

EXCLUSION POLICY

La Financière de
l'Echiquier



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1. INTRODUCTION

Disclaimer: The entire exclusion policy described in this document only concerns the scope of funds under the "Echiquier" brand of La Financière de l'Echiquier (LFDE), launched and marketed before 31 March 2024.

From 1 April 2024, given the absorption of Tocqueville Finance (TFSA) by LFDE, the application of this exclusion policy is not yet exhaustive for funds previously managed by TFSA. Convergence work is underway and should be completed in the coming months.

However, when the exclusions mentioned in this document concern all the funds managed by LFDE from 01/04/2024 (i.e. TFSA and LFDE funds), this will be explicitly mentioned.

For more information on the exclusion policy applicable to funds managed by TFSA until 31/03/2024, please refer to the LBP AM Group exclusion policy: <https://www.lbpam.com/en/publications/exclusion-policy>

For further information on this subject, please contact our customer service department: client_service@lfde.com.

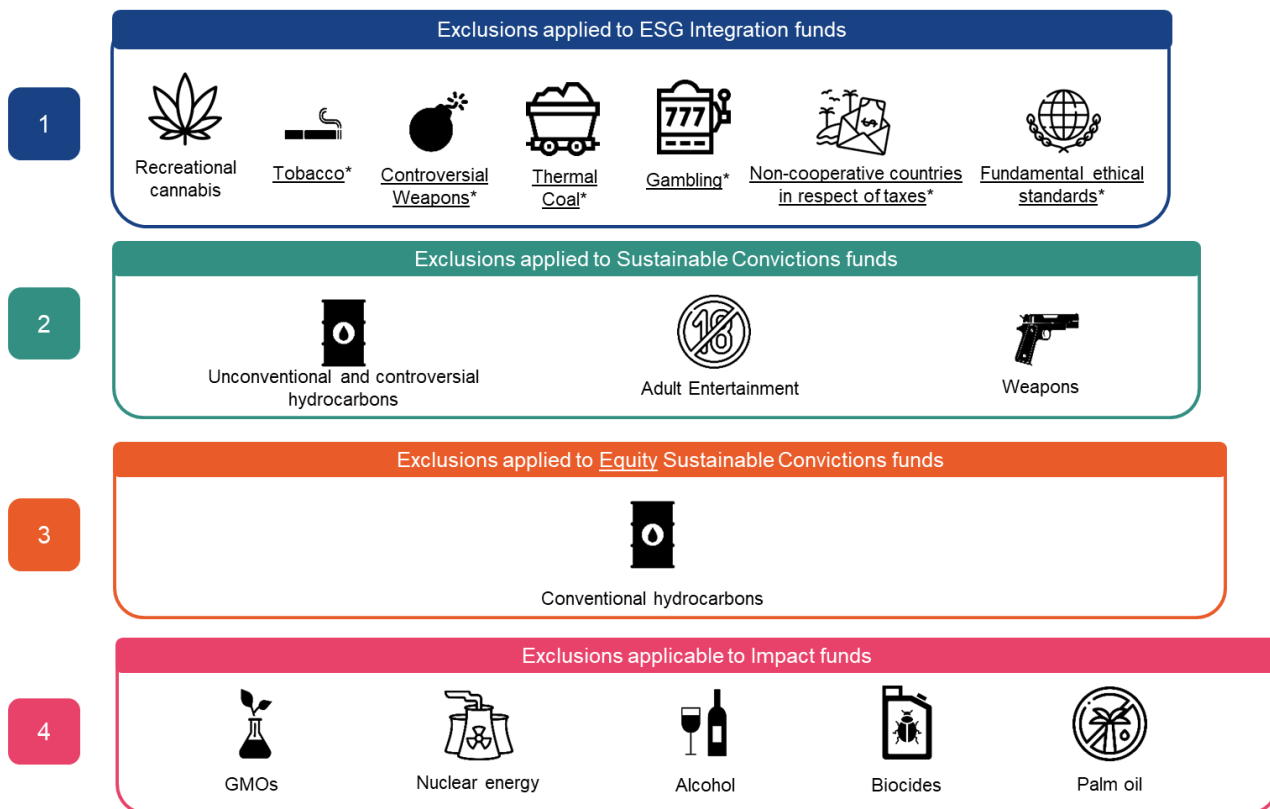
As a responsible investor, La Financière de l'Echiquier (LFDE) aims to finance companies whose activities contribute positively to sustainable development stakes. At the same time, we are keen to reduce the negative externalities of our investments as much as possible. Thus, from the beginning, LFDE has integrated sectorial and normative exclusion policies into the heart of its responsible investment approach. Built up progressively, they allow us to avoid exposing and therefore protect our clients from ethical, reputational and *ultimately* financial risks associated with these sectors and practices.

