

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

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- **1. SCOPE FOR 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 outlined in our 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 CHALLENGES

At the Paris financial center meeting on July 2, 2019 with the French Minister for the Economy and Finance Bruno Le Maire, the main professional bodies and associations representing the Paris financial center issued a joint statement announcing new collective commitments to combat climate change and contribute to achieving the goal of net zero carbon by the year 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 endeavors 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 change 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 shift in producers' fuel mix.

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

Ostrum Asset Management rolled out an initial coal exclusion policy in 2018 before adding to its pledges in 2019, and now takes fresh measures to bolster this strategy.

We extend our coal sector exit strategy and pledge 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>

1.3. SCOPE FOR 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 is designed to apply to all open-end funds for which Ostrum Asset Management is delegated financial investment manager.

For dedicated funds and mandates, Ostrum Asset Management will apply this new policy (unless clients request otherwise) to take it on board in future portfolio management. Where necessary in the case of delegated management, it will inform the delegated manager.



- **2. DETAILED DESCRIPTION**

2.1. IDENTIFYING ISSUERS COVERED BY THE COAL POLICY

Ostrum Asset Management relies on the expertise of its teams of analysts, portfolio managers and ESG strategy officers, who are responsible for monitoring and updating the list of issuers covered by our sector and exclusion policies. These teams draw on their extensive insight into the companies and sectors as well as external information i.e. corporate communication, interviews, external providers, etc.

We have decided to draw on the GCEL (Global Coal Exit List⁶) an initiative by German NGO Urgewald, following the realization of investors' difficulty in tracking their coal investments. The GCEL provides datasets on 2,300 companies' coal-related revenues streams, the proportion of coal production, installed coal capacity and annual coal production. Urgewald's GCEL is a powerful information system and played a significant role in financial institutions' efforts to develop new coal policies.

⁶ The GCEL is available online at <https://coalexit.org>

2.2. ISSUERS COVERED BY THE POLICY

As of January 1, 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 east of the United States.

From July 1, 2021, we have lowered the thresholds in our coal policy. Coal issuers that are not ruled out on the basis of previous criteria are excluded if they exceed the following thresholds:

- 20% 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 20%.

These thresholds equate to limits set out by the 2020 Global Coal Exit List (GCEL)⁷. Similarly, divestment from companies concerned will be conducted within six months under normal market conditions.

Additionally, as of 2022, Ostrum Asset Management will no longer invest in companies that have not set out a coal phase-out strategy in line with the Paris Agreement in 2021.

Investments based on this criterion will cease as of January 1, 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.

We have set out key indicators to analyze 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 (we recommend the use of SBTI⁸),
- 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 both of Ostrum Asset Management's shareholder groups, Natixis and La Banque Postale.

⁷ German NGO Urgewald has drafted a list of companies (parent companies and subsidiaries) involved in the coal value chain. <https://coalexit.org>

⁸ The Science-Based Targets initiative

2.3. POLICY APPLICATION

Ostrum Asset Management has developed an inhouse procedure to manage its 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.

The inhouse procedure provides for possible and duly warranted exceptions. With this in mind, we have set up the Coal Exception Committee.

The Coal Exception Committee is chaired by the Chief Investment Officer and includes 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. This request includes a prior extensive analysis of the issuer. The request for exception will only be approved by the Exception Committee if analysis shows clear commitment to a credible exit scenario by following the key indicators set out in Part 2.2 of this Policy, and where necessary outlining other factors showing the company's clear grasp of challenges involved e.g. taking on board specific geographical features, plan based on the closure or transformation of assets rather than their disposal, taking on board social 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 broadly distributed by client services to clients of dedicated funds and mandates to confirm their application to these portfolios.

ADDITIONAL NOTES

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 48 518 602 €. Trade register n°525 192 753 Paris – VAT: FR 93 525 192 753 – Registered Office: 43, avenue Pierre Mendès-France, 75013 Paris – www.ostrum.com

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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.



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