AXIOM
ALTERNATIVE INVESTMENTS

Thematic and Sectoral exclusions

Axiom Alternative Investments

0 - INTRODUCTION

This handbook is used within our Responsible Investment approach as a complementary tool to formalize our thematic and sectoral policies as well as the related investment restrictions on issuers involved in controversial activities and products that go against our values and our minimum requirements in terms of sustainable development. All these policies are used to define our exclusion lists.

This handbook is divided in two sections:

i. the **General thematic and Sectoral policies** section, which is used to define the issuers in our general exclusions list. This section equally explains our view on the relevance of such policies for financial sector issuers and the tools used to monitor compliance with the policies; and

ii. the **Sustainable Financial Fund range policies** section defines the additional and more stringent sectoral policies applied to our Sustainable Financial Institutions funds and related exclusion list.

1 - GENERAL THEMATIC AND SECTORAL POLICIES

Axiom AI believes that a holistic approach to sustainable development should not only consider the ESG risks that a company faces, but also the negative impact that companies can cause in the environment and society. In this context Axiom AI has defined a set of thematic and sectoral policies that seek to guide investment decision making. The policies cover twelve sectors or themes: United nations global compact violations, controversial weapons, tobacco, coal power and mining, conventional and unconventional oil & gas, biodiversity, water, alcohol, cannabis, adult entertainment, gambling, and forward contracts on agricultural commodities.

These policies are equally used to define our exclusions lists, which build on the partial or total exclusions set in them. Investments in securities issued by firms in our exclusion lists are prohibited. If a name is added to the exclusion list and the securities are already in the portfolios, the portfolio manager must divest the securities, in a way that is not damaging to our clients' capital. The portfolio manager has a maximum of one month to sell the securities.

The policies are applicable to all Axiom long funds, with the exception of index-based funds, the composition of which cannot be controlled by the company. The policies do not apply to indirect investments: we do not exclude a financial institution because it lends to an excluded company.

The policies are based on those established by recognized asset owners, such as the Norwegian government's pension fund and the PGGM. The application of the policies and the exclusion list is monitored on a regular basis by the ESG committee, and at least annually.

1.1 - Violations of United Nations Global Compact (UNGC) Principles

Axiom AI believes that the companies our funds invest in should meet the standards and principles of the UNGC. All significant violations of the UNGC principles should be addressed.

Axiom AI excludes companies deemed to be in breach of the UN Global Compact Principles on human rights, labour, environment, and corruption. This is done following the exclusions applied by the Norwegian Government Pension fund, based on a recommendation from the Council on Ethics of Norway, and using our own internal controversies screening tools. The exclusions guidelines of the Norwegian fund state that:

"Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for:

i. serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour;

ii. serious violations of the rights of individuals in situations of war or conflict;
iii. severe environmental damage;
iv. acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions;
v. gross corruption;
vi. other particularly serious violations of fundamental ethical norms."

When violations of the UNGC principles are very serious and verified as such, and if they are related to a financial institution, they generally appear in our controversies screening tool and the ESG committee needs to assess if the related investments become unacceptable according to our ESG values. If the ESG committee decides that the companies are in breach, they are excluded until the violations are resolved.

Focusing specifically on financial institutions, we point out that the ten principles of the UNGC are of different relevance:

Human Rights [• Principle 1: businesses should support and respect the protection of internationally proclaimed human rights. / • Principle 2: make sure that they are not complicit in human rights abuses.]

Financial institutions are very unlikely to directly breach internationally proclaimed human rights. Therefore, our focus is on indirect breaches, i.e., breaches for which a client of the financial institution is responsible and of which the institution has knowledge or should have had knowledge. An example is the Epstein / Deutsche Bank relationship which is described at length in US court documents. Those situations will be included in our controversies database.

Labour [• Principle 3: businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. • Principle 4: the elimination of all forms of forced and compulsory labour. • Principle 5: the effective abolition of child labour. • Principle 6: the elimination of discrimination in respect of employment and occupation.]

We mostly invest in financial institutions based in the European Union, the United Kingdom and Switzerland. All those countries adhere to strict laws on collective bargaining, freedom of association, forced labour and child labour thus financial institutions are extremely unlikely to directly breach those rules. Therefore, we focus on possible indirect breaches, i.e., breaches committed by the clients of the institutions, which will normally be included in our controversies database.

