



Exclusion Policy

June 2019



Introduction

TOBAM's mission is to provide rational and professional solutions to long term investors in the context of efficient markets. Our clients have a long-term approach to investing and our sustainable way addresses these concerns.

As part of its fiduciary duty, TOBAM is committed to protecting its clients' interests by taking into account all factors that could impact the financial performance and/or risk profile of investee companies.

Most of our clients have a long-term investment horizon and will have to deal with major sustainability-related challenges that lead to tangible impacts on investment portfolios (stricter ESG-related regulatory framework, multiplication of norms and standards, pressure from stakeholders, etc.). As a result, **ESG issues cannot be considered as “extra-financial” criteria, as they form an integral part of the factors to be considered, alongside traditional ones.**

We believe that incorporating ESG within our investment process is not meant to highlight a moral or ethical point of view, nor provide additional performance. It is however instrumental in managing risks and makes sense in the context of long-term investments.

TOBAM decided to incorporate ESG into its investment process in 2007, via the application of an **exclusion policy** suited to our quantitative investment approach, which involves **excluding companies from our investment universe, that have controversial ESG practices and are consequently exposed to material impacts arising from significant risks** (reputational, legal, etc.).

Scope of the Policy

Applied to equity and fixed income strategies, respectively since 2007 and 2014, as well as to our Maximum Diversification® indices since 2011, this negative screening has applied the exclusion lists published by a renowned investment institution and founding member of the PRI: the Norges Bank; as well as some other leading institutions.

A pioneer in the SRI field, Norges Bank's exclusion policy was transparent and readily accessible, aligned with the PRI and UN-Global Compact guidelines, without seeking to impart a moral judgement.

In June 2019, TOBAM decided to go one step further and determine its own proprietary exclusion list adapted to TOBAM's investment universes. This proprietary exclusion list is complementary and aligned with the best practice standards of Norges Bank, but also with some of the largest institutional investors in Europe.

The exclusion list is applied to all of TOBAM's investment universes:

- Anti-Benchmark® Equity strategies
- Anti-Benchmark® Credit strategies
- Anti-Benchmark® Multi-Asset strategies
- Maximum Diversification® Indices.

The negative screening is also applied by default to all our mandates and dedicated funds unless specifically requested otherwise by the client.

Exclusion Criteria

We exclude companies from our investment universes that are involved in the following activities:



■ Tobacco

Tobacco refers to tobacco products such as cigarettes, cigars, snuff and pipe tobacco. The screening has a global coverage, including companies in developed and emerging markets, and refers to tobacco production, distribution and services.

Producers & Distributors are excluded when Tobacco accounts for 50% or more of their revenues.



■ Coal Mining

The screening has a global coverage, including companies in developed and emerging markets. Producers & Distributors are excluded when coal or coal-based energy products account for 30% or more of their revenues.



■ Production of Prohibited or Controversial Weapons

Exclusion is applied to companies directly or indirectly involved in the development, production, maintenance or sale of weapons that are illegal – as their production and use is prohibited by international legal instruments, or they are deemed particularly controversial because of their indiscriminate effects and the disproportionate harm they cause.

Weapons covered

(Extract of ISS Controversial Weapons Screening factsheet):



¹The Treaty on the Non-Proliferation of Nuclear Weapons (NPT) limits the right to hold nuclear weapons to five states

■ Breach or Violation of International Treaties, Conventions & Standards

Norm-Based Screening is a well-established analysis methodology that helps investors make decisions regarding companies' adherence to global norms on environmental protection, human rights, labour standards, and anti-corruption.

Global norms are set out in international initiatives and guidelines such as:

- OECD Guidelines for Multinational Enterprises
- ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
- UN Global Compact
- Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework.

These guidelines provide a tool for assessing corporate conduct in relation to principles laid out in international conventions.

Companies involved in violations of international norms and standards, as well as majority owners - i.e. companies that hold 50% or more in a subsidiary company involved in such violations - are excluded from TOBAM's investment universe.

Exceptions to these exclusions might arise due to certain controversial interpretations of international norms that TOBAM do not wish to participate to. These specific cases and potential exceptional exemptions will be discussed and decided in the quarterly Sustainable Committee.