Within its exclusion policy, LFDE has decided to exclude from its investments a set of sectors and practices that are said to be morally and/or ethically controversial... The scope of application of these exclusions is variable. Thus, 4 categories of funds have been defined, each with its own set of exclusions.

All category 1 exclusions apply to all funds. Additional exclusions mean that a Sustainable Conviction fund will exclude category 1 and 2 activities, while an Impact fund will exclude category 1, 2, 3 and 4. Rare exceptions and derogations may exist and are detailed within this policy.

The exclusion of these activities is the result of in-depth analyses, the main conclusions of which are presented in this document.

Funds managed according to quantitative and macroeconomic strategies as well as funds of funds are not included in the scope of ESG integration and are therefore not concerned by these policies. They represent approximately **4.3%** of our assets under management as at **31/12/2023**.



Some of the exclusions in category 1 (common base applicable to all funds), marked with an (*) in the visual above, are in line with the exclusion policy of the LBP AM Group, of which LFDE is a subsidiary. They therefore already apply to funds previously managed by TFSA. It should be noted that these funds are not currently allocated to any of the four categories mentioned above.

For the other exclusions (categories 2, 3 and 4), the commonly used tolerance thresholds are 0% and 5% of turnover. The 5% threshold is used to ensure that a company is not excluded if a controversial activity represents a non-essential part of its business, as may be the case for alcohol in the restaurant sector for example. This threshold also takes into account the difficulty of accessing reliable and granular data from companies on the breakdown of their turnover from side activities. Some specific thresholds may be applied to particular activities, such as all exclusions related to coal, conventional and unconventional hydrocarbons. All thresholds used by sector are specified in the document.

Our exclusion policy is subject to an evolutionary approach. La Financière de l'Echiquier has expanded its list of controversial activities over the years and will continue to do so. These decisions are discussed and voted on by the members of the LBP AM Group's Great Committee.

LFDE is convinced that shareholder engagement with companies is complementary to exclusionary practices. Thus, in addition to the strict exclusionary rules set out below, La Financière de l'Echiquier regularly engages with companies active in controversial sectors, in order to try to minimise their negative impacts. LFDE publishes annually an [Voting Policy](#), an [Engagement Policy](#), and a [Voting and Engagement Report](#) to report on its activities.

2. EXCLUDED ACTIVITIES

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2.1 TOBACCO

The use of tobacco products in any quantity causes major health problems - cardiovascular and respiratory diseases, cancers etc. - and deaths. According to the World Health Organisation (WHO), tobacco use is responsible for more than 8 million deaths each year¹, making it the leading cause of preventable death in the world. Most tobacco-related deaths occur in low and middle-income countries, which are the target of intense activity and marketing efforts by the tobacco industry, contributing to growing global inequalities.

According to the WHO, the tobacco epidemic is "*one of the most serious threats to global public health in history*". Tobacco use causes societal problems such as addiction and dependence and has a major economic cost to governments in terms of prevention, medical costs, lost income and productivity due to death and disability. The latest WHO technical manual estimates the annual cost of tobacco to the global economy at US\$ 1.4 trillion, or 1.8% of annual global GDP².

The WHO estimates that 100 million³ people fall into extreme poverty each year because of the costs of treating non-communicable diseases caused by tobacco use. In addition, the cultivation, production and consumption of tobacco have serious consequences for the environment and biodiversity: destruction of ecosystems, deterioration of food chains, pollution of water, air and soil. Every year, 4.5 billion cigarette butts are scattered around the world.

In accordance with the principles of the LBP AM Group's exclusion policy, LFDE excludes from all its investments companies belonging to the GICS "Tobacco" sector as well as companies generating more than 5% of their turnover from tobacco. The exclusion covers the **entire tobacco value chain** (producers, distributors and suppliers of products and services).

This exclusion applies to all funds managed by LFDE from 01/04/2024.

