The Quality Growth Investor

# COMGEST PLUS FUNDS EXCLUSION POLICIES

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# CONTENTS

*The present document details the exclusion policies that apply to Comgest's Plus funds. Those exclusion policies extend and complement existing group exclusion policies, such as the ones on **controversial weapons** and on **tobacco** which are detailed in the Comgest Responsible Investment policy.*

## 1. FOSSIL-FUELS

### 1.1 Coal and unconventional oil & gas extraction

Coal and unconventional oil & gas can pose unacceptable environmental, climate and societal risks. Investments in these industries could retard investments in transitional and renewable energy sources and thus should not be part of a socially responsible financial product.

For this reason, Comgest's Plus funds ("Plus funds") include, in their ESG due diligence process, the monitoring and evaluation of companies involved in coal extraction and distribution or unconventional oil & gas extraction or providing dedicated equipment or services.

The Plus funds shall not invest in companies that derive any of their revenue from thermal coal extraction and distribution or unconventional oil & gas extraction or providing dedicated equipment or services.

Indeed, thermal coal, the type of coal used for power and heat generation, has the highest CO2 emissions in relation to energy content. While the global demand for reliable and affordable energy is expected to rise, there is widespread scientific consensus that a stringent phase-out of thermal coal is required if global warming is to be kept well below two degrees above pre-industrial levels in line with the Paris Agreement.

In this exclusion policy, Comgest considers, among others, any evidence of producing gas using the method of hydraulic fracking.

To implement its policy, Comgest uses data provided by MSCI ESG Research. After applying the criteria set out above, Comgest draws up a list of companies involved in coal extraction and distribution and unconventional oil & gas extraction or providing dedicated equipment or services. This list is updated on a quarterly basis.

### 1.2 Conventional oil & gas

The Plus funds exclude not only unconventional oil & gas and coal, but conventional oil & gas as well.

This category of conventional oil & gas includes:

- **Oil reserves explicitly reported as Conventional Oil reserves** and extracted using conventional extraction methods such as vertical drilling, etc.
- **Oil reserves in conventional reservoirs** and extracted using conventional extraction methods such as vertical drilling, etc.
- **Natural gas liquids** (NGLs) and condensates from conventional reservoirs.
- **Natural Gas reserves explicitly reported as Conventional Gas or Conventional Natural Gas reserves** and extracted using conventional extraction methods such as vertical drilling, etc.
- **Natural Gas reserves in conventional reservoirs** and extracted using conventional extraction methods such as vertical drilling, etc.
- **Liquefied Natural Gas** (LNG) or **Compressed Natural Gas** (CNG) from conventional reservoirs (if reported as reserves by the company).
- **Oil & gas trading**
- **Oil & gas refining, transportation or providing dedicated equipment or services**

The scope of exclusion includes companies with reported fossil fuel reserves, meaning with any volume of reserves of either Oil, Natural Gas and Coal. Comgest also identifies companies, regardless of their industries, with evidence of owning fossil fuel reserves used most likely for energy applications.

To implement its policy, Comgest uses data provided by MSCI ESG Research. MSCI ESG Research has a dedicated team of analysts responsible for identifying companies with fossil fuel reserves and revenue. Sources used include company publications (e.g. annual reports, 10K, 20F) and other public records (such as sustainability reports). Fossil fuel reserves data is updated annually.

After applying the criteria set out above, Comgest draws up a list of companies involved in conventional oil & gas. This list is updated on a quarterly basis.

## 2. WEAPONS

### 2.1 Conventional Weapons

It could be argued that weapons that are indiscriminate or do disproportionate harm cannot be present in a sustainable fund. The commercial arms industry poses too high a risk for a sustainable and peaceful society and should not be supported in a responsible financial product. Given the difficulty to classify some activities into what is harmful or not and due to the opacity of companies on the topic, the Plus funds use a threshold of 5% or more of revenue linked to production and/or distribution of conventional weapons and their tailor-made components to decide which companies should be excluded.

In order to identify companies that manufacture conventional weapons and weapons systems, Comgest defines a conventional weapon as “a weapon of warfare which is not nuclear, chemical, or biological in nature”. Exclusions already apply to controversial and unconventional weapons including nuclear, chemical and biological weapons at Comgest group level as further described in our Responsible Investment Policy available at www.comgest.com.