TOBAM as a quantitative manager does not have any team in charge of company financial analysis or ESG analysis. Since its creation, TOBAM has decided to develop its key strengths: Research, Portfolio management, IT, Risk Management and outsource some key activities to dependable partners.

For the purpose of the exclusion lists, TOBAM has established the criteria that are most relevant to its mission and values whilst also aligning itself with the PRI and UN-Global Compact guidelines and cooperating with ISS-Ethix to determine the list of issuers and securities relevant for exclusions given our investment universe.

Exclusion Policy Governance

The addition or removal of any issuer or any new criteria to TOBAM's exclusion policy is discussed and decided by the Sustainability Committee according to an official procedure. The Committee meets every quarter, and is notably in charge of ensuring the legitimacy and consistency of the exclusions, and their alignment with TOBAM's mission and values.

Review Frequency & Audit Processes

Risk Control & Audits

Pilot, the in-house portfolio management system, includes fully automated pre and post-trade controls to ensure securities from issuers on the negative screen list are not included in portfolios.

- **Pre-trade checks**

For equity portfolios

Since all trades for equity portfolios are going through Pilot, Portfolio Managers trying to invest in an instrument from a blacklisted issuer, would be blocked to perform the trade.

For fixed income portfolios

For fixed income portfolios, since some of the trades can be made via Bloomberg or on the phone, portfolios managers have to pre-enter trades in Pilot and any suggested trade on a blacklisted security would raise a red flag from the system.

- **Post trade checks**

Automated post-trades controls are performed daily on all of TOBAM's portfolios, and an alert message is sent to the risk team in case blacklisted instruments are detected. This notably can happen when an issuer has just been added to the exclusion list.

Exclusion List Monitoring

The exclusion list itself is reviewed on a daily basis, via a FTP file received from ISS-Ethix and imported in Pilot. TOBAM's complements ISS's list by the public exclusions lists of Norges Bank Investment Management (NBIM), AP Fonden (Sweden), Fonds de Réserve pour les Retraites (France), Swiss Association for Responsible Investments (SVVK-ASIR)RR & SVV which are monitored daily as well by TOBAM's systems.

Sanctions Lists

TOBAM as part of its mandatory obligations towards regulators and investors, respects the sanctions lists published by OFAC, the European Union, Switzerland and Canada. These lists are part of TOBAM's exclusion process and monitored by TOBAM's systems.

Standards & Treaties

- [Principles for Responsible Investment](#)
- [United Nations Global Compact](#)
- [OECD Guidelines for Multi National Enterprises](#)
- [UN Guiding Principles](#)
- [ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy](#)
- [Ottawa Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines, 1997](#)
- [Treaty on the Non-Proliferation of Nuclear Weapons \(1968\)](#)
- [Oslo Convention on Cluster Munitions 2008](#)
- [Chemical Weapons Convention \(1997\)](#)

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TOBAM's quantitative investment process is supported by extensive proprietary computer code. TOBAM's researchers, software developers, and IT teams follow a structured design, development, testing, change control, and review processes during the development of its systems and the implementation within our investment process. These controls and their effectiveness are subject to regular internal reviews. However, despite these extensive controls it is possible that errors may occur in coding and within the investment process, as is the case with any complex software or data-driven model, and no guarantee or warranty can be provided that any quantitative investment model is completely free of errors. Any such errors could have a negative impact on investment results. We have in place control systems and processes which are intended to identify in a timely manner any such errors which would have a material impact on the investment process.

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For more information

TOBAM is an asset management company offering innovative investment capabilities designed to increase diversification. Its mission is to provide rational and professional solutions to long term investors in the context of efficient markets.

The Maximum Diversification® approach, TOBAM's flagship investment process founded in 2006, is supported by original, patented research and a mathematical definition of diversification and provides clients with diversified core exposure, in both the equity and fixed income markets.

In line with its mission statement and commitment to diversification, TOBAM also launched a separate activity on cryptocurrencies in 2017.

TOBAM currently manages US\$10billion (at March 29, 2019). TOBAM's team is composed of 53 professionals.

For more information, visit www.tobam.fr

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