In addition, anti-discrimination laws also exist in those countries, but their effective application is more difficult to monitor. We use public data on gender equality (board and management representation, pay, Bloomberg Gender Equality Index, childbirth support, etc.) to assess a firm's policies. It is however difficult to have more detailed statistics on other possible discriminations (such as those based on race, religion, sexual orientation, disability) as in some European countries corporates cannot gather those statistics because it is deemed illegal or it is severely restricted.

Environment [• Principle 7: businesses should support a precautionary approach to environmental challenges. • Principle 8: undertake initiatives to promote greater environmental responsibility. Principle 9: encourage the development and diffusion of environmentally friendly technologies.]

Our dedicated Environmental/Climate tool developed for financial institutions' assessment, the Axiom Climate Readiness Score (ACRS), addresses the main environmental issues these are facing, either via direct measurements (e.g. implied temperature rate) or via the analysis of sector policies (e.g. biodiversity)

Anti-Corruption [• Principle 10: businesses should work against corruption in all its forms, including extortion and bribery.]

Principle 10 is the most likely to be breached by companies in our investment universe. Reported cases of bribery are monitored in our controversies database.

1.2 - Controversial Weapons

A zero-tolerance principle is applied to controversial weapons. Companies involved in controversial weapons are excluded if they are involved in the i.) manufacturing of components of weapons intended solely for use in the production and that are essential for the functioning these weapons. These are components/services that are specifically designed to be used within, or in relation to, an arms system or weapon.; or ii. that supply products and/or services such as stockpiling and transferring, and sales for controversial weapons.

The types of controversial weapons considered are the following:

- Anti-Personnel Mines
- Biological and Chemical Weapons
- Blinding Laser Weapons and Undetectable Fragments
- Cluster Munitions
- Depleted Uranium
- Incendiary Weapons
- Nuclear Weapons

1.3 - Tobacco

All companies involved in tobacco production are excluded, regardless of the revenue share it represents for a company. The screening criteria is limited to tobacco products and does not include associated products such as filters and flavour additives.

The World Health Organisation (WHO) Framework Convention on Tobacco Control is the first international treaty negotiated at the initiative of the WHO in 2003 and signed by 181 parties covering more than 90% of the world's population. It aims to tackle some of the causes of the tobacco epidemic, including complex factors with cross-border effects, such as trade liberalisation and direct foreign investment, tobacco advertising, promotion and sponsorship and illicit trade in tobacco products. Tobacco is the deadliest modifiable risk factor contributing to non-communicational diseases with more than 7.2 million deaths per year and is projected to increase over the coming years[1].

As such, Axiom AI wants to continue to promote divestment from this sector. However, Axiom AI does not exclude a financial institution that provides lending to or invests in an excluded tobacco company.

1.4 - Coal power and mining

Axiom excludes coal mining companies and power producers which:

i. derive more than 30 per cent of their revenues from thermal coal;
ii. base 30 per cent or more of their capacity generation on thermal coal;
iii. produce more than 20 million tons of thermal coal per year; or
iv. has a power capacity of more than 10 000 MW from thermal coal.

Axiom AI does not exclude a financial institution that provides lending to a thermal coal mining company or invests in securities issued by such a company, however, those activities have an impact on the scoring of that bank or insurance company under the ACRS. In addition, the ACRS assesses coal policies of financial institutions in three sectors: Coal mining, power generation and Others (e.g. Transportation, trading…).

1.5 - Conventional and Unconventional oil & gas

Axiom AI recognizes the need for a transition allowing conventional oil and gas products to adapt to a low-carbon economy. That is why exclusions from direct investment in the sector apply only to oil & gas extraction companies that have not set decarbonization targets covering Scope 1, 2 and 3 emissions and that are not diversifying by investing in the renewable energy business. In the regular exclusion list updates, Axiom monitors that non-excluded companies are translating their commitments into concrete actions. Axiom funds may however invest in financial instruments issued by Oil & Gas

[1] https://www.who.int/news-room/fact-sheets/detail/noncommunicable-diseases

companies that are linked to sustainability factors, such as green or sustainable bonds.

As unconventional Oil & Gas techniques can have long-lasting negative impacts on the environment, our funds exclude any direct investments in companies with share oil, shale gas, oil sands, Arctic onshore/offshore, and deep-water exploration that do not meet the decarbonization target criteria above.

As in the case of Coal, Axiom AI does not exclude financial institutions that provide lending to or invest in securities issued by Oil & Gas companies not meeting the aforementioned thresholds, however, those activities have an impact on the scoring of that bank or insurance company under the ACRS. The ACRS equally looks at the scope of Oil & Gas sector policies implemented by the financial institutions we invest in. These policies include Shale, Arctic and Offshore Oil & Gas, tar sands, and others (Transportation, LNG…).