Conventional weapons include but are not limited to:

- Conventional projectile-firing weapons, such as firearms, machine guns, rifles, shotguns, grenade launchers, and other similar weapons used by the military;
- Tactical, short, and long-range missiles, warheads, missile and rocket launchers;
- Ammunition, grenades, explosive ordnance, mortars;
- Bombers, fighters, combat helicopters, and attack aircraft;
- Warships, battleships, submarines, battle cruisers, corvettes, landing craft, destroyers, frigates, mine hunters, minesweepers, flotillas, and river craft;
- Armoured land vehicles such as tactical and assault tanks, main battle tanks, infantry fighting vehicles, howitzers, and torpedoes; and
- UAVs, drones, unmanned ground vehicles, unmanned underwater or surface vehicles, and other robotics used by the military for striking at enemy targets or locations (armed).

In the sole case of civilian firearms, Comgest does not apply any revenue threshold (i.e. the revenue threshold is 0%). All companies involved in the manufacturing or in the retail of civilian firearms are excluded.

To implement its policy, Comgest uses data provided by MSCI ESG Research. Using the last-year percent of revenue, or maximum estimated percent, a company has derived from weapons systems, components, and support systems and services, Comgest draws up a list of companies involved in producing conventional weapons. This list is updated on a quarterly basis.

### 2.2 Nuclear Weapons

The Plus funds do not financially support companies involved in nuclear weapons. We apply a 0% revenue threshold for companies which manufacture or sell nuclear weapons or tailor-made components of nuclear weapons, including nuclear fissile materials and nuclear systems. To implement this criterion in the nuclear weapons exclusion policy of the Plus funds, Comgest uses data provided by MSCI ESG Research.  This list is updated on a quarterly basis.

## 3. NUCLEAR ENERGY AND URANIUM MINING

While nuclear energy is considered to be anywhere from ten times to fifty times more carbon efficient than fossil fuel sources, it is also a source of concern for various other matters. In order to produce the rods used in nuclear reactors, uranium or plutonium must be mined, which can be as bad as mining coal or fracking for oil. Refinement is also a costly process. But the biggest issue is the waste. Nuclear reactors cost billions to build and once they cannot be used anymore, it costs billions to take them apart. All the materials that meet radioactive materials cannot be recycled, so they must be stored somewhere safe. This includes the used uranium/ plutonium rods, which will not decay for thousands of years. Burying this waste is costly and risks include contaminating groundwater, escaping containment or being stolen for malicious purposes.

For those reasons, the Plus funds do not invest in companies involved in nuclear energy or in nuclear mining.

This includes companies that own or operate nuclear power plants and companies that provide essential products and/or services to active nuclear power plants, including but not limited to:

- Companies that own or operate nuclear power plants
- Companies that build or design nuclear power plants or nuclear power technology, which includes:
    - suppliers of key components for nuclear power plants, or essential services for the design, construction, engineering, or operation of nuclear power plants;
    - producers and developers of nuclear fuel products, nuclear reactors, nuclear control rods, and other nuclear power-specific equipment, etc.;
    - engineered containments, including engineering and construction of structures for beyond-design basis facilities.
- Companies that manufacture or supply essential components and equipment, which includes:
    - instrumentation & control (I&C) equipment and systems to nuclear power plants. These systems are essential in monitoring and maintaining the operations of nuclear power plants as they provide real-time measurements, sensors, control, and regulation of the operations of the plant;
    - mechanical and remote handling systems, such as robot technologies and equipment used in the safe and efficient handling of nuclear fuel or radioactive materials;
    - companies that provide repair and maintenance services to nuclear power plants, which includes non-destructive testing of key nuclear power equipment, like reactors, and site testing;
    - companies that provide consulting and license renewal services for the nuclear industry, including companies that provide commercial grade dedication. Commercial grade dedication is an acceptance process that allows a commercial-grade product to be used in nuclear power plants. The attestations indicate that a product has passed stringent nuclear quality standards;
    - companies involved in uranium mining, uranium conversion, uranium enrichment for nuclear power, nuclear fuel assembly, etc;
    - companies that provide distribution and handling services of nuclear fuel, including those that provide spent fuel handling and processing and spent fuel storage services.
- Companies that own or operate active uranium mines.