This exclusion contributes to the achievement of target 3.a of the UN Sustainable Development Goals (SDGs) on tobacco control.

¹ WHO, July 2021

² WHO, July 2021

³ WHO, July 2021

2.2 RECREATIONAL CANNABIS

Repeated recreational use of cannabis over a long period of time can have serious effects on physical and mental health. THC⁴, a psychoactive substance found in cannabis, causes sometimes irreversible damage to the brain and its functioning, including a significant decrease in attention, a significant increase in reaction time and loss of memory. Cannabis smoke contains more carcinogenic substances than tobacco smoke. It is therefore toxic to the respiratory system and can promote lung and throat cancer⁵.

According to the WHO, the risk of addiction is 1 in 6 among adolescent users and 1 in 3 among daily users.

Recreational cannabis use therefore raises a number of public health and addiction-related issues. Mental and physical health problems, such as impaired cognitive functions - memory, attention, psychomotor speed, impaired development of children born to mothers who use cannabis, and the ability to drive a motor vehicle safely are all issues for investors.

LFDE excludes from all its investments companies realizing more than **5%** of their turnover in the **production or marketing of cannabis products for recreational use**. Companies holding more than 20% of the capital of a company involved in these activities are also excluded.

However, LFDE does not apply an exclusion for medical cannabis.

2.3 WEAPONS AND CONTROVERSIAL WEAPONS

Although weapons can in some cases contribute to peace or serve as a deterrent tool, it is difficult to ensure that military products and services are used only for defensive purposes.

"*The Small Arms Survey*⁶", estimated that in 2017, the number of firearms in circulation worldwide was close to one billion, 85% of which were in civilian hands. This raises the question of the traceability of weapons produced.

As such, it must be ensured that weapons are not used arbitrarily against civilian populations. For this reason, on the basis of international conventions, companies exposed to the production of controversial weapons, i.e. weapons whose impact on civilians is disproportionate and may last for years after the end of a conflict, are excluded. In doing so, we apply the Ottawa (1997) and Oslo (2008) Conventions on anti-personnel mines and cluster munitions. We also have exclusions in place for all weapons commonly considered controversial, such as weapons of mass destruction.

For other types of armaments, we consider today that no company in the sector can guarantee the non-exportation of its products to high-risk countries.

⁴THC = Tetrahydrocannabinol

⁵ Santé Publique France

⁶ http://www.smallarmssurvey.org/fileadmin/docs/Weapons_and_Markets/Tools/Firearms_holdings/SAS-Press-release-global-firearms-holdings.pdf

LFDE's policy of excluding controversial weapons is based on the principles of LBP AM's exclusion policy. The identification of these weapons is based primarily on international treaties, some of which have been ratified by France:

- **Cluster munitions** (2008 Oslo Convention, ratified by France in 2009).
- **Anti-personnel mines** (1997 Ottawa Treaty, ratified by France in 1998).
- **Chemical weapons** (1992 Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction, ratified by France in 1995).
- **Incendiary weapons** (Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons which may be deemed to be Excessively Injurious or to have Indiscriminate Effects and its 1980 Protocols, Protocols on Incendiary Weapons, Protocol III, ratified by France in 1988).
- **Biological weapons** (1972 Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction, ratified by France in 1984).
- **Blinding laser weapons** (Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects and its Protocols of 1980, Protocol on Blinding Laser Weapons, Protocol IV, ratified by France in 1998).
- **Nuclear weapons marketed outside signatory countries to the Non-Proliferation Treaty** (1968 Treaty on the Non-Proliferation of Nuclear Weapons, to which France acceded in 1992).
- **Depleted uranium weapons** (There is currently no international treaty on these weapons).

In accordance with the principles of the LBP AM Group's exclusion policy, LFDE excludes from all its investments **any company that produces, develops, uses, stores, markets or distributes controversial weapons systems**, as defined by this policy, or **essential and dedicated components and services** of these weapons, whatever the share represented by these controversial weapons in the company's sales.

The essential nature of the component or service is defined as follows:

- The component or service plays an **essential role in the functionality** of the weapon system, and is therefore a key component or service,
- The component or service is **specifically designed or adapted** for use in a controversial weapon system.

The controversial weapons exclusion applies to all funds managed by LFDE from 01/04/2024.

