organism in which the genetic material has been altered in such a manner that does not occur naturally by mating and/or natural recombination.

Candriam acknowledges the uncertainties surrounding the production and the use of GMOs and consequently adopts a balanced approach. The assessment of this activity is based on exposure to GMOs, the existence of a responsible policy and compliance with international conventions on GMOs.

The characteristics of a responsible policy depend on the sector under consideration:

- Companies in the food, beverage & tobacco or food & staples retailing sectors should at least address, in their responsible policy, clear labelling and traceability procedures to provide consumers with an adequate basis for making purchase decisions. The labelling of such products must be comprehensible and provide useful information. In addition, companies should make sure that their suppliers follow strict guidelines.
- Companies in the chemical, pharmaceuticals, agricultural, biotechnology or healthcare sectors should at least acknowledge the dangerous nature of GMOs, be compliant with the law, perform full risk assessment and ensure contained use in R&D.

Although companies from the hotel, restaurant, leisure and transport operator sectors are likely to sell products containing genetically modified organisms, depending on the geographical location of their operations, Candriam does not sanction them a priori as the way in which they are impacted by GMOs is very limited.

## Candriam Exclusion Thresholds

Candriam's *Level 2B Exclusions Policy* excludes all companies directly involved in GMOs that:

- derive more than 10% of their revenues from GMO activities without the presence of an applicable responsible policy as described above; or
- are subject to significant, systematic and repeated breaches of international conventions regarding GMOs.

### 4.10. Oppressive regimes: Corporate activities and sovereign issuers

#### Candriam's Approach

Candriam's list of Oppressive Regimes is comprised of countries in which human rights are severely breached on a regular basis, fundamental liberties are systematically denied and the security of people is not guaranteed due to government failure and systematic ethical breaches. We also extremely carefully consider totalitarian states or those countries in which the government is involved in war against its own people. To establish the Oppressive Regimes list, we use data provided by external sources, such as the Freedom House's Freedom in the World Index, the World Bank Governance Indicators, and the Economist Intelligence Unit's Democracy Index, which inform our qualitative review of non-democratic countries.

For this list of countries, Candriam's analysts have developed processes which apply to sovereign and corporate investments. They include exclusion, mitigation, and engagement, depending on our risk assessment.

## Candriam Exclusion Thresholds

### Corporates:

We exclude companies from our ESG investment universe when we consider the human rights risks to be too high and improperly mitigated.

Our analysts carefully assess the potential benefits of business activities in listed oppressive regime countries compared to the risks of potentially supporting governments in their anti-democratic practices. In other words, they cautiously weigh the harm caused by a company operating in an oppressive regime against the benefits these operations bring to all stakeholders.

We analyse four key material pillars that enable the risk assessment of a company's presence in these identified oppressive regimes including:

- a company's level of exposure (for example, assets in the country, sales to the market, supply chain exposure, revenues, offices),
- the nature of products and/or services (e.g. whether surveillance technology, data management systems or mobile networks are utilised by the regime to impose its authority),

- counterparties (relationships with authorities, bribery and corruption risks, etc.), and
- safeguards (including those implemented by the company as well as those specific to the country).

For certain industries, including Oil & Gas, we will assess the type of contract (e.g. whether licences to explore natural resources benefit the state or local communities).

We exclude companies deriving more than 10% of their revenues from activities in oppressive regimes. Certain exceptions may apply. For example, companies may not be excluded if they have announced a suspension of activities in or plans to exit the country at hand.

Moreover, we engage with certain selected companies deriving between 5% and 10% of their revenues from these activities. For a few countries considered as highly oppressive regimes, we consider that any activity might bring negative impact.

#### **Governments:**

Debt issued by sovereign or quasi-sovereign entities that are on the Oppressive Regimes list is not eligible for investment in strategies subject to our *Level 2B Exclusions Policy*.

### **4.11. Norms-based analysis**

Candriam's norms-based analysis determines whether a company complies with the 10 principles of the United Nations Global Compact for each of the main categories: **Human Rights (HR), Labour Rights (L), Environment (ENV) and Anti-Corruption (COR)**.

Information regarding current, suspected and/or related incidents or breaches of international standards are collected through external research combined with internal analyses performed by our ESG analysts.

Subsequent to the identification of any breaches of the Global Compact principles, the analysis uses several parameters to evaluate the severity and magnitude of the breaches:

- **Temporal proximity:** when did the incident happen and how long did it last?
- **Magnitude:** what financial costs and environmental damage are related to the incident?
- **Credibility:** does the incident involve allegations, legal proceedings, etc?
- **Recurrence:** is this a one-off incident or is there proof of repeated incidents over a given period?

**Emphasis is also placed on a company's response when an incident occurs.** A company that takes positive, responsible measures to ensure that future breaches do not occur is considered more favourably than a company that does not acknowledge its responsibility and/or does not take any corrective measures.

Based on this information and in accordance with the evaluation framework described above, the colour code is determined as follows for each of the four main categories.

Green	- No evidence of repeated or significant violations of the Global Compact principles
Orange	<ul style="list-style-type: none"> <li>- Evidence of repeated violations of the Global Compact principles but these do not appear to be significant; or</li> <li>- Evidence of significant violations of the Global Compact principles but these do not appear to be repetitive; or</li> <li>- Evidence of repeated and significant violations of the Global Compact principles, but the company has taken appropriate corrective measures/actions</li> </ul>
Red	- Evident of repeated and significant violations of Global Compact principles and the organisation has no appropriate response/behaviour

Candriam's *Level 2B Exclusions Policy* excludes all "Red Flag Companies", i.e. companies with severe to very severe controversies in terms of impact, duration, frequency and/or lack of response from the management of the company.



## 5. Level 3 SRI Exclusions

Candriam's *Level 3 SRI Exclusions Policy*<sup>3</sup> addresses environmental and social issues through a broad set of excluded activities. These activities bear risks for the environment, our health, human rights, and other environmental and social objectives.

Candriam's *Level 3 SRI Exclusions Policy* applies to investments made by Candriam via long positions in direct lines in corporate and sovereign issuers and single-name derivatives.