Given the difficulty to classify some activities into what nuclear activity is or not (potential or actual production) and due to the opacity of companies on their actual exposure as manufacturers of components, the Plus funds use a threshold of 5% or more of its revenue from business activities linked to nuclear energy and uranium mining to decide which companies should be excluded or not.

To implement its policy, Comgest uses data provided by MSCI ESG Research. Using the last-year percent of revenue, or maximum estimated percent, a company has derived from all the above-mentioned activities around nuclear energy and uranium mining. Comgest draws up a list of companies involved in nuclear energy and uranium mining. This list is updated on a quarterly basis.

## 4. THERMAL COAL-BASED POWER GENERATION AND OIL & GAS POWER GENERATION

The energy sector needs to go through a profound transformation towards less carbon-intensive and renewable energies. Of all energy sources used to produce energy, the most carbon emitting one is thermal coal. As such, thermal coal for power generation is subject to an exclusion policy in the Plus funds. Similarly, oil & gas-based power generation plants raise some issues.

The Plus funds shall not invest in companies that derive any of their revenue from coal-based power generation or oil & gas power generation.

To implement its policy, Comgest uses data provided by MSCI ESG Research. Using the last-year percent of revenue, or maximum estimated percent, an electric utility has derived from thermal coal-based capacity, and from oil & gas capacity, Comgest draws up a list of companies involved in producing electricity from carbon-heavy materials. This list is updated on a quarterly basis.

## 5. HUMAN RIGHTS VIOLATIONS AND THE UN GLOBAL COMPACT

Companies of all sectors and in all countries can profoundly impact the human rights of employees, consumers, and communities. These impacts may be positive, such as increasing access to employment or improving public services, or negative, such as polluting the environment, underpaying workers, or evicting communities. The responsibility of companies and their shareholders in managing these adverse impacts have been a recurrent theme of debate. In assessing human rights violations, we look at the company's performance in the following areas:

**Human rights and labour rights**: Companies have the responsibility to respect the freedoms and rights of humans as enshrined in the Universal Declaration of Human Rights, the Guiding Principles on Business and Human Rights and the core standards of the International Labour Organization (ILO). Comgest expects and encourages companies to disclose an explicit policy to observe human rights for their own operations as well as for their supply chains, particularly if they are in a country or sector with higher exposure to these risks. Child and forced labour are unacceptable and employees have a right to reasonable working hours and fair wages without any gender distinction. All companies should strive for diversity within their workforce and management teams. Comgest believes that everyone is entitled to equal opportunities, the freedom of association and the protection against any form of discrimination.

**Human capital**: The company's focus on attracting, developing and retaining talent directly through employees, or indirectly through suppliers and the contribution of talent management to the success of businesses.

**Employee health and safety**: Good employment conditions and the promotion of employee satisfaction is important to promote a safe and healthy workplace. Companies should actively monitor health and safety through management systems, within their own operations and their supply chains. Companies are also expected to provide a robust whistleblowing mechanism which allows employees and third parties to report on violations of workplace rules on health, safety, employee welfare or corruption.

We take these different factors into account both in regard to the companies' current position on these points as well as how they have been progressing to achieve these if not already in place.

Among other references, Comgest uses the UN Global Compact as well as the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises (as far as relevant) and the ILO Conventions to identify and assess the Responsible conduct of businesses and potential human rights violations. The 10 principles of the UN Global Compact cover human rights, labour rights, the environment and corruption. They provide a good framework for companies to commit to and for investors to measure progresses.