LFDE excludes from its Sustainable Convictions funds and Impact Investment funds companies generating more than **5%** of their turnover in activities (manufacturing, essential components, related services, etc.) linked **to conventional weapons**. These are companies whose activities relate to weapon systems, components, support systems and services, civilian firearms or ammunition, the manufacture of nuclear weapons, including nuclear warheads, intercontinental ballistic missiles, submarine-launched ballistic missiles capable of delivering nuclear warheads, the manufacture of components for launch platforms or their assemblies, manufacture of nuclear warheads and/or complete nuclear missiles, ancillary services related to nuclear weapons, such as repair and maintenance of nuclear weapons,

provision of overhaul and upgrade services (including engineering), storage and stewardship, R&D, tests and simulations, production and/or storage of fissile materials used in/for nuclear weapons, key components of nuclear weapons.

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2.4 GAMBLING

La Financière de l'Echiquier recognises the controversial nature of gambling, including sports betting, and the vulnerability of the stakeholders who engage in these activities. Excessive gambling is a form of behavioural addiction.

According to the "Santé Publique France 2019 barometer", 47.2% of people aged 18 to 75 have played a game of money and chance in the year. Among them, 6% have problematic practices. The consequences of gambling addiction are mainly financial (excessive debt), social (social exclusion and isolation) and professional. They can have damaging repercussions for the gambler as well as for those around him.

In accordance with the principles of the LBP AM Group's exclusion policy, LFDE excludes from all its investments companies belonging to the GICS "Casinos & Gaming" sector and companies generating more than 5% of their turnover from gambling activities.

This exclusion applies to all funds managed by LFDE from 01/04/2024.

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2.5 FUNDAMENTAL ETHICAL STANDARDS

La Financière de l'Echiquier applies the principles of the LBP AM Group's normative exclusion policy. LFDE may exclude companies for which there is an unacceptable risk - that they cause, contribute to or are linked to - particularly serious violations of the LBP AM Group's fundamental ethical standards, and for which exclusion constitutes the most effective means of reducing the risk of continued violation of the following international standards:

- United Nations Global Compact,
- OECD Guidelines for Multinational Enterprises,
- UN Guiding Principles on Business and Human Rights.

The LBP AM Group's normative exclusion policy is established by the GREaT Committee. Its decisions are based on the evaluation of several principles:

- **The seriousness of the impact or risk of impact on people, the environment or the principles of good governance**, in particular by taking into account the seriousness, scale and remediability of these actual or potential impacts,
- **The link between the impact or risk of impact and the company** (cause, contribution, direct link),
- **The measures** implemented by the company to prevent, stop and remedy risks and impacts,

- **The likelihood of future violations of the standards by the company, by examining the due diligence** carried out by the company and its compliance with the expectations of the LBP AM Group's fundamental ethical standards.

In accordance with **Principle 19 of the United Nations Guiding Principles on Business and Human Rights** (UNGP), before the GREAT Committee takes a decision to exclude a company, it must consider whether other measures, such as shareholder engagement, might not be more appropriate to reduce the risk of continued violations of the standards.

The final decision adopted by the GREAT Committee should aim, as far as possible, to reduce and mitigate the risk of future breaches of the Standards. The GREaT Committee may therefore vote on the following measures:

- Commitment,
- Vote,
- Downgrading of ESG ratings,
- Placement under reinforced surveillance,
- Freeze or suspension of positions,
- Exclusion.

To find out more about the implementation of the LBP AM Group's normative exclusion policy, you can consult their dedicated exclusion policy, accessible on their website in the "Our identity" section, on the "SRI Expertise" page, in the "SRI Publications" section.

In accordance with the principles of the LBP AM Group's exclusion policy, LFDE excludes from all its investments companies for which there is an **unacceptable risk that they cause, contribute to or are linked to particularly serious violations of the LBP AM Group's ethical standards**, and for which exclusion is the most effective lever to reduce the risk of continued and future violations of these standards.

This exclusion applies to all funds managed by LFDE from 01/04/2024.

Exceptions: Funds holding the FNG label also apply a broader specific exclusion list of companies subject to controversies deemed very severe by MSCI ESG Research, as part of their labeling in certain countries. These companies are identified on the basis of the following criteria, according to MSCI ESG Research methodology:

- Controversy score of "0" or "1",
- Controversy status "very severe",
- Controversy status "ongoing" or "partially concluded".

