

• **OSTRUM ASSET
MANAGEMENT'S SECTOR AND
EXCLUSION POLICY
COAL**

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- **1. SCOPE OF APPLICATION**

1.1. INTRODUCTION

Sector and exclusion policies are at the very heart of Ostrum Asset Management's SRI¹ and CSR² strategy.

As part of its Corporate Social Responsibility strategy, Ostrum Asset Management defines sector and exclusion policies with the aim of:

- Meeting the goals and pledges outlined by Ostrum Asset Management to comply with its Responsible Asset Management strategy,
- Complying with national and international regulation,
- Fulfilling Natixis' commitments.

Sector and exclusion policies defined and implemented by Ostrum Asset Management aim to identify issuers excluded from Ostrum Asset Management's investment scope based on their operations, geographical locations, the way they work, their reputation, their breach of international standards, etc.

These policies therefore also help identify issuers that Ostrum Asset Management seeks to support in their transition, particularly for the Coal policy.

The list of issuers covered by the sector and exclusion policies is updated at least once each year.

Find out more about Ostrum Asset Management's SRI and CSR initiatives at www.ostrum.com.

¹ Socially Responsible Investment

² Corporate Social Responsibility

1.2. BACKGROUND AND ISSUES AT STAKE

At the meeting held on 2 July 2019 with the French Minister for the Economy and Finance Bruno Le Maire, the main professional bodies and associations representing the Paris financial centre issued a joint statement announcing new collective commitments to combat climate change and contribute to achieving the goal of net zero carbon by 2050.

As all financial stakeholders take strong commitments to this issue, a market-wide consensus has emerged that exiting the thermal coal industry is the primary priority in the energy transition.

Coal has a large presence in the world energy mix and is the most carbon-intensive fuel. Although coal-fired power plants account for just 41% of world energy production, they are responsible for more than 70% of the energy sector's greenhouse gas emissions³.

In 2018, coal use for energy exceeded 10 Gt CO₂⁴. For the same volume of energy produced, coal use emits twice the greenhouse gas than the use of natural gas⁵.

Restricting global warming therefore requires a gradual shift in the energy mix, away from fossil fuels and towards less carbon-intensive energy generation sources. Despite technological progress already made, a reduction in the proportion of thermal coal in the mix is now seen as a vital prerequisite for this transformation.

The abundant supply of inexpensive coal resources is holding back this shift, which public policy on climate change endeavours to drive, in particular through the framework for climate action agreed at COP21, when national greenhouse gas reduction pledges were made by 196 countries.

The growing awareness of climate issues amongst most energy sector players has led to a shift in investment towards renewable energies, the decommissioning of the least efficient thermal power plants and the gradual transformation of their energy mix.

Ostrum Asset Management is aware of these climate issues and of the active role that financial institutions must play in the energy transition, and marks a new stage in its contribution to tackling the climate challenge. Both its investment choices and its commitments support Ostrum Asset Management's efforts to reduce the share of this type of fossil fuel in the world energy mix and again highlight its responsible investment approach. Ostrum Asset Management also supports its clients as they apply their own climate policies both by rolling out tailored measures and by offering investment strategies to help them establish their own pledges.

Ostrum Asset Management rolled out its initial coal exclusion policy in 2018 before adding to its pledges in 2019⁶, and is now taking new measures to bolster its strategy.

Ostrum Asset Management extends its coal sector exit strategy and pledges to fully phase out coal exposure by 2030 for OECD countries and by 2040 for non-OECD countries.

³ Source: 5th Assessment Report (AR5) from the Intergovernmental Panel on Climate Change (IPCC)

⁴ Source: <https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions>

⁵ Source: <https://www.eia.gov/tools/faqs/faq.php?id=73&t=11>

⁶ In 2019, Ostrum Asset Management thoroughly revised its coal policy to include the more stringent exclusion thresholds recommended by the GCEL (Urgewald) and to add an issuer review process (commitment regarding the coal exit plans of authorised issuers that could lead to additional exclusions).

1.3. SCOPE OF APPLICATION

Investment bans on issuers related to the Coal sector exclusion policy apply to all funds where Ostrum Asset Management is the investment manager, main or delegated manager. This policy applies to all open-ended funds for which Ostrum Asset Management is delegated financial investment manager⁷.

It should be noted that, following the transfer to Ostrum Asset Management of the institutional insurance portfolio management and structured management activities of Natixis Investment Managers International (NIM Solutions team) and Seeyond's merger through absorption into Ostrum Asset Management (1 January 2023), the funds that were managed by NIM Solutions fell within the scope of application of this policy on 1 January 2023 and those that were managed by Seeyond fell within the scope of application on 1 July 2023 (after a six-month transition period).

For dedicated funds and mandates, Ostrum Asset Management applies this new policy (unless clients request otherwise) in order to take it into account in future portfolio management (and, in case of delegated management, informs the delegated manager).