To help implement its policy, Comgest uses data provided by MSCI ESG Research. Using its ESG Controversy services in combination with its Global Norm methodology, MSCI ESG Research assesses the track-record of companies, and their potential breach of the UN Global Compact and violations of human rights in general, by reviewing a wide variety of news. News are monitored in several ways including the tracking of major global newspapers, regional and national publications, NGOs, regulators and other government agencies on a continuous basis. In addition to English language sources, several non-English sources are monitored primarily in Spanish, French, Portuguese, Korean, Mandarin, and Japanese. Major new controversies and significant developments to existing controversies are processed by MSCI within 3 business days of their discovery (typically the day they are published in major news media). Access to online news platforms such as Lexis-Nexis allows the MSCI ESG Research analyst team to conduct a weekly and monthly roundup of news from an array of reputable sources.

Using the MSCI ESG Research, Comgest draws up an exclusion list of companies involved in severe and / or systematic violations of the frameworks set out above. This list is updated on a quarterly basis.

## 6. ADDITIONAL POLICIES

### 6.1 Principal Adverse Impacts (PAIs)

Following the implementation of EU's Sustainable Finance Disclosure Regulation (SFDR), Comgest will consider principal adverse impacts of investment decisions on sustainability factors.

Please refer to our Principal Adverse Sustainability Impacts Statement.[1]

### 6.2 Water use

We acknowledge water is one of the most precious resources on our planet. And we also know water is used in large quantities in a number of activities. As responsible investors having a long-term mindset, we assess the strategy of investee companies with regards to the use of water when water is widely used in their activities or along their supply chains. We generally expect measures are in place to reduce water consumption, recycle and/or re-use water. We also expect water consumption reduction targets (including a timeline) and education provided to suppliers regarding water use.

### 6.3 Biodiversity

Biodiversity is what has enabled humanity to prosper, yet in our prosperity we are rapidly destroying it. Biodiversity relates not only to the diversity of species, but also diversity within species, diversity of ecosystems, and the interactions between them. It is closely interlinked with climate change, and the causality goes both ways. For example, deforestation in the Amazon Forest, which accounts for 10% of the planet's biodiversity, releases CO2 in the atmosphere. This creates a greenhouse warming effect and prompts further deforestation through droughts and wildfires.

As asset managers, Comgest both benefits from biodiversity and impacts it, through the companies we invest in. We therefore have a share of responsibility in preserving this natural capital. We should therefore assess and limit both the biodiversity risks and impacts of our investments and prioritize the sectors and the geographies for which they are the most important.

We commit to integrate biodiversity risks and impacts into our ESG analysis, and therefore in our investment process. When assessing biodiversity impacts, we refer to the 5 drivers of biodiversity and ecosystem change from IPBES[2] (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services), i.e. land-use change, climate change, pollution, natural resource use and exploitation, and invasive species. At this stage, we may use metrics such as deforestation, air, water and land pollution, greenhouse gas emissions, and any other useful disclosed information to assess biodiversity impact. Notably, we use the environmental footprint methodology developed by Trucost and other metrics developed by MSCI.

We commit to engage with companies to reduce their negative impact and increase their level of disclosure on biodiversity, in priority with those facing the highest risk and those with the highest impact related to biodiversity.

### 6.4 Pollution and waste

A part of the output of economic activity is undesirable; it is called waste. When it enters the natural environment, waste becomes pollution. As our economic activity has grown, so have these by-products, exponentially. A major impact of waste on nature is its harm to biodiversity. When it is toxic, it can kill all life forms in an ecosystem, or it can cause one species to become completely dominant over others.

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[1] https://bit.ly/3MrpYYS

[2] https://bit.ly/3OtZ4S5

Being one of the most-used materials in our economy, plastic represents a significant portion of the waste we produce, and our impact on the environment. As investors, we bear a part of the responsibility of limiting the amount of waste produced and of pollution generated by our investee companies. We can favour companies which have the most sustainable approach, for example those having a recycling strategy designed to turns waste into a useful resource, or encourage them to adopt best practices in this area.

We commit to integrate risks and impacts related to waste and pollution into our ESG analysis, and therefore in our investment process. We may use metrics such as recycling rate, single-use plastic use, water and land pollution, greenhouse gas emissions, and any other useful disclosed information.

We commit to engage with companies to increase their level of disclosure on waste, and to reduce their adverse impact.