2.6 NON-COOPERATIVE COUNTRIES IN RESPECT OF TAXES

Non-Cooperative States and Territories (NCTs) are territories where taxation is very low compared to OECD countries. These territories are characterized by bank secrecy, in the name of which banks refuse to disclose certain data on their clients' accounts. The list of ETNCs is an instrument to combat tax evasion (non-payment of taxes), tax avoidance (use of legal means to reduce the tax burden) and money laundering.

According to the OECD, tax evasion costs governments more than 427 billion dollars per year⁷. More than half of this tax evasion would come from multinationals that use mechanisms to transfer their accounts from national tax systems to FTAs.

LFDE excludes from all its investments **companies domiciled in tax havens**. This exclusion applies to companies domiciled in countries mentioned in the following lists for tax purposes: the French government's list of Non-Cooperative States and Territories (NCST)⁸ and the European Union's list of countries and territories that are uncooperative for tax purposes⁹.

LFDE also excludes from all its investments companies whose registered office is domiciled in a country or territory on the Financial Action Task Force (FATF) blacklist and pays particular attention to investments that could be made in countries or territories on the grey list.

This exclusion applies to all funds managed by LFDE from 01/04/2024.

⁷ Tax Justice Network Report, November 2020

⁸ <https://www.legifrance.gouv.fr/loda/id/JORFTEXT000032378061/>

⁹ <https://www.consilium.europa.eu/fr/policies/eu-list-of-non-cooperative-jurisdictions/>

2.7 ENERGY SECTOR

There are major differences between the various energy sources in terms of their impact on the climate, the environment and biodiversity. As such, La Financière de l'Echiquier has a specific exclusion policy for each of them.

In addition to this exclusion approach, LFDE has published its [Climate & Biodiversity Strategy](#) specifying its ambitions with the strategic goal of accelerating the transition to a low-carbon economy and the preservation of biodiversity. This strategy is enriched by a [Voting and Engagement Policy](#) detailing our approach to engagement with companies, which complements our exclusion practices.

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2.7.1 THERMAL COAL

According to the reports of the IPCC, the International Energy Agency (IEA) and the United Nations, in a scenario aiming to contain the rise in the average temperature of the planet to 1.5°C or *at least* well below 2°C, the share of thermal coal in the world's energy mix will have to decrease. According to the IEA's "Sustainable Development" or "Net Zero Emissions by 2050" scenarios, the conclusion is indeed clear: coal demand must be reduced by around 2,000 Mtoe¹⁰ by 2030. According to a UNEP report¹¹, coal production should be reduced by 11% per year between 2020 and 2030 to meet the climate objectives.

The problems associated with coal go beyond the climate, with significant impacts on air quality and biodiversity.

Only thermal coal activities are concerned. Metallurgical coal is not covered at this stage as it is mainly used for the production of coke for the steel industry and there are very few viable alternatives in the steel making process.

In accordance with the principles of the LBP AM Group's exclusion policy, LFDE is committed to **completely excluding thermal coal** from its investments, **progressively by 2030 in OECD countries and by 2040 in the rest of the world**, by no longer financing any company whose sales are partly derived from these activities (0% threshold).

In order to respect the principles of our Coal Policy, LFDE applies a set of criteria:

1) The application of three strict exclusion criteria: Companies are excluded if they are exposed to thermal coal mining and/or thermal coal power generation, if they have no coal exit plan, if they are developing new projects involving the use of thermal coal throughout the value chain, and if they generate more than 5% of their sales from the mining and sale of thermal coal.

2) Application of additional derogation criteria (service activities, power generation from thermal coal, absolute threshold of thermal coal production and installed capacity of power plants) **in accordance with the funds** and **provided that** companies **present a serious and credible coal phase-out plan**, and that their climate strategy and governance are robust and in line with our standards.

¹⁰ Mtoe = Unit of measurement of energy in Megatonnes of oil equivalent. Source: World Energy Outlook 2020

¹¹ United Nations Environment Programme

This exclusion applies to all funds managed by LFDE from 01/04/2024.

To find out more about thresholds and how they apply, please consult the [Coal Policy](#) adopted by LFDE in 2021.

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2.7.2 CONVENTIONAL HYDROCARBONS

Hydrocarbons are formed during a very long process of decomposition of organic matter. Their progressive covering by layers of sediments, then the physical phenomena of burial and increase in pressure and heat lead to their decomposition into kerogen, then into hydrocarbons. Initially formed in a "Source rock", the permeability of intermediate rocks leads to its migration towards "reservoir rocks".