⁷ With the exception of trackers, and excluding structured funds existing at 1 January 2023, and based on the objectives and constraints related to the contractual documentation of Ostrum Asset Management's clients. This policy will apply to equity-enhanced money-market funds, which are open-ended actively managed funds but which enter into equity total return swaps (typically passively managed), for new transactions from 1 July 2023, but not to existing transactions on that same date.

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- **2. DETAILED DESCRIPTION**

2.1. IDENTIFYING ISSUERS COVERED BY THE COAL POLICY

Here at Ostrum at Ostrum Asset Management, we draw on the expertise of our teams of analysts, portfolio managers and members of the ESG Strategy team, who are responsible for updating and monitoring the issuers identified by our sector and exclusion policies. These teams draw on their extensive insight into the companies and sectors as well as external sources, i.e. corporate communication, interviews, external providers, etc.

Ostrum Asset Management decided to use the GCEL (Global Coal Exit List⁸), the result of an initiative by German NGO Urgewald, to address the difficulties faced by investors in identifying their coal investments. The GCEL provides datasets on 2,300 companies' coal-related revenue streams, the proportion of coal production, installed coal capacity and annual coal production. Urgewald's GCEL is a powerful information system and has played a significant role in financial institutions' efforts to develop new coal policies.

⁸ The GCEL is available online at <https://coalexit.org>

2.2. ISSUERS COVERED BY THE POLICY

As of 1 January 2021, Ostrum Asset Management no longer invests in companies that develop new coal projects (including infrastructure developers). This policy applies with a six-month timescale for divesting holdings in companies concerned under normal market conditions.

Ostrum Asset Management also excludes from its investment scope companies whose business depends primarily on producing, transporting and selling coal derived using aggressive mountain top removal methods (MTR), used in the Appalachian Mountains, in the eastern part of the United States.

The exclusion thresholds in the Coal policy have been lowered since 1 January 2024. Coal issuers that are not ruled out on the basis of previous criteria are excluded if they exceed the following thresholds:

- 10% of energy generation revenue streams derived from coal or from coal production
- 10 million tons of thermal coal production on an annual basis
- 5 GW in installed capacity
- a coal share of power generation of 10%.

These thresholds equate to limits set out by the 2023 Global Coal Exit List (GCEL)⁹. Similarly, divestment from companies concerned will be conducted within six months under normal market conditions.

Additionally, as of 2022 Ostrum Asset Management no longer invests in companies that have not developed a coal exit plan in line with the Paris Agreement.

Investments based on this criterion ceased as of 1 January 2022, with a six-month timeframe to run down existing positions under normal market conditions. Ostrum Asset Management will engage and dialogue extensively with companies as it applies this measure.

Ostrum Asset Management has defined key indicators to analyse issuers' trajectories and thereby ensure the credibility of exit plans, their funding and implementation:

- Include exit strategy milestones for the short, medium and long term,
- Update the company's progress on their exit strategy each year to inform investors,
- Use precise science-based targets (Ostrum Asset Management recommends the use of SBTI¹⁰),
- Provide details on investment made by the company and the required transition costs to roll out the exit plan.

Ostrum Asset Management will evaluate this policy on a regular basis and strengthen its exclusion thresholds accordingly. This policy follows on from the Paris financial market's commitment to exiting the coal industry, and ties in with pledges by its shareholder group, Natixis.

⁹ German NGO Urgewald has drafted a list of companies (parent companies and subsidiaries) involved in the coal value chain. <https://coalexit.org>

¹⁰ The Science-Based Targets initiative

2.3. POLICY APPLICATION

Ostrum Asset Management has developed an internal procedure to manage the coal exclusion policy and exceptions to the policy. The list of issuers excluded is subject to pre-trade alerts that halt the transaction for the scope in question.

Our inhouse procedure also allows for duly warranted exceptions. With this in mind, Ostrum Asset Management has set up a Coal Exception Committee.

- The Coal Exception Committee is chaired by the Chief Investment Officer in charge of Fixed Income, Structured Products and Research. The CIO in charge of Insurance Management Solutions and ALM Solutions and the CIO in charge of Quantitative Management Solutions are members of the committee, as are Portfolio Management, the Risk department and the Compliance department.

A member of the portfolio management team can submit a request for exception (to the Coal exclusion) to the Coal Exception Committee. an extensive analysis of the issuer in question will be performed prior to this application. The request for exception will only be approved by the Coal Exception Committee if the analysis shows a clear commitment to a credible exit scenario by tracking the key indicators defined in section 2.2 of this Policy and, where necessary, providing other indications of the company's good understanding of the issues at stake, e.g. specific geographical features taken into account, plan based on the closure or transformation of assets rather than their sale, consideration of the social and societal impacts of site closures, etc.

2.4. POLICY COMMUNICATION

All parties involved are informed of the contents of the policy via various media:

- General information on sector and exclusion policies is published on the Ostrum Asset Management website.
- Ostrum Asset Management's exclusion policies are distributed by client services to clients of dedicated funds and mandates to confirm their application to these portfolios.

ADDITIONAL NOTES

This document is intended for clients of Ostrum Asset Management. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorisation of Ostrum Asset Management.

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Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.



Ostrum Asset Management

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