This policy covers harmful activities that we believe have a substantial negative impact and carry serious risks from both a financial and a sustainability perspective. Exposure to these activities presents important systemic and reputational risks for the investee companies from an economic as well as environmental and social perspective.

As regards the *Level 3 SRI Exclusions Policy*, Candriam excludes controversial armament, tobacco and thermal coal activities and encourages third parties to do the same. Moreover, *Level 3 SRI Exclusions Policy* takes this into account that climate change is the pivotal sustainability challenge for the near future, and accordingly emphasizes environmental issues. The aim is to help tackle climate change by excluding activities that do significant harm to the environment. We believe that supporting environmental sustainability in this fashion can also have positive repercussions on social issues as well. The exclusion of such activities is part of a broader framework of greenhouse gas reductions necessary if the average global temperature is not to exceed two degrees Celsius above pre-industrial levels. Candriam has taken steps to mitigate climate-related risk exposure by reducing its exposure to the most greenhouse gas-intensive corporate activities. This includes, but is not limited to, oil & gas, and mining activities. In accordance with this approach, Candriam is a signatory of the Net Zero Asset Managers Initiative.

Candriam's *Level 3 SRI Exclusions Policy* also targets a number of activities that, with the gradual rise of ESG investing, are no longer considered pertinent by many sustainable and responsible investors due to their potential repercussions on human, societal and animal welfare. These include for example adult content, conventional weapons, alcohol, gambling, GMO, nuclear power, palm oil, and animal testing.

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<sup>3</sup> Please note that Candriam's *Level 3 SRI Exclusions Policy* may not necessarily be implemented in the case of investments in ETFs, index funds or other financial instruments linked to indices such as index derivatives. Accordingly, a portfolio subject to the *Level 3 SRI Exclusions Policy* may have indirect exposure to some of the activities mentioned within the policy, if investments in such activities are made through the aforementioned types of vehicles.

The complete of activities excluded under Candriam's *Level 3 SRI Exclusions Policy*, and their respective exclusion thresholds or criteria, are provided below.

Exclusion threshold / criteria <sup>1</sup>	
<b>Exclusion of controversial corporate activities:</b>	
<b>Controversial Armaments</b>	<ul style="list-style-type: none"> <li>Any involvement in: Anti-personnel Landmines; Cluster Bombs; Depleted Uranium; Chemical Weapons; Biological Weapons</li> <li>Any involvement in nuclear weapons and white phosphorus</li> </ul>
<b>Thermal Coal</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>
<b>Tobacco</b>	<ul style="list-style-type: none"> <li>Production: Any involvement</li> <li>Distribution: 5% revenue threshold</li> </ul>
<b>Conventional Armaments</b>	<ul style="list-style-type: none"> <li>3% revenue threshold</li> </ul>
<b>Electricity Generation</b>	<ul style="list-style-type: none"> <li>Companies with new coal or nuclear-based projects</li> <li>Carbon Intensity above 335gCO<sub>2</sub>/kWh</li> </ul> <p>If carbon intensity is not available:</p> <ul style="list-style-type: none"> <li>No Paris-aligned commitment</li> <li>Companies without new sustainable energy-based project</li> </ul>
<b>Oil &amp; Gas</b>	<b>Unconventional Oil &amp; Gas:</b> <ul style="list-style-type: none"> <li>5% revenue threshold</li> <li>Companies developing new projects</li> </ul>
	<b>Conventional Oil &amp; Gas:</b> <ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b>Corporate Activities in Oppressive Regimes</b>	<ul style="list-style-type: none"> <li>10% revenue threshold (exceptions may apply, e.g plans to exit or suspension of activities)</li> <li>Engagement triggered for certain selected companies with 5 and 10% revenue exposure</li> </ul>
<b>Adult Content</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b>Alcohol</b>	<ul style="list-style-type: none"> <li>10% revenue threshold</li> </ul>
<b>Animal Testing</b>	<ul style="list-style-type: none"> <li>No responsible policy and no legal requirement to test</li> </ul>
<b>Gambling</b>	<ul style="list-style-type: none"> <li>5% revenue threshold</li> </ul>
<b>GMO</b>	<ul style="list-style-type: none"> <li>10% and no responsible policy</li> </ul>
<b>Nuclear Power</b>	<ul style="list-style-type: none"> <li>30% revenue threshold<sup>2</sup></li> </ul>
<b>Palm Oil</b>	Producers/Distributors that: <ul style="list-style-type: none"> <li>are not RSPO<sup>3</sup> members and derive between 0% and 5% of their revenues from palm oil with less than 20% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place; or</li> <li>are not RSPO members and derive more than 5% of their revenues from palm oil with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place.</li> </ul>
	Buyers that: <ul style="list-style-type: none"> <li>are not RSPO members and whose revenues are dependent on palm oil for more than 5%, with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.</li> </ul>
<b>Mining</b>	UNGP <sup>4</sup> , OECD
<b>Exclusion of sovereign issuers:</b>	
<b>Oppressive regimes</b>	Debt of sovereign or quasi-sovereign entities on Candriam's Oppressive Regimes List
<b>Norms-based exclusions:</b>	
<b>Norms</b>	Red Flag Companies: Companies with "Red" ratings in any of the four UNGC <sup>5</sup> pillars

<sup>1</sup> Candriam's exclusion policies are subject to the constraints inherent to the availability of ESG data and to the underlying data methodologies. Therefore, thresholds are analyzed and implemented on a best-effort basis.

<sup>2</sup> Threshold applies regardless of carbon intensity.

<sup>3</sup> RSPO: Roundtable on Sustainable Palm Oil

<sup>4</sup> UNGP: United Nations Guiding Principles

<sup>5</sup> UNGC: United Nations Global Compact

Please, find below further details on Candriam's approach and exclusion thresholds applied to each of these controversial activities.



## 5.1. Armaments

### Candriam's Approach

#### Direct vs. indirect involvement

In the assessment of armaments as a controversial activity, we distinguish between direct and indirect involvement:

- **Direct involvement:** A company is considered to be directly involved in armaments systems when it produces / manufactures / services / sells / trades:
  - Complete arms systems;
  - Critical components of an arms system;
  - Critical services related to an arms system.