When the process of extracting these hydrocarbons can be done with so-called conventional vertical drilling methods - which occurs when the process of formation of the hydrocarbons has not been altered - we speak of conventional hydrocarbons (such as oil and gas...).

According to IPCC and IEA recommendations, the current sustained rate of hydrocarbon exploitation is not compatible with a climate trajectory below 2°C.

Natural gas can, in certain specific cases, be used as a transitional fuel - regulated by the European taxonomy - in the case of replacing a coal-fired power plant with a gas-fired one. On the other hand, the risk of "lock-in"¹² is not neutral, as are the risks related to the gas supply chain.

LFDE excludes companies involved in the conventional hydrocarbons sector from its Sustainable Convictions Equity funds and Impact Investment funds. This includes companies generating more than **5%** of their turnover from **the extraction, refining, trading, distribution, sale of equipment or services for the exploration and production of oil and natural gas or the generation of electricity from conventional hydrocarbons**. This also includes **electricity generation** companies with more than 5% of their **installed capacity in fossil fuels**.

Exception : Echiquier Climate & Biodiversity Impact Europe does not apply an exclusion on this criterion as part of its transition investment approach. Echiquier ARTY SRI also applies this list of exclusions, but only on criteria related to oil, not natural gas.

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2.7.3 UNCONVENTIONAL AND CONTROVERSIAL HYDROCARBONS

Unconventional hydrocarbons differ from their conventional counterparts in that their formation process has been altered, making them difficult to exploit. Their extraction requires the use of so-called unconventional methods, such as hydraulic fracturing. The energy produced from these hydrocarbons is then referred to as unconventional fossil fuels.

¹² The risk of prolonged use of fossil fuels due to the construction of new infrastructure that needs to be made profitable.

When extraction is carried out using conventional methods but under particular conditions, generating increased risks for local ecosystems, we speak of controversial fossil fuels.

The process of extracting non-conventional and controversial hydrocarbons often requires more energy and water, emits more greenhouse gases and can have significant impacts on natural ecosystems (deforestation, oil spills, etc.).

LFDE adopted in December 2021 an **exit policy on non-conventional and controversial hydrocarbons**.

As of July 2022, for all Sustainable Convictions and impact investment funds, LFDE has implemented two exclusion criteria:

- 1) Exclusion of companies **producing more than 5% of their total hydrocarbon production from unconventional and controversial hydrocarbons** (as a cumulative % of total fossil fuel production).
- 2) Exclusion of companies with **short-term expansion plans**¹³ in unconventional and controversial hydrocarbon projects (as % of total expansion, 0% threshold).

Within our policy, the unconventional hydrocarbons considered are: shale oil and gas, tight oil and gas (using hydraulic fracturing methods), oil sands, heavy and extra-heavy oil, coalbed methane. The controversial hydrocarbons considered are ultra-deep oil and gas (> 1,500 meters) and hydrocarbons from Arctic oil and gas fields.

As of December 2024, these exclusions will apply to all LFDE ESG Integration funds.

Finally, by **2030 at the latest, La Financière de l'Echiquier will exit from non-conventional and controversial hydrocarbons** by no longer financing companies whose turnover is derived from such activities (0% threshold).

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2.7.4 NUCLEAR ENERGY

Although nuclear energy is a decarbonised source of energy, several major challenges remain: the risk of nuclear accidents, the risk linked to the management of nuclear waste and the challenges linked to the dismantling of power plants. Ongoing research into nuclear fission could help to remove some of these risks in the medium/long term.

Nuclear energy is a transitional energy and its benefits in terms of limiting climate change are proven.

In order to harmonise its exclusion policy and to comply with the requirements of several European labels, LFDE excludes from its Impact Investment funds, companies whose **electricity production or turnover is based on nuclear energy or activities related to nuclear energy production** exceed **5%**. Companies whose total installed nuclear power capacity exceeds 5% of the total installed capacity are also excluded.

Exceptions and derogation: Echiquier Climate & Biodiversity Impact Europe does not apply an exclusion on this criterion as part of its approach to financing the transition. The funds with the FNG labl apply this exclusion list.

test

¹³ Urgewald's Global Oil and Gas Exit List "Short Term Expansion" criterion.