1.6 - Biodiversity

Since 1970, global extraction of biomass, fossil fuels, minerals, and metals increased sixfold. Urban area has doubled since 1992 and half of agricultural expansion (1980–2000) was into tropical forests. Fishing covers over half the ocean. Since 1980, plastic pollution increased tenfold. Over 80% of global wastewater is discharged into the environment without treatment, while 300–400 million tons of heavy metals, solvents, toxic sludge, and other waste~~s~~ is dumped into the world's water~~s~~ each year. Fertilizers enter coastal ecosystems, producing more than 400 'dead zones'[2] and affecting a total area of more than 245,000 km^2. Today, 75% of the terrestrial environment, 40% of the marine environment, and 50% of streams manifest severe impacts of degradation[3].

The main factor contributing to such degradation of biodiversity is human activity, either from individuals or companies. Investors are exposed to biodiversity risk through the companies they invest in. These companies can contribute to:

i. Increasing pollution: water and land pollution from waste e.g. plastics, pesticides, spills, etc.
ii. Over exploitation of land and oceans: deforestation, increasing industrialization of agriculture (e.g. monocultures), overfishing; and
iii. Loss of natural habitats

To understand the exposure to such risks our ESG rating considers a company's operations in areas of importance for biodiversity (e.g. Ramsar Wetlands, AZE sites) and their policies or commitments on biodiversity preservation.

Biodiversity is equally considered in our ACRS rating through the review of policies from financial institutions in 3 sectors that are highly exposed to biodiversity controversies: Palm Oil, Forestry/Wood Pulp and Agriculture.

1.7 - Water use

Water is an important resource in a wide range of production processes, which disruption can have a negative direct (e.g. electricity shortages) and indirect (e.g. supply chain disruption) impact to businesses, society and the wider economy. In some sectors (e.g. energy, materials, food and beverage) we invest in, it is therefore crucial to understand how resource-intensive companies are, as well as their actions and commitments to avoid potential risks associated with water shortages or restrictions. Our ESG rating considers the impact of water related incidents (e.g. operation interruptions, plant closures) on a company's financials, the percentage of sites in water-stressed areas, and water risks management practices.

In addition, the ACRS assesses the potential exposure of a financial institution to water risks by understanding their exposure to economic sectors highly dependent on natural capital as well as the related geographic exposure.

[2] an area of water (as in a lake or ocean) in which the level of dissolved oxygen is so depleted (as by the decay of an algal bloom) that most life cannot be sustained

[3] Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services 2019

1.8 - Forward contracts on commodities

Axiom AI does not directly invest in derivatives and exchange-traded funds based on food ('soft') commodities or that speculate on agricultural or marine commodities such as wheat, meat, sugar, dairy and fish. This applies to all portfolios including dedicated funds and third-party mandates unless the client gives different instructions. Our funds exclude forward agricultural contract investments from their investment universe.

1.9 - Oppressive regimes

We consider oppressive regimes as those associated with systematic human rights abuses, where there is an absence of the rule of law, lack of freedom of expression and movement. Through our ESG integration process we seek to understand whether companies operate or have supply chains in countries governed by oppressive regimes. In addition, we do not invest in sovereign debt from countries:

i. qualified as 'Not free' by the Freedom House[4]; and
ii. with less than 40/100 on the Transparency International Corruption Perception Index[5].

1.10 - Death penalty

We believe that companies and sovereign issuers should adhere to international norms and conventions with respect to human rights, including the death penalty. We screen companies that are involved in death penalty (e.g. substance providers) in a best effort basis not only because it can be ethically questionable, but also because of the potential reputational risks these companies can face and the associated high investment risk.

1.11 - Taxation

We believe taxation is a component of conduct risk or compliance risk, which is a key component of governance risk. This is the risk that a company does not respect its legal obligations, which can lead to direct or indirect financial losses. It includes such high-profile cases as tax fraud (for clients or for the company itself), money laundering, sanctions breach, etc. We treat taxation as we treat other major possible issues such as money laundering or mis-selling. Our approach to this risk involves three steps:

i. identification of the main sources of risk, based on previous cases, ongoing investigations, or prospective analysis;
ii. analysis of the legal environment, what it means in terms of financial risk, and the internal policies of the relevant institutions; and
iii. the assessment of the risk that each institution is facing. No complacency is possible: we are aware that this can range from very benign cases to outright bankruptcy.