Components and services are considered critical components / services when they meet the following two conditions:

- The components/services are specifically designed to be used within, or in relation to arms system;
- The components/services play a role in the lethality of arms systems. In this case, components and services are called "key components & services".

The components and services sold to military clients that are not specifically designed for arms systems and that are not key components in arms systems fall into the category of "dual-use or general-purpose goods and/or services". They include notably: catering equipment & services, housing products & services, transport equipment & services, uniforms, advertising services, office computers, cleaning services, electricity equipment & services, assurance services, the organization of weapon fairs, etc.

- **Indirect involvement:** A company can be indirectly involved in armaments through shareholding, i.e. when a company owns stocks in other companies that are directly involved in arms systems and their critical components / services.

#### Conventional v s . controversial armaments

Also, when assessing a company's involvement in armaments, Candriam's approach also takes into account the type of armament. Candriam's approach thus distinguishes between **conventional armaments** and **controversial armaments**.

Under Candriam's current approach, controversial armaments are: Anti-personnel landmines; cluster bombs; nuclear weapons; depleted uranium weapons & armor; chemical weapons; biological weapons; white phosphorus. These armaments have been identified as controversial armaments because they have faced considerable criticism with regards to three criteria:

- The indiscriminate nature of the weapons at the time of use: i.e., when the weapon used does not only strike military targets but is also likely to result in civilian casualties, in damages to civilian infrastructure and in other collateral damages.
- Being identified as weapons systems that cause both superfluous injury and unnecessary suffering.
- The potential long-term humanitarian impacts of these armaments, which can negatively impact human

health and/or hinder the development and reconstruction of former war-torn regions.

For further information on our methodology and data providers for armaments, please refer to the Appendix.

## **Candriam Exclusion Thresholds**

At the firm level, Candriam excludes from all its investments all companies that:

- are directly involved in the development, production, testing, maintenance and sale of one or more of the following controversial weapons anti-personnel landmines, cluster bombs, nuclear weapons, depleted uranium, chemical weapons, biological weapons or white phosphorous regardless of the sales/revenues.
- Companies that own a stake (shareholding) of more than 50% in any company that is directly involved in those controversial armaments.

## **5.2. Tobacco**

### **Candriam's Approach**

Candriam acknowledges that the consumption and use of tobacco products in any quantity results in negative societal and health problems and is a major cause of death.

Tobacco products manufactured and retailed by companies include cigarettes and cigars, as well as other products such as chewing tobacco, creamy snuff and dipping tobacco. Cigarettes account for the largest share of manufactured tobacco products.

### **Candriam Exclusion Thresholds**

Our policy excludes all companies directly involved in the tobacco industry that derive any revenues from the manufacturing or more than 5% of their revenues from retailing of tobacco products.

Candriam does not sanction a priori companies indirectly involved in the tobacco industry through supporting products and/or services (e.g. providers of packaging materials) as their operations are not solely geared to the tobacco industry. However, if companies have developed products and production systems tailored to the tobacco industry, they will be excluded.

## **5.3. Thermal Coal**

### **Candriam's Approach**

Exploration, extraction, processing, transportation and distribution are considered direct involvement in the thermal coal industry. Given the absence of alternatives to metallurgical coal in the production of steel, metallurgical coal is not considered for exclusion. Synthesis of liquid or gasified fuel from coal is also excluded on a best-effort basis given the challenges related to the reliability of data.

## Candriam Exclusion Thresholds

Candriam excludes from investments all companies that are directly involved in the thermal coal industry and deriving more than 5% of their revenues from coal.

The exclusion of companies developing new projects is appreciated without a minimum revenue threshold.

New projects are considered effective when the final investment decision (FID) has been taken. Some situations before the effective commissioning (permitting, announcement) might also trigger exclusions on a case-by-case basis.

We recognize that the transition to net zero is a journey, with associated socio-economic challenges. While this reality must be taken into account, it should not be a reason to drift away from scientific Paris-aligned pathways. As such, companies that derive between 5% and 10% from coal power generation can be investable only if they meet the three conditions outlined below, which are paramount in demonstrating alignment with the Paris goals:

- Not developing new coal projects, and decreasing the share of coal in activities;
- Having committed to phase out coal totally by 2027 in developed economies, and by 2030 in developing economies;
- Having specific carbon emissions from generation in line with the IEA 1.5 Net Zero trajectory

The achievement of the above conditions has to be constantly monitored through dedicated engagement.

## 5.4. Conventional Armaments

In addition to the Controversial Armament exclusions mentioned above, **Candriam's Level 3 SRI exclusions** exclude all companies that:

- Derive more than 3% of their total sales/revenues from the production, manufacturing, trade, testing or maintenance of conventional armaments and/or of critical components / services for conventional armaments;
- Own a stake (shareholding) of more than 10% in any company that is directly involved either in conventional armaments or in controversial armaments.

## 5.5. Adult Content

### Candriam's Approach

We have chosen to extend the standard definition of 'adult content' to 'violent content' (portrayals of acts of physical aggression by one human being against another). Our definition thus includes any content that delivers material not appropriate for all audiences, i.e., that which appeals to primary violence drives or provides explicit portrayals of sexual subject matter.

## Candriam Threshold Exclusion Level

Our policy excludes all pure players in the field of adult content as well as any company which derives more than 5% of its revenues from adult content, whether or not through shareholding.

### 5.6. Alcohol

#### Candriam's Approach

Candriam acknowledges that the excessive and chronic consumption and use of alcohol products can result in societal problems such as health problems and road accidents. Company exposure to the manufacture and/or sale of alcohol products is systematically assessed when a company is screened from an ESG perspective.

#### Candriam Exclusion Thresholds

Our policy excludes companies directly involved in alcohol – i.e. brewers, distillers, vintners, retailers, owners and operators of alcohol establishments, restaurants that serve alcohol – as well as alcohol retailers that derive more than 10% of their revenues from the manufacture or sale of alcoholic products.