### 6.5 Diversity

At Comgest, we think the culture of a company and its board of directors can play a key role in the success or failure of the company. A poorly diversified workforce can create a herd mentality where the lack of variety among employees drives the corporate culture, and ultimately strategy, in a direction which ill-fits their environment. This phenomenon, and its consequences, are often exacerbated at higher levels of company hierarchy. Therefore, Comgest is in favour of a diverse board composition as cognitive diversity assists in identifying risk, enriching debate, decision making on complex topics and building collective knowledge. Comgest does not restrict the concept of board diversity to gender diversity. It believes that a board should be composed of directors with different backgrounds, skills, nationalities, ethnicities, ages, tenure etc. as demanded by the company's business strategy and objectives.

Humanity's history has created some important inequalities between people of different ethnicities, origins, genders, sexual orientations, and other characteristics that define a person's identity. These inequalities persist today in many facets of our society. We are morally opposed to these social injustices.

We believe companies can benefit from a diversified workforce. Companies should create an inclusive environment where individuals can feel comfortable being their true selves and expressing themselves.

These important issues of diversity and inclusion are incorporated in our ESG assessments of companies and therefore in our investment decisions, through the monitoring of specific metrics.

We commit to engage with companies to improve their disclosure and their performance on diversity and inclusion.

### 6.6 Taxation

In our view the effective tax rate of a company is a good proxy (when it is compared with the statutory tax rate) to gauge the contribution of the company to society. Indeed, when companies pay their fair share to society (i.e., when they do not adopt irresponsible aggressive tax optimization strategies), they positively contribute to the financing of pensions and health insurance systems, to public transportation infrastructure, etc. This responsible behaviour allows companies to sustainably keep their social license to operate. This is why, with regards to tax information, we expect transparency from companies to allow us to form our own view of their tax strategy. Notably we think country-by-country reporting is a best-practice and we expect companies to report on tax-related risks.

To ensure our investee companies comply with their tax obligations, we assess the difference between their effective tax rate and the weighted average of statutory rates or 'tax gap'. We assess our investee companies' disclosure on how they address tax-related risks, including information on overarching policies and governance of the issue. We also take into consideration publicly reported cases of inappropriate tax practices within our portfolio companies.

### 6.7 Oppressive regimes and death penalty

The Plus funds, especially funds investing in emerging markets , may invest in state-owned companies (SOEs). These SOEs may be registered and operate in countries that can be considered as oppressive regimes, that may be under sanctions, and where death penalty may be used. In emerging markets, it is difficult to avoid these important issues.

In our ESG assessment, we particularly pay attention to the links between the SOEs and the state. We assess the quality of their corporate governance and identify related risks. The assessment of these issues results in the ESG quality level (cf. Comgest Responsible Investment Policy[3]). This ESG quality level will have an impact on the discount rate in our valuation model.

In addition, we create a list of prohibited and sensitive countries, based on international sanction lists, high risk countries with strategic deficiencies in their anti-money laundering and countering terrorist financing regimes and non-cooperative jurisdictions for tax purposes. Investments in prohibited countries are strictly forbidden. Investments in sensitive countries require a formal agreement from the Money Laundering Reporting Officer (MLRO) before any purchase of stock.

### 6.8 Forward contracts on agricultural commodities

Comgest does not invest in commodities and does not make use of financial instruments related to agricultural commodities.

## 7. MANAGING EXCLUSION LISTS

Companies on the exclusion lists are blocked by our trading system and, therefore, cannot be purchased. If a company in which Comgest is already invested is added to an exclusion list, further purchases will be immediately blocked and the existing position will be sold out of diligently in the best interest of our clients.

To help implement its exclusion policies, Comgest primarily uses data provided by MSCI ESG Research and Sustainalytics. Comgest may supplement this with data from other external providers and with its own research on the companies and their activities, for example, where Comgest finds that data used by the external service provider is not up to date or where Comgest through its in-depth and qualitative research does not agree with the assessment provided by the external data provider. The exclusion lists and any exemptions are reviewed on a semi-annual basis by the Responsible Investment Committee.

[3] https://bit.ly/38oNFCx

# CONTACT DETAILS

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For background on the members of Comgest's ESG Team, please see the section "Our ESG Team" under "Our ESG Story"[4] on our website, Comgest.com.

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[4] https://bit.ly/3vbX8FX