2.8 ADULT ENTERTAINMENT

According to the French Ministry of Solidarity and Health, nearly one in three 12-year-olds has already been exposed to adult entertainment. Premature exposure of minors can lead to trauma, shock or complexity. In addition, there are the problems of prostitution and the involvement of people who are often minors, as well as problems related to the image of women and violence against women¹⁴.

Adult Entertainment also causes a significant amount of digital pollution: according to ADEME, it is responsible for 2.5% of France's carbon footprint each year¹⁵.

LFDE excludes from its Sustainable Convictions funds and Impact Investment funds companies generating more than **5%** of their turnover from **pornography-related activities**.

2.9 ALCOHOL

Globally, alcohol is considered the third most important risk factor for disease, after high blood pressure and tobacco. In Europe, alcohol consumption is a major public health issue, being responsible for more than 7% of premature illness and death. La Financière de l'Echiquier considers that excessive consumption of alcohol products can lead to societal problems, particularly in terms of physical and mental health and road safety. Over-consumption of alcohol can also lead to addiction, social exclusion and isolation.

LFDE excludes from its Impact Investment funds companies generating more than **5%** of their turnover in **alcohol-related activities** (production, distribution and marketing).

2.10 GMOs

A Genetically Modified Organism (GMO) is an organism (animal, plant, bacterium) whose genetic material has been modified by a technique known as genetic engineering to give it a new characteristic¹⁶. We are aware of the controversial nature of these practices, which may have a positive environmental or social interest through innovation, but have nevertheless been subject to abuses with significant negative impacts, particularly on biodiversity.

LFDE excludes from its Impact Investment funds companies generating more than **5%** of their turnover in **GMO-related activities**.

¹⁴ Raquel Kennedy Bergen and Kathleen A. Bogle, *Exploring the Connection between Pornography and Sexual Violence* (2000)

¹⁵ <https://www.linfodurable.fr/environnement/limpact-de-la-pornographie-sur-la-pollution-numerique-38210>

¹⁶ French Ministry of Agriculture and Food

2.11 BIOCIDES

Biocides are substances intended to destroy, repel or render harmless organisms deemed harmful, such as fungi, bacteria, viruses, rodents and insects. Biocides have significant impacts on biodiversity through ecotoxicity as well as on health, such as causing endocrine disruption, cancer¹⁷ or developing bacterial resistance. Biocides include pesticides, rodenticides and insecticides.

LFDE excludes from its Impact Investment funds companies generating more than 5% of their turnover in **biocides-related activities**.

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2.12 PALM OIL

Palm oil production is associated with deforestation, mainly in South-East Asia, with major impacts on ecosystems and CO2 emissions. According to the Indonesian Ministry of Environment and Forestry, approximately 24 million hectares of tropical forests were destroyed between 1990 and 2015. An analysis of the value chain is essential, particularly for companies in the agri-food sector, in order to ensure responsible practices (RSPO certification¹⁸, measures against forced labour, etc.).

LFDE excludes from its Impact Investment funds companies generating more than 5% of their turnover from **palm oil production and/or distribution activities**.

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2.13 OTHER TOPICS OF ATTENTION

In addition to the exclusions in force in its funds, La Financière de l'Echiquier pays particular attention to certain sensitive issues. This takes the form of an in-depth analysis of the companies involved in the following practices:

BIOMASS: By decomposition processes¹⁹ of living organic matter, of plant origin (wood residues, agri-food co-products...) or animal origin, it is possible to obtain energy. This is what is known as biomass, often presented as a solution to climate problems, allowing the transition from coal-fired power stations to biomass power stations. Moreover, some practices in this segment can be responsible but require demanding policies to address the main issues inherent in these transformations:

- **CO2 emissions** throughout the life cycle can be higher per unit of energy produced with biomass than with coal combustion, if it is not properly sourced and burned. The use of biomass is therefore to be preferred in a cogeneration perspective.
- **Deforestation and loss of ecosystems:** The production of energy from wood residues can be virtuous. However, the increase in demand leads to abuses involving, for example, the deforestation of certain areas, resulting in the loss of biodiversity. It is therefore important to analyze the audit policy of the forestry projects of the companies concerned, as well as their use of certification bodies or external labels (FSC, PEFC, etc.). For wood supplies, multi-labelling is in our view essential to ensure the sustainability of the supply.