### 5.7. Animal Testing

#### Candriam's Approach

Candriam promotes the use of alternative methods to replace animal experimentation whenever the ability to assess a product's safety is not compromised. Nevertheless, Candriam also acknowledges that, whilst alternative methods can serve to assess whether a new compound has the desired effect on isolated cells or tissues and can be helpful for the screening and initial steps of hazard identification, they cannot systematically replace in vivo research. Hence, animal research can bridge the gap between non-animal methods and human tests.

Candriam therefore favors sustainable and responsible investment in companies involved in animal testing that comprehensively address (in a responsible policy) and comply with the “three R” principles of Replacement, Reduction and Refinement, which seek to use alternative methods, reduce the number of animals used and minimize the pain and distress experienced by animals.

#### Candriam Exclusion Thresholds

Our policy excludes all companies that perform animal tests on products for which:

- there is no legal obligation and the company has no responsible policy (the three Rs policy); or
- animal testing is prohibited.

### 5.8. Gambling

#### Candriam's Approach

Candriam acknowledges the controversial nature of gambling as well the vulnerabilities of stakeholders who engage in this activity. For companies respecting the defined threshold mentioned below, but which are more actively



involved in gambling and/or the manufacturing of gambling products (games), we assess if these companies comprehensively address product risks and monitor sales practices to protect vulnerable consumers, such as minors.

To this end, for companies that respect the determined threshold, we may also take into consideration if they have implemented a responsible policy as follows:

- For companies **directly involved** in gambling (machines or software manufacturers, casinos, lotteries, bookmakers, gambling websites, outlets with slot machines, gambling broadcasts), we verify whether they have policy that addresses design, behavioral transparency and customer support.
- For companies **indirectly involved** in gambling through intermediary gambling access services (e.g., online payment service providers, general retailers, airports hosting gambling products), we verify whether they have policy which seeks to offer better consumer protection (e.g., limited access to “gambling channels” by password access).

The establishment of a policy is not a hard criteria but provides us with further insight into a company’s responsible practices.

## Candriam Exclusion Thresholds

Our policy excludes directly or indirectly involved companies that derive more than 5% of their total revenues (even through shareholdings) from gambling activities.

## 5.9. Genetic Modification

### Candriam’s Approach

A genetically modified organism (GMO) is an organism in which the genetic material has been altered in such a manner that does not occur naturally by mating and/or natural recombination.

Candriam acknowledges the uncertainties surrounding the production and the use of GMOs and consequently adopts a balanced approach. The assessment of this activity is based on exposure to GMOs, the existence of a responsible policy and compliance with international conventions on GMOs.

The characteristics of a responsible policy depend on the sector under consideration:

- Companies in the food, beverage & tobacco or food & staples retailing sectors should at least address, in their responsible policy, clear labelling and traceability procedures to provide consumers with an adequate basis for making purchase decisions. The labelling of such products must be comprehensible and provide useful information. In addition, companies should make sure that their suppliers follow strict guidelines.
- Companies in the chemical, pharmaceuticals, agricultural, biotechnology or healthcare sectors should at least acknowledge the dangerous nature of GMOs, be compliant with the law, perform full risk assessment and ensure contained use in R&D.

Although companies from the hotel, restaurant, leisure and transport operator sectors are likely to sell products containing genetically modified organisms, depending on the geographical location of their operations, Candriam does not sanction them a priori as the way in which they are impacted by GMOs is very limited.

## Candriam Exclusion Thresholds

Candriam's *Level 3 SRI Exclusions Policy* excludes all companies directly involved in GMOs that:

- derive more than 10% of their revenues from GMO activities without the presence of an applicable responsible policy as described above; or
- are subject to significant, systematic and repeated breaches of international conventions regarding GMOs.

## 5.10. Oppressive regimes: Corporate activities and sovereign issuers

### Candriam's Approach

Candriam's list of Oppressive Regimes is comprised of countries in which human rights are severely breached on a regular basis, fundamental liberties are systematically denied and the security of people is not guaranteed due to government failure and systematic ethical breaches. We also extremely carefully consider totalitarian states or those countries in which the government is involved in war against its own people. To establish the Oppressive Regimes list, we use data provided by external sources, such as the Freedom House's Freedom in the World Index, the World Bank Governance Indicators, and the Economist Intelligence Unit's Democracy Index, which inform our qualitative review of non-democratic countries.

For this list of countries, Candriam's analysts have developed processes which apply to sovereign and corporate investments. They include exclusion, mitigation, and engagement, depending on our risk assessment.

### Candriam Exclusion Thresholds

#### Corporates:

We exclude companies from our ESG investment universe when we consider the human rights risks to be too high and improperly mitigated.

Our analysts carefully assess the potential benefits of business activities in listed oppressive regime countries compared to the risks of potentially supporting governments in their anti-democratic practices. In other words, they cautiously weigh the harm caused by a company operating in an oppressive regime against the benefits these operations bring to all stakeholders.

We analyse four key material pillars that enable the risk assessment of a company's presence in these identified oppressive regimes including:

- a company's level of exposure (for example, assets in the country, sales to the market, supply chain exposure, revenues, offices),
- the nature of products and/or services (e.g. whether surveillance technology, data management systems or mobile networks are utilised by the regime to impose its authority),
- counterparties (relationships with authorities, bribery and corruption risks, etc.), and
- safeguards (including those implemented by the company as well as those specific to the country).

For certain industries, including Oil & Gas, we will assess the type of contract (e.g. whether licences to explore natural resources benefit the state or local communities).

We exclude companies deriving more than 10% of their revenues from activities in oppressive regimes. Certain exceptions may apply. For example, companies may not be excluded if they have announced a suspension of activities in or plans to exit the country at hand.

Moreover, we engage with certain selected companies deriving between 5% and 10% of their revenues from these activities. For a few countries considered as highly oppressive regimes, we consider that any activity might bring negative impact.

**Governments:**

Debt issued by sovereign or quasi-sovereign entities that are on the Oppressive Regimes list is not eligible for investment in strategies subject to our *Level 3 SRI Exclusions Policy*.

**5.11. Oil & gas**

**Candriam’s Approach**

In the assessment of energy sources, we believe that a distinction should be made between oil & gas supply originating from conventional and unconventional extraction. The main difference results from the techniques required for the extraction and the nature of the reservoir.

