



## **Exclusion Policy**

November 2023

tobam<sup>\*</sup>  
unbiased.

# 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 sustainability-related regulatory framework, multiplication of norms and standards, pressure from stakeholders, etc.). As a result, **sustainability 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 sustainable and long term considerations 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 sustainability 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 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.

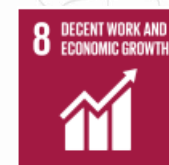
As a pioneer in the SRI field, Norges Bank's exclusion policy was transparent and readily accessible, aligned with the PRI and UN-Global Compact guidelines, without seeking to impart a moral judgement.

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 not only 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 strategies.

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

## Sustainable development Goals (SDGs)



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 includes tobacco production, distribution and services.

Producers & Distributors are excluded when Tobacco accounts for 5% or more of their revenues.



## ■ Coal Mining

The screening has a global coverage, including companies in developed and emerging markets. Coal mining includes the following: coal, metallurgical/coking coal, thermal/steam coal, coke and coal mining.

Producers & Distributors are excluded when coal or coal-based energy products account for 10% 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. This includes notably cluster munitions, anti-personal mines, depleted uranium ammunition, weapons of mass destruction incl. nuclear weapons, biological and chemical weapons.



## ■ 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 adhere to. These specific cases and potential exceptional exemptions will be discussed and decided in the quarterly Sustainable Committee.



## ▪ Fossil-Free Approach

TOBAM applies a 100% fossil-fuel free approach to some key investment strategies, representing **44% of our assets under management** (as of June 2023):

Companies with significant involvement in the production, sales or extraction of fossil fuels (including coal, coal power generation, oil and gas) are excluded from the investment universes of both strategies.

### Definition - Fossil Fuels

- *Coal Mining (1% threshold) (as defined in previous page).*
- *Oil (10% revenues)*
- *Natural gas (50% revenues)*
- *Electricity producers with carbon intensity of lifecycle GHG emissions higher than 100gCO<sub>2</sub>e/kWh (50% revenues)*

## 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.

### Specific Engagement Discussions

- **Developers**

TOBAM has been working on a collaborative engagement initiative to engage with coal mines developers. The list of companies currently involved in new projects of mines, or coal-driven power plans has been computed with the help of Urgewald. Urgewald is a German non-profit environmental and human rights organization. For 25 years, Urgewald has been fighting against environmental destruction and develop an in-depth understanding of the worldwide coal industry. Their GCEL list has been instrumental in helping TOBAM building a better exclusion policy and building constructive engagement cases.

The objective of this initiative was to leverage from the fact that TOBAM was shareholder or creditor of these companies and build a dialogue to influence the end of any new coal-related projects. Ultimately, since if we were not able to influence positively, decision would be made to include developers of new coal mining projects to our exclusion list.

- **Severe breaches to Human Rights**

TOBAM pursues on an on-going basis several engagement initiatives on severe breaches to human rights and it has already been decided following failures to achieve constructive decisions to add a company on the exclusion list based on those lack of dialogues. Decisions remain taken by the Sustainability Committee.

## Additional exclusions

Some funds at TOBAM may have additional sectors exclusions based on some specific clients' requirements such as GMO or spirits & alcohols. These exclusions are systematically backtested, and discussed to ensure that they match TOBAM's engagements and convictions. They are not part however of the mainstream exclusions applied to all investments at TOBAM.

Please note that TOBAM's article 9 compliant, range of strategies, called LBRTY have additional exclusions, due to their specific process such as countries exclusion, exclusion of companies with high exposure to autocratic regimes, and exclusion of companies with poor governance.

## 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 an 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.

TOBAM as a quantitative manager does not have any team in charge of company financial analysis or extra financial 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.

## 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.

### Exceptional Countries Exclusion

- **Russia**

On February 22, 2022, it has been decided to exclude all Russian Holdings from TOBAM's portfolios. Risks of a violent conflict in the region, and subsequent risks of hardened sanctions for Russia led to the decision to exclude Russian Investments from TOBAM's investment universes, being Equity, Credit, and Indices investment universes.

- **Turkey**

In December 2021, following severe controversies and breaches to basic human rights notably to the freedom of expression, rights of journalists, acts of torture, it has been decided by the Sustainability Committee to exclude all Turkish assets from TOBAM's investment universe.