All these elements are compiled in our controversies database. We also monitor the registration of entities in tax havens.

1.12 - Alcohol

The funds exclude all companies directly involved in alcohol (brewers, distillers, traders, liquor store owners and operators) as well as alcohol retailers who derive more than 10% of their revenues from the manufacture or sale of alcoholic products without having a Responsible Drinking policy. We expect companies involved in alcohol to have strict policies in place to restrict supply of alcohol to minors and to promote responsible drinking i.e. taking precautions with your drinking so that it does not harm yourself, your family, or society at large.

Axiom AI does not exclude a financial institution that provides lending to or that invests in an alcohol producer, supplier or retailer.

[4] https://freedomhouse.org/countries/freedom-world/scores
[5] https://www.transparency.org/en/cpi/2020

1.13 - Gambling

The funds exclude from their investment universe companies that generate 5% or more of their revenues from owning and/or operating gambling establishments (e.g. casinos, race tracks, online gambling), manufacturing specialized equipment used exclusively for gambling (e.g. slot machines, roulette wheels), and/or supporting products and services supplied to gambling operations.

Axiom AI does not exclude a financial institution that provides lending to or invests in the gambling industry. However, these types of financings are generally restrained by financial institutions through the application of dedicated policies. We believe that if not restrained by the financial institution policies in place, these financings would appear under our different screening filters such as our controversies database.

1.14 - Cannabis

At Axiom we recognize that cannabis production poses several serious ESG risks[6]. Indoor cannabis is energy intensive, while outdoor cultivation is related to soil and water pollution risks and requires high water consumption. The industry is exposed to social risks related to the health of cannabis users and producers due to pesticides. Moreover, cannabis production is dependent on changes in regulations. Finally, the cannabis industry is often linked to unethical business practices. That is why we forbid all direct investments in any company that is generating more than 5% of its revenues from production of recreational cannabis and companies that generate 10% or more of their revenues from retail sales of recreational cannabis.

1.15 - Adult Entertainment

We do not directly invest in companies that generate 5% or more of their revenues from the production (e.g. online, TV), operation, and/or distribution (e.g. pay-per-view adult channels) of adult entertainment.

This exclusion does not apply to indirect investments: we do not exclude a financial institution because it lends to or invests in an excluded company. However, these types of financings are generally restrained at the bank/insurance company level by the application of dedicated policies or otherwise appear under our different screening filters such as our controversies database.

1.16 - Policy regarding countries

We believe governments have a key role to play in the achievement of the Sustainable Development goals. We therefore limit sovereign debt investments to all countries that are in the 1st quartile of the UN SDG Country Index[7].

1.17 - Gender equality and diversity

Research shows a positive correlation between profitability and gender and ethnic diversity on executive teams[8]. The same holds true for boards' gender diversity. Wiley et al. (2018) find that this positive correlation increases when there is at least a critical mass of 30% of woman on a corporate board. That critical mass is said to foster a favorable environment to capitalize on innovative ideas[9]. The relation seems to persist during "crisis" periods such as the pandemic. A recent study looking at S&P 500 companies' boards diversity and their financial performance found that companies with less than 20% board seats held by women had a 45% YoY revenue growth in 2020, while companies with more than 30% board seats showed a 54% YoY revenue growth. In terms of ethnic diversity, the same study finds that companies with at least 30% boards seats held by non-white directors had 4% YoY revenue growth[10].

While the financial sector shows one of the highest shares of women on boards and management (~20%), the sector is still

[6] See for example : https://www.morningstar.com/articles/949410/cannabis-faces-significant-esg-risks
[7] https://dashboards.sdgindex.org/rankings
[8] McKinsey & Company, "Delivering through Diversity"
[9] Board Gender Diversity in the STEM&F Sectors: The Critical Mass Required to Drive Firm Performance.

[10] Lessons from the Pandemic: Board Diversity and Performance, Rajalakshmi Subramanian, Advisor, BoardReady July 13, 2021

far from the optimal critical mass[11]. Axiom AI has therefore decided to integrate diversity considerations through two of the tools in its responsible investment approach:

i. The ESG performance ratings, which integrate diversity indicators that look at the board diversity policy, the number of women on the board, as well as the workforce gender diversity and the reduction of gender pay gaps; and
ii. The voting practices. From 2022 the company will oppose ~~to~~ the renewal or appointment of male directors when the company has not set executive management diversity targets and the proportion of women on the board is less than 30%.