Conventional oil and gas are derived from formations that are simpler to extract compared to unconventional oil & gas which require complex extraction methods with negative impacts on the environment. The extraction of unconventional resources tends to require more energy as well as more water and chemical inputs in the case of hydraulic fracturing techniques. As such, unconventional methods are more carbon- and water-intensive than conventional projects. Depending on the type of resource, unconventional methods can also cause more land disturbance (including deforestation) and higher levels of wastewater.

We categorize the following activities and sources as follows:

- **Unconventional oil & gas extraction:** the extraction of tar/oil sands, shale gas/oil, tight gas/oil, coalbed methane and Arctic drilling
- **Conventional oil & gas extraction:** conventional oil and conventional natural gas, including gas condensate.

Candriam acknowledges that transitioning into a low-carbon economy requires time. For this reason, our approach also takes into consideration the energy transition strategy of companies involved in the conventional oil & gas industry, with very clear and ambitious thresholds that are in line with Paris-aligned trajectories. Exposure to unconventional oil & gas, on the other hand, is considered incompatible with the energy transition given the associated negative environmental impacts.

**Candriam Threshold Exclusion Level**

Candriam excludes from all its investments companies deriving more than 5% of their revenues from the exploration, production, refining, and transport of conventional and unconventional oil & gas. Candriam also excludes companies generating over 50% of revenues from the provision of dedicated equipment and services to the oil & gas industry.



Only companies assessed as “achieving net zero” or as “aligned with the net zero pathway” according to our Net Zero Alignment Framework may be eligible, if they derive less than 5% of revenues from unconventional oil & gas and meet the very strict expectations of our Net Zero Alignment Assessment.

The exclusion of companies developing new unconventional Oil & Gas projects is implemented without a minimum revenue threshold.

New projects are considered effective when the final investment decision (FID) has been taken. Some situations before the effective commissioning (permitting, announcement) might also trigger exclusions on a case-by-case basis.

## 5.12. Electricity generation

### Candriam’s Approach

As the level of emissions varies across electricity generation sources, it is important to assess the level of greenhouse gasses emitted per KWh to measure companies’ alignment with a 2°C trajectory. For this reason, we incorporate the carbon intensity of power producers in our sustainability assessment.

As data on the carbon intensity of issuers is not always available, we have established other indicators demonstrating an issuer’s alignment with the Paris Agreement. Indeed, in the analysis of power producers, we also assess if they are on a transition path in line with the Paris Agreement goals and a 2-degree scenario based on other metrics such as investment plans and credibility of net zero targets. The metrics used are forward-looking and evolve over time to take into consideration the evolution of companies towards a transition path.

Candriam believes that an increasing use of coal in electricity generation is not aligned with the Paris Agreement. On the other hand, while Candriam considers nuclear energy to be an intermediary solution, we acknowledge the financial risks as well as the controversies surrounding it. In particular because of the very low probability but high impact potential of accidents and because of the issues pertaining to the long-term disposal on nuclear waste.

### Candriam Exclusion Thresholds

Candriam excludes from all its investments power-producing companies with a carbon intensity of over 335 gCO<sub>2</sub>/kWh for 2024, or with a trend towards increasing coal and nuclear power generation capacity.

In case no data on electricity power producers’ carbon intensity is available, we seek alternative sources of information and demonstration of good practice. The energy mix is a meaningful but not sufficient indicator. It is necessary that the use of thermal coal power in electricity production does not increase, unlike the use of renewable energies, both in production and capacity. In addition, alignment with the Paris Agreement has to be demonstrated, and in particular through a robust SBTi target, a sufficient use of its capital expenditure for this purpose or deriving the main part of revenues from the use of renewable energies in electricity production.

### 5.13. Mining

Candriam acknowledges that while playing a key role in our modern economies and in the transition, mining activities face tremendous environmental and social challenges. The extraction of minerals and metals has historically been associated with long-lasting and sometimes irreversible impacts on ecosystems and local communities. It is therefore absolutely crucial to ensure that mining activities are conducted responsibly and with due consideration given to all stakeholders.

Our policy excludes all companies directly involved in the extraction and smelting of metals and minerals that:

- have not put in place relevant ESG risk management systems, in accordance with widely recognized international standards such as the UN Guiding Principles, the VPSHR, and the OECD Guidelines,
- have been found guilty of severe ESG controversies.

### 5.14. Palm oil

#### Candriam's Approach

Candriam acknowledges that the production, processing, sale, and/or use of palm oil has a very complex value chain and has been linked to deforestation (including land clearing activities, conversion of peatland areas) and biodiversity loss globally. Deforestation linked to palm oil supply chains results in devastating environmental impacts such as: forest loss and the loss of animal habitats (e.g. Asian rhinos, elephants, tigers, and orangutans), particularly in Southeast Asian regions from which 85% of global palm oil production is derived. Various reports of forced labor and child labor cases tainting the palm oil value chains have also been prevalent from the level of plantations, mills, refineries to the manufacturing of food and/or non-food products.

Despite that, Candriam recognizes that palm oil remains an invaluable ingredient in a variety of food and non-food items given its relatively high yields compared to any other oil crops. It can produce up to 20 times as much oil per hectare from palm versus other oil crop alternatives.<sup>3</sup> It accounts for around 40% of the current global annual demand for vegetable oil as food, animal feed and fuel.<sup>4</sup>

Candriam considers palm oil producers and distributors as companies whose business activities are primarily **producing, manufacturing, or distributing/selling** of oil palm products. All companies whose business activities primarily consume or use palm oil for production or for inclusion as **ingredients** in the end-products that these companies sell are considered palm oil buyers.