## Standards & Treaties considered

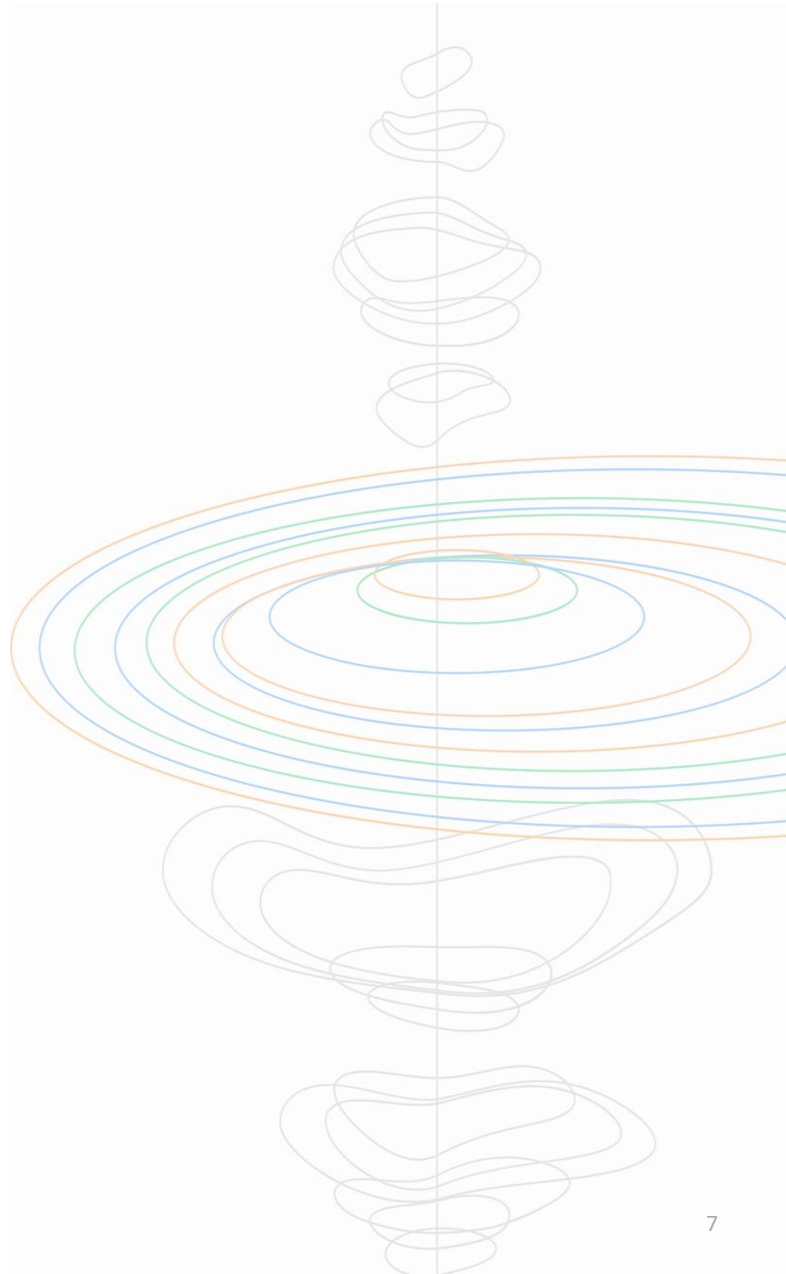
- [Principles for Responsible Investment](#)
- [United Nations Global Compact](#)
- [OECD Guidelines for Multi National Enterprises](#)
- [UN Guiding Principles](#)
- [ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy](#)
- [Ottawa Convention on the Prohibition 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 \(1997\)](#)

# DISCLAIMER

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TOBAM has continued and will continue its research efforts amending the investment process from time to time accordingly. TOBAM reserves the right of revision or change without notice, of the universe, data, models, strategy and opinions. 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. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any reliance upon it.

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# ABOUT TOBAM



TOBAM is an asset management company offering innovative capabilities designed to maximize the benefits of scientific research to build efficient investment exposures.

TOBAM's expertise relies on 3 core pillars:

- TOBAM's Maximum Diversification® approach, supported by original, patented research and a mathematical definition of diversification, provides clients with diversified core exposure, in equity and fixed income markets.
- A research driven, Solutions division (TOBAMSolutions®), dedicated to build customized solutions and services to sophisticated institutional investors,
- A LBRTY® strategy range, which aims to help investors substantially mitigate their exposure to autocratic regimes in their portfolio.

In line with its mission statement and commitment to diversification, TOBAM also launched a satellite activity (CRYPTOBAM®) on cryptocurrencies in 2017.

TOBAM Maximum Diversification®, TOBAMSolutions®, TOBAM LBRTY® and CRYPTOBAM® illustrate TOBAM's systematic "out of the box" dedication to demanding investors.

TOBAM manages north of USD 6 billion (as of 30 December 2022). Its team includes 44 finance professionals based in Paris, New York and Dublin.

For more information, please visit [www.tobam.fr](http://www.tobam.fr) or [tobamdirect.com](http://tobamdirect.com)

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