Policy Statement and Exclusions Policy for the KBI Water Fund

For the KBI Water Fund, the following exclusions apply *in addition to* the standard house exclusion list. For the avoidance of doubt, these exclusions are not mandatory for other funds/portfolios of the Water strategy.

Excluded companies:

- Companies which derive more than 10% of their revenues from the production of weapons or tailor-made components thereof. Weapons are defined as products or basic components of products which have been designed to injure/kill, and which are used exclusively for military purposes. Tailor-made components are components which are developed primarily in order to be integrated into a weapons system.
- Companies that manufacture or sell nuclear weapons or tailor-made components of nuclear weapons to countries that have not signed the Nuclear Non-Proliferation Treaty. *See previous bullet for definition of tailor-made components.*
- Companies that derive more than 10% of their revenues from the production of tobacco, products that contain tobacco or the wholesale trading of these products. From 2022 onwards, the threshold will be set at max 5%. From 2025 onwards, the threshold will be zero.
- Companies that derive more than 10% of their revenue from thermal coal extraction or unconventional oil & gas extraction. Unconventional oil and gas is defined as the extraction of tar/oil sands, shale oil, shale gas and Arctic drilling. The threshold will fall to 5% in 2022 and zero from 2025. Zero is to be understood as best effort minimal, non-significant exposure, subject to data availability.
- Companies that have expansion plans for coal extraction and/or unconventional oil and gas extraction. Expansion plans are defined as where the projected increase of revenue from the activity is greater than the projected growth of total revenue
- Oil and gas extraction companies that derive less than 40% of their revenue from activities related to natural gas extraction or renewable energy sources
- Electric utilities with a carbon intensity that is not aligned with a below 2 degrees scenario, meaning a gCO2/kWh value of no more than 429 in 2019, 408 in 2020, 393 in 2021, 374 in 2022, 354 in 2023, 335 in 2024, and 315 in 2025. Where this data is not available, then the following exclusions apply instead (depending on data availability, these can be measured by installed energy production capacity, actual energy production, or revenue from generating power):
    - electricity utilities of which more than 10% of the power production is based on coal
    - electricity utilities of which more than 30% of the power production is based on oil & gas
    - electricity utilities of which more than 30% of the power production is based on nuclear sources
- Electric utilities with expansion plans that would increase their negative impact or that go contrary to below 2 degrees scenario alignment. (Transition Pathway Initiative data can be used for this purpose).
- Electric utilities constructing additional coal-based or nuclear-based power production installations.

Policy statement on certain Responsible Investing issues:

Nuclear Energy: Taking into account both concerns about the true financial viability of nuclear power (when disposal costs are taken into account) and the scope for catastrophic negative impact in the event of a safety failure, nuclear power generation is not seen as having a positive part to play in the transition to a carbon-free or low carbon society and economy. In our analysis of the ESG credentials of investee companies, which directly influences our investment decisions on such companies, material involvement with nuclear power will be treated as a negative factor.

Biological diversity is defined by the United Nations as the variability among living organisms from all sources, including terrestrial, marine and other aquatic ecosystems ad the ecological complexes of which they are part; this includes genetic diversity within species, between species and of ecosystems. Biodiversity is clearly declining worldwide, caused in large part by human actions, leading to the wide acceptance of the need for global coordination of action. Investments in companies working to reduce water pollution and increase the quality of clean water will often help to reduce the decline of biodiversity in marine ecological complexes, and involvement in this type of activity will be treated as a positive factor in our analysis of the ESG credentials of investee companies, which directly influences our investment decisions on such companies.

Taxation: we regard the proper payment of taxation as being a material governance issue, and breach of taxation obligations will be treated as a negative factor in our analysis of the ESG credentials of investee companies, which directly influences our investment decisions on such companies.

Water use: only companies which are providing solutions to the global shortage of clean water, and waste water services are eligible for investment by the fund. Additionally, we consider a number of environmental issues, including water usage, in our analysis of the ESG credentials of investee companies (and this analysis directly influences our investment decisions on such companies).

Oppressive regimes: we do not invest in government-issued fixed income securities so the question of investing, or not, in bonds issued by governments which are oppressive regimes does not arise. In the case of *companies* which are domiciled in countries which have oppressive regimes, we will not, in general, regard this as a factor which would exclude investment in such companies, unless the United Nations or European Union has implemented formal sanctions against such investments.

Death penalty: the death penalty remains legal in a number of countries and for as long as it continues to be lawful in those countries, and is not prohibited by international law, we will not exclude investments in companies which operate in countries which continue to have, and use, the death penalty.

Forward contracts on agricultural commodities: this fund invests only in equities, and the firm as a whole does not invest directly in forward contracts on commodities, whether agricultural or otherwise. We do however recognise that trading in agricultural commodities, or futures or forwards, is sometimes carried out for risk management purposes (for example allowing farmers to have certainty in advance on the price they can achieve for their crops), and sometimes for unproductive speculative reasons, and even in some circumstances in an attempt to deliberately drive prices up or down by market manipulation. We do not at this time believe that an outright ban on trading in agricultural commodity forwards is necessary, but we do support measures to reduce or eliminate potential market manipulation.

<u>Sources of information:</u>

It should be noted that as this product may only invest in *water* companies, the likelihood of any investee companies being involved in many of the excluded activities is very low.

However, to ensure a rigorous process is in place to exclude companies in breach of the criteria/screens set out in this document, we use a variety of external sources as well, of course, as our own detailed knowledge of the relatively small number of companies in which we invest.

At a <u>firm</u> level, we exclude investments in companies involved with controversial weapons (including landmines, cluster bombs, chemical and biological weapons), companies that are in serious and ongoing breach of the ten Principles of the Global Compact, and companies that are involved in large-scale coal extraction or generation. These companies are identified by our parent company, Amundi, which uses the services of external specialised research companies for this purpose. The final decision in each case is made by Amundi's ESG Ratings Committee, of which KBIGI's Head of Responsible Investing is a member.

For this specific product, there are a number of additional screens as outlined above. We use the services of MSCI ESG Research to identify companies in breach of these screens, generally using the criteria and screens set out in the "*Febelfin Quality Standard – A Practical Guide to the Avoiding*

Harm Requirements" publication of MSCI ESG Research Inc. For some purposes where MSCI ESG Research data is not available, we use data from the Transition Pathway Initiative and/or the Paris Agreement Transition Capital Transition Assessment tool (developed by the PRI and the Two Degree Investing Initiative). We will continue to monitor data sources and availability because it is likely that coverage and data availability will significantly improve over time.

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