<sup>3</sup><https://ourworldindata.org/palm-oil>

<sup>4</sup><https://publications.jrc.ec.europa.eu>

#### Candriam Exclusion Thresholds

Companies' exposure to palm oil-related controversies linked to deforestation and/or biodiversity risks is systematically assessed based on various elements that provide assurances towards sustainable palm oil production and consumption practices. Such elements include:

1. the total revenues coming from palm oil production, distribution, or ingredients,



2. RSPO membership/affiliation,
3. Percentage of certified palm oil, and
4. The presence of a deforestation policy.

We acknowledge that the efficiency and credibility of palm oil sustainable certification have been debated by some stakeholders. Indeed, such certification only serves as a tool in the supply chain due diligence toolkit. Therefore, the above elements are primary criteria, however not exhaustive. **We also integrate additional checks based on a best effort approach in assessing the palm oil-tied company's exposures to controversies on land use and biodiversity and their overall due diligence.**

Our policy excludes producers and distributors that:

- are not RSPO members and derive between 0% and 5% of their revenues from palm oil with less than 20% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place; or
- are not RSPO members and derive more than 5% of their revenues from palm oil with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy in place.

Our policy also excludes buyers that are not RSPO members and whose revenues are dependent on palm oil for more than 5%, with less than 50% of this oil being RSPO-certified palm oil, and that have no deforestation policy.

Please, note that we systematically exclude companies with a clear tie to palm oil dependency but no disclosure of their dependent revenues and percentages of certified palm oil, nor evidence of a deforestation policy.

On top of this policy, a company's exposure to palm oil-related activities is also evaluated based on the relevant controversies that the company has been allegedly involved in, and the company's responsiveness in addressing, mitigating and remedying said controversies. All of this allows for an additional layer of screening for companies under the coverage of Candriam's activities.

Additionally, in our norms-based analysis, particular attention is given to possible breaches of the environmental and human rights principles of the Global Compact in relation to the activities of companies exposed to palm oil.

## 5.15. Nuclear power

### Candriam's Approach

Despite the benefits of nuclear power as a low-carbon and low-marginal cost energy (compared to coal, for instance) that reduces supply-insecurity risk, there is significant controversy surrounding the use of nuclear power as a viable and sustainable alternative to other forms of energy due to the significant environmental, safety and security risks and liabilities related to nuclear reaction, nuclear waste, power plant decommissioning and nuclear fuel proliferation.

Nuclear power, as long as it is operated under the highest safety/security conditions, is currently a proven and needed alternative to fossil fuels and will be part of this century's energy landscape. However, Candriam acknowledges that the benefits of nuclear power in terms of mitigation of climate change and security of supply are counterbalanced by significant safety, environmental and security risks.

## **Candriam Exclusion Thresholds**

Candriam exclude all companies directly or indirectly, derive more than 30% of their revenues from the extraction, conversion and enrichment of uranium to produce nuclear fuel, the irradiation of the fuel in a nuclear reactor and/or the reprocessing/disposal of spent nuclear fuel and other nuclear waste.



## 5.16. Norms-based analysis

The norms-based analysis determines whether a company complies with the 10 principles of the United Nations Global Compact for each of the main categories: **Human Rights (HR)**, **Labour Rights (L)**, **Environment (ENV)** and **Anti-Corruption (COR)**.

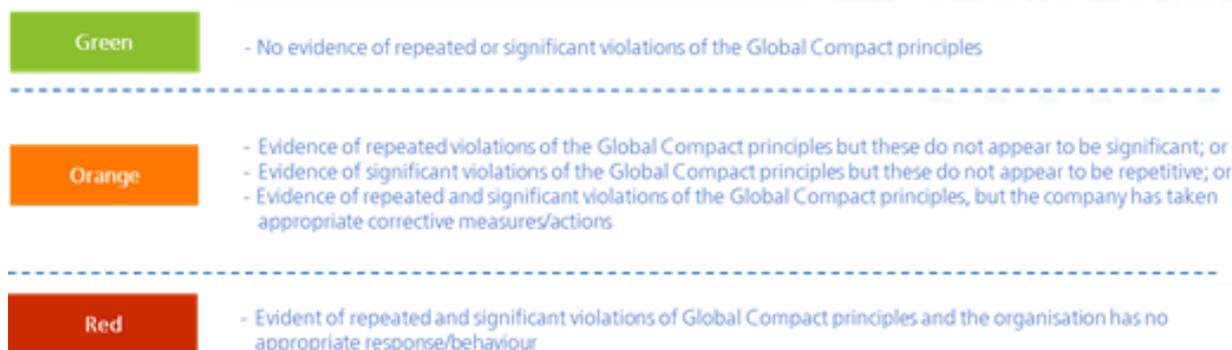
Information regarding current, suspected and/or related incidents or breaches of international standards are collected through external research combined with internal analyses performed by our ESG analysts.

Subsequent to the identification of any breaches of the Global Compact principles, the analysis uses several parameters to evaluate the severity and magnitude of the breaches:

- **Temporal proximity:** when did the incident happen and how long did it last?
- **Magnitude:** what financial costs and environmental damage are related to the incident?
- **Credibility:** does the incident involve allegations, legal proceedings, etc?
- **Recurrence:** is this a one-off incident or is there proof of repeated incidents over a given period?

**Emphasis is also placed on a company's response when an incident occurs.** A company that takes positive, responsible measures to ensure that future breaches do not occur is considered more favourably than a company that does not acknowledge its responsibility and/or does not take any corrective measures.

Based on this information and in accordance with the evaluation framework described above, the colour code is determined as follows for each of the four main categories.



Candriam's *Level 3 Exclusions Policy* excludes all "Red Flag Companies", i.e. companies with severe to very severe controversies in terms of impact, duration, frequency and/or lack of response from the management of the company.

## 6. Evaluation process and implementation

The research and evaluation process encompasses three main steps:

### 6.1. Identification of Company Involvement in Controversial Activities

Candriam's ESG team conducts in-house analysis to identify company involvement in controversial activities encompassed by our Policy. Our ESG Analysts use various sources to conduct their analysis including information provided by external research providers, media sources and NGOs to verify the involvement of companies.