¹⁷ PubMed.gov, *Occupational pesticide exposure, cancer and chronic neurological disorders: A systematic review of epidemiological studies in greenspace workers*

¹⁸ RSPO = Roundtable on Sustainable Palm Oil

¹⁹ Methanisation or combustion

- **Air quality:** The combustion of biomass releases harmful particles (fine particles, etc.), which can cause serious respiratory problems.

GEOTHERMY: Geothermal energy consists in exploiting the heat stored underground to produce electricity or heat. *At first sight, the* advantages of such practices are numerous (low CO2 emissions, availability, etc.) for limited environmental impacts²⁰ (deforestation during the installation of power plants, waste and water management).

LFDE does not exclude biomass or geothermal energy production practices. However, we remain attentive to the risks implicit in the value chain, upstream and downstream, and study the practices of companies involved in these activities on a case-by-case basis.

TESTING ON ANIMALS: Whether in pharmaceutical laboratories or in the chemical industry, many tests are carried out on animals. Most of the time, this is an obligation, regulated and mandatory for certain products. This is notably the case with the 2010 European directive, which States can apply as they see fit. Despite the obligation to carry out tests on animals before marketing, there is still opposition, particularly regarding the rationalization of tests carried out and animal suffering. More than 11 million animals were killed in laboratories in Europe in 2011. According to the latest report by the European Commission²¹, France is the European champion with 2.2 million animals sacrificed for medicine. For its opponents, animal experimentation is costly and limited in its effectiveness by the inherent biological differences between humans and certain animals²².

LFDE does not exclude companies that perform animal testing, but we remain attentive to controversies related to the subject, and value the transparency of companies (dedicated reporting) or the use of accreditations (AAALAC²³ or PETA²⁴).

INTENSIVE FARMING: To cope with population growth, intensive farming has developed to be as productive and profitable as possible in a given area. These practices are more energy-intensive and have a strong impact on biodiversity, particularly through soil pollution, and on animal welfare. The practices used, such as feeding livestock, also have an impact on human health.

LFDE does not exclude companies active in intensive livestock farming, but we remain attentive to the controversies related to the subject.

FUR: Fur is a noble, natural, recyclable and biodegradable material, however, 85% of it comes from intensive breeding operations where animal welfare is not always a priority. We pay close attention to this issue when analysing companies.

²⁰ <http://espace.inrs.ca/id/eprint/3346/1/R1650.pdf>

²¹ Source : <https://www.tf1info.fr/sante/5-choses-a-savoir-sur-les-experimentations-animales-1504686.html>

²² https://www.liberation.fr/france/2017/11/10/recherche-medicale-quelles-alternatives-a-l-experimentation-animale_1608466/

²³ Assessment and Accreditation of Laboratory Animals Care

²⁴ People for the Ethical Treatment of Animal

LFDE does not exclude companies with fur-related activities, but we remain alert to the controversies surrounding the subject.

These activities are currently subject to increased vigilance during our analyses prior to any investment. La Financière de l'Echiquier reserves the right to develop financing framework policies for the most sensitive activities and subjects. Also, depending on the methodological developments of the various providers on the subject of exclusions, La Financière de l'Echiquier may implement investment restrictions on these activities.

3. EXCLUSION CONTROL PROCESS

For all the funds managed by La Financière de l'Echiquier, a **pre-trade control** is carried out to ensure that the portfolios comply with the sectorial and normative exclusion rules set for each fund.

Most of the lists of issuers to be excluded are provided by **MSCI ESG Research**. Only the thermal coal and unconventional and controversial hydrocarbons lists are provided by the **German NGO Urgewald**²⁵.

They are integrated into our OMS (*Order Management System*) software, which **automatically blocks any purchase of securities on these lists**. The content of these lists is rigorously updated **quarterly** for MSCI ESG Research and **annually** for *Urgewald* by the team in charge of internal control.

If a security in the portfolio becomes ineligible with regard to the sectorial and normative exclusion rules set, a roadmap for the disposal of the security will be established with the portfolio manager, in the best interest of the holder and within a maximum period of one month. Under no circumstances may this security be reinforced within the portfolio in question.

²⁵ *Global Oil and Gas Exit List* for unconventional and controversial fossil fuels, *Global Coal Exit List* for thermal coal.



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SOCIETE DE GESTION AGREE PAR L'AMF SOUS LE NUMERO 91 004