1.18 - Additional exclusion policies

Additional exclusion policies can be developed upon the request of clients who wish to apply a stricter minimum standard for their investments (if they have a managed account or dedicated fund with us).

In addition, engagement results, especially if unsuccessful, could lead to additional exclusions. All situations we consider relevant are discussed on a case-by-case basis at the ESG committee. This can include financial sector-wide controversies, litigations, sanctions, or exclusion rules breaches. In the most extreme cases, generally involving criminal activities, the committee can decide to cancel all investments on an issuer or to effectively add an issuer to the exclusion list. It should be stressed that this is not a “box ticking” process for banks and insurance companies as those situations can effectively bring the most serious viability risk these companies face. Over the past few years, we have had examples of banks or financial sector institutions bankrupted due to circumstances such as tax fraud, accounting fraud, money laundering, etc.

[11] The CS Gender 3000 in 2019: The changing face of companies

2 - SUSTAINABLE FINANCIAL FUND RANGE POLICY

We have developed a more stringent set of exclusion criteria for our Sustainable Financial funds range. This range of funds invests exclusively in instruments issued by financial institutions and sovereign bonds as well as derivatives with these issuers as the underlying[12]. It seeks to identify issuers with the best ESG performance; a focus is given to climate change through the use of the ACRS. More information on the climate policy applicable to this fund range can be found here.

In addition, for diversification purposes the funds can invest in non-financial corporates. When this is the case, the compatibility with the policies of section 1 and below is reviewed on a case by case basis. In doing so and in order to signal our commitment to minimizing our exposure to controversial products or behaviours, and to support the achievement of the Paris Agreement goals this fund range integrates additional more stringent policies to those laid out in section 1 as well as financial sector specific exclusion criteria.

2.1 - Financial sector

2.1.1 - Social and Governance exclusions

Based on our analysis of Social and Governance aspects, we may exclude companies in case of egregious breach of S and G standards. The analysis builds on our internal controversies database and external databases.

2.1.2 - UNEP FI Principles for Responsible Banking (PRB)

Commercial and investment banks that are not signatories of the PRB are excluded from investments.

2.1.3 - Climate change performance

Based on the application of the ACRS, banks and/or insurers are excluded if they do not meet the following thresholds:

- Their Corporate Engagement score should be higher than 30%.
- The weighted average score on the Climate Risks & Opportunities Management pillar and positive contribution to the low-carbon transition pillar has to be higher than 25%[13].
- Banks must have an implied temperature rise of less than 3°C.

2.2 - Sovereign bonds

Funds cannot invest in bonds issued by countries that:

i. are not party to: the Paris Agreement, the UN Convention on Biological Diversity and the Nuclear Non-Proliferation Treaty;
ii. have not ratified or have not implemented in equivalent national legislation the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work;
iii. have not ratified or have not implemented in equivalent national legislation at least half of the 18 core International Human Rights Treaties;
iv. have high military budgets of more than 4% of its GDP; or
v. are considered 'Jurisdictions with strategic AML/CFT deficiencies' by the Financial Action Task Force.

2.3 - Investments for diversification

2.3.2 - Tobacco

Requirements laid out in 1.3.) above are extended to additionally exclude companies involved in the production of products

[12] Investments in other derivatives are possible for hending purposes

[13] The score of that first pillar weighs 67% and the one of the second pillar is 33%

that contain tobacco or that are involved in the wholesale trading of these products. This includes companies involved directly in the activity as well as parent companies indirectly involved through their subsidiaries.

2.3.3 - Coal mining

The partial exclusion laid out in 1.4.) is extended to a total exclusion. The funds exclude all companies involved in the exploration, mining, extraction, distribution or refining of thermal coal or providing dedicated equipment or services.

2.3.4 - Power generation

Requirements laid out in 1.4.) are extended to exclude all companies that are increasing fossil fuel and nuclear-based power capacity and that are not increasing their renewables (incl. hydro)-based power capacity. Companies that have not set a Science-Based target compatible with a well-below 2°C or 1.5°C scenario are equally excluded. Companies providing dedicated services or equipment to power companies that do not follow the criteria are equally excluded.

2.3.5 - Conventional and unconventional oil & gas

The partial exclusion laid out in 1.5.) is extended to a total exclusion of companies that are investing in new oil & gas fields and that do not have set a decarbonization target compatible with a well-below 2°C or 1.5°C scenario. The funds exclude all companies involved in refining and transport of oil & gas, or that provide dedicated equipment or services to companies that do not meet the criteria.