### 6.2. Assessment of Company Involvement in Controversial Activities

Company involvement in any identified area of controversial activity is assessed on a number of parameters covering the following variables:

- **Type of Involvement:** for each company analysed, the type of involvement (direct or indirect) is considered (e.g., owners and operators, manufacturers/producers, retailers/providers, provision of supporting products or services);
- **Level of Involvement:** based on the threshold approach applied to every type of controversial activity, any revenues derived from, or the production capacities of, such activities are generally used as the main indicator of involvement;
- **Responsible Policy:** for some controversial activities, in addition to the type and level of involvement, it is also important to consider how the company approaches and considers its potentially contentious activities. Therefore the presence (or absence) of a relevant and targeted responsible policy that acknowledges the company's involvement in an activity, as well as the existence of systems and practices undertaken to ensure that it operates in a responsible manner, are crucial elements in the assessment.

### 6.3. Final judgement of involvement

The goal of this last step is to decide, based on the three above-mentioned variables, on the acceptability of a company's involvement in one or more controversial activities. Companies that exceed the acceptable levels will be excluded from that portfolio's investment.

## 7. Additional Views

### 7.1. Biodiversity

#### Candriam's Approach

Candriam acknowledges the importance of biodiversity and its key role across various sectors. As the actions taken by companies exposed to biodiversity can have significant impacts on our planet and human well-being, Candriam has fully embedded biodiversity into its ESG frameworks.

Biodiversity is taken into account in the stakeholder and business model assessment. Activities with a negative impact on biodiversity, for instance oil sands in the Oil & Gas sector, will have a lower score on the exposure of its business model to key sustainable challenges, that will influence the final decision of the company. For instance, cotton and pesticide-related activities will respectively affect the "Resource Depletion" and "Health & Wellness" key sustainable challenges. The stakeholder analysis will also include this aspect in terms of company's behavior and assess the company's strategy to preserve the biodiversity of the territory during its operations. Furthermore, the emphasis placed on biodiversity is adjusted in sector models in accordance to their material relevance. For instance, in sectors such as Oil & Gas and Metals & Mining, key performance indicator related to biodiversity have an important role in the ESG sector model. Companies with negative impacts are scored negatively in our framework.

Moreover, as detailed in the above exclusions, companies' exposure to palm oil-related controversies linked to deforestation and/or biodiversity risks is systematically assessed based on various elements that provide assurances towards sustainable palm oil production and consumption practices.

Candriam's Norms-based analysis based on the 10 Principles of the United Nations Global compact also takes into account biodiversity in its "Environment" pillar. Identified significant and repeated breaches of the Global Compact, including biodiversity, are sanctioned and excluded.

### 7.2. Death Penalty

The punishment of crimes by the penalty of death is a controversial issue on a global scale. There are several conventions that deal with abolition of the practice, the major one being The Second Optional Protocol to the International Covenant on Civil and Political Rights, adopted by the General Assembly of the United Nations on 15 December 1989. The intention of the Protocol is to reflect that the death penalty encroaches on the right to life and to freedom from torture or cruel, inhumane or degrading treatment or punishment in accordance of the Universal Declaration of Human Rights, adopted by the UN in 1948. Furthermore, it is deemed that death penalty is irreversible, discriminatory, and sometimes applied within judicial systems that do not guarantee fair trial and the primacy of the rule of law.

Candriam recognises the concerns expressed by the international community, and supports the letter and the spirit of the Second Optional Protocol to the International Covenant on Civil and Political Rights. Therefore, whether a country is a signatory to the Protocol is monitored as a part of the regular sustainability due diligence of countries.

Candriam does not apply an explicit exclusion based on a country’s death penalty stance. Our approach takes into consideration whether a country has ratified The Second Optional Protocol to the International Covenant on Civil and Political Rights, and this forms a part of the score for the Basic Political/Civil Rights Theme within the Social Capital Pillar of Candriam’s country evaluation methodology.

### 7.3. Fur

Candriam acknowledges that the fur industry is exposed to possible risks related to the protection of endangered species, animal welfare and environmental pollution.

Issues raised by the use of fur are taken into account in Candriam’s Norms-Based and overall ESG assessment of a company when determined relevant and applicable.

Companies producing products using rare, endangered or vulnerable animal and plant species (including furs) are scored very negatively in Candriam’s ESG framework. Identified breaches of the Global Compact, notably environmental breaches, are also sanctioned.

### 7.4. Land Grabbing

Land grabbing refers to the purchase or leasing of vast tracts of land, usually in developing countries, by investors (countries or corporations) to secure long-term food supplies, produce biofuels or for speculative purposes.

One of the most immediate consequences of land grabbing is decreased food security in the developing countries and the disruptive effect on local communities, in particular, on small-scale food producers, as research has shown that secure access to land can reduce poverty and hunger.

Candriam considers land grabbing a controversial issue due to its consequences on local communities in developing countries (access to land; poverty, hunger). Candriam already assesses “land grabbing” in the Human Rights part of its Norms-based analysis. It takes into consideration, amongst others, the presence of free, prior and informed consent of the affected land users, the absence of human rights violations and the transparency of contracts to assess the issue and the number of people affected.

In Candriam’s ESG Norms-based analysis, a company is excluded from ESG investment if there is very strong evidence of repeated, significant and systematic violations of international standards and principles regarding the Human Rights principles associated with land grabbing.

### 7.5. Tax Evasion

#### Definition and General Context

Tax evasion is generally used to mean ‘illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities’ (OECD

definition). We assess that on average European SME pays around 23% corporate tax, while some multi-national companies pay less than 1%. This is possible because multi-national companies can use mechanisms between national tax systems when shifting their accounting from one country to the other. It is estimate that 40% of multinational companies' profits avoid taxation.

Over the last five past years, the fight against tax evasion came across as a result of the revelations of repeated leaks and related journalistic investigations into scandals such as Luxleaks or Panama Papers.

Candriam acknowledges that tax evasion is a key ESG issue which involves all sectors, with an emphasis to the financial sector, and expose companies to substantial consequences, such as fines or liabilities.

Tax evasion is taken into account in Candriam's Norms-Based analysis and overall ESG assessment of a company where relevant and applicable. Companies evading taxes are scored very negatively in Candriam's ESG analysis. Identified breaches of the Global Compact, notably corruption and governance breaches, are also sanctioned.

## 7.6. Toxic Substances for the Environment and Human Health

A "toxic substance" is defined as any chemical or mixture potentially harmful to the environment as well as to human health, given the high degree of interdependence between human health and the natural environment. The impact of toxic substances depends on dose and exposure.

Following the United Nations Environment Programme (UNEP) definition, toxic substances are harmful substances and hazardous waste that include:

- Persistent, bio-accumulative and toxic substances (PBTs);
- Chemicals that are carcinogens or mutagens or that adversely affect the reproductive, endocrine, immune, or nervous systems;
- Chemicals that have immediate hazards (acutely toxic, explosives, corrosives);
- Chemicals of global concern such as persistent organic pollutants (POPs), greenhouse gases and ozone-depleting substances (ODS);
- Healthcare waste;
- E- waste.

Candriam acknowledges that toxic substances are harmful to the environment and human health. Due to the wide variety of toxic substances used in company activities, Candriam takes into account their use and the impact of the risks associated with their use at all stages of the ESG company analysis process.

In the business model analysis of the ESG process, company activity exposure to toxic substances is assessed in three of the five key sustainable challenges analysed: Climate Change, Resource & Waste, and Health

& Wellness.

Businesses having a negative impact on Climate Change because of the emission of carbon – a greenhouse gas – are found across all sectors and are given a negative score.

Unlike Climate Change, pollution generated by the exploitation of natural resources is more sector-specific: businesses releasing various pollutants into the atmosphere, the soil, and the aquifer are more often penalised in sensitive sectors such as energy including, for instance, Shale Gas or Utilities.

The Healthy & Wellbeing sustainable challenge enables the listing and sanctioning of companies capable of contributing to an increase in the prevalence of disease because of the nature of their operations. Some companies in the Metal & Mining sector are particularly at risk regarding the extraction of toxic substances like Mercury or Chromium, which leads to serious health damage, and are consequently given a negative score in Healthy & Wellbeing.

In the stakeholder analysis of Candriam's proprietary ESG framework, a company's ability to manage its impact on the environment and on human health in its long-term strategy is evaluated. Candriam addresses the release of toxic substances into the environment through nitrates or heavy metal pollution in water as well as atmospheric emissions (including VOCs, So<sub>2</sub> and No<sub>x</sub>) and also through the disposal of hazardous waste. As a result, companies subject to the use and release of toxic substances are analysed according to their capacity to implement quality management focusing on this issue.

The energy sector, for example, faces toxic particle emissions such as SO<sub>x</sub>, NO<sub>x</sub>, VOCs and benzene, arising from the refining and chemical manufacturing processes. Companies involved in these activities are assessed according to their ability to mitigate these atmospheric emissions.

The impact on human health is addressed at the stage involving the analysis of product safety, when Candriam looks at the prevention or removal of serious threats to public health and safety deriving from the consumption/use or disposal of the sold product, e.g., Candriam identifies and negatively rates companies in the Chemicals sector whose revenues are derived from chemicals of concern such as bisphenol A, phthalates or fluorocarbons.

When performing a norms-based analysis of the company, Candriam filters out companies that have significantly and repeatedly breached environment-related principles of the United Nation's Global Compact, through, among others, the release of toxic substances. Candriam excludes companies having significantly and repeatedly been involved in:

- mis-management of toxic chemicals;
- mis-management of hazardous and radioactive waste;
- severe pollution of the air, water and soil;
- severe destruction of biodiversity.

### **Candriam Threshold Exclusion Level**

Candriam addresses the risk related to the release of toxic substances at every stage of a company's ESG assessment as well in the Norms-based analysis used for ESG investments.

## 7.7. Water Use

Candriam acknowledges that environmental and community issues linked to heavy use of water should be considered in the sustainability analysis of companies. We assess a company's water intensity and water management systems as part of our ESG approach. As agriculture and intensive farming are responsible for 70% of the world's water consumption, we pay extra attention to water risks in agricultural supply chains. However, some industrial processes are also water intensive and require a strong water management approach.

As a commonly used resource across most economic sectors, water and its use are analysed similarly to GHG intensity emissions: we analyse both sector and company water intensity as well as a company's water use management systems and its water use related-risks. Companies with high water risk and poor water management systems score negatively in our proprietary ESG analytical framework, and other sustainable investment strategies we may develop.

When we identify water-intensive business activities, we also engage with companies to promote more sustainable business management strategies and improve water disclosure.

In the Norms-based analysis, particular attention is given to possible breaches of the environmental and human rights principles of the Global Compact. This includes activities of companies exposed to heavy water use in water scarce areas, conflict with local communities on water access as well as water pollution.

## 8. Appendix

### Controversial Armaments - Methodology and Data Providers

In order to identify the exposure of issuers to controversial weapons, Candriam closely collaborates with two external providers, ISS Ethix and MSCI ESG.

**ISS Ethix** provides Candriam with company exposure information for the majority of controversial weapons (anti-personnel Landmines, Cluster Bombs, Depleted Uranium, White Phosphorus), excluding chemical and biological weapons. ISS Ethix classifies company exposure into three color-coded categories:

Signal	Description
Red	<ul style="list-style-type: none"> <li>• Verified involvement</li> </ul>
Amber	<ul style="list-style-type: none"> <li>• Strong indications of involvement</li> <li>• Fragmentary information about involvement</li> </ul>
Green	<ul style="list-style-type: none"> <li>• Past involvement</li> <li>• Involvement beyond the scope of applicable definitions</li> <li>• No involvement</li> </ul>

Candriam automatically excludes all companies flagged as “Amber” and ‘Red’ by ISS Ethix. In the event of any category changes for companies which may have material impacts on our portfolios, the ESG Team will conduct additional analysis to gain further insight on the rating change. Subsequent to their analysis, the ESG Team will determine if the new rating decision should be applied across the firm’s portfolios. The controversial weapons exclusion list is updated twice a year.

In terms of chemicals and biological weapons, Candriam uses the information provided by **MSCI ESG** for its exclusion filters. More specifically, Candriam takes the data provided by MSCI ESG, % revenues of companies in these activities, and applies it against the applicable thresholds.

If new exposure is identified for companies with material impacts on portfolios, the ESG Team may conduct additional analysis on the company before implementing the exclusion.





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