

Exclusion Policy

Update: 8 March 2022

Validation by the Executive
Committee: 10 March 2022

Implementation: Immediately

Background

Covéa Finance's Exclusion Policy is aligned with its ongoing commitment to gradually take into account Environmental, Social and Governance criteria in its investment process. It contains normative, sectoral and thematic (coal) exclusions.

A. Normative exclusions

In accordance with the AFG's recommendations on the ban on funding Cluster Munitions and Antipersonnel Landmines, Covéa Finance excludes any direct investment in shares or bonds in companies involved in controversial weapons:

- **Cluster Munitions and Antipersonnel Landmines** within the meaning of the Ottawa Convention (1997) and the Oslo Convention (2008);
- **Bacteriological and/or chemical weapons.**

B. Sector exclusions

Covéa Finance has also defined sector exclusions.

1. Tobacco;

Tobacco companies.

2. Gambling and betting

Companies that generate more than 5% of their Direct Revenue in the **gambling and betting sector**.

3. Thermal coal

Covéa Finance is committed to excluding from its investments companies in connection with the **thermal coal** theme. A timeline produced internally is used to identify the companies concerned until 2040 and to steer our divestment strategy, which will allow Covéa Finance to effectively exit thermal coal by 2040.

The exclusion policy on coal is aimed at thermal coal, but when the information is not available the distinction is not made and therefore the exclusions potentially cover

steel coal as well as thermal coal (for extractors in particular; conversely, for energy companies, it is necessarily a question of thermal coal).

a. On relative thresholds:

- For **energy companies** whose electricity generation is generated from coal, and/or whose installed capacity is powered by coal (i.e. thermal coal); and
- for **companies (including extractors)** generating a portion of their revenue through coal.

In both cases, Covéa Finance is committed to excluding from its investments, by gradually lowering the thresholds, energy companies and other companies (including extractors) as specified below:

		Stage 1	Stage 2	Stage 3
OECD	2020	2025	2030	
	30%	15%	0%	
non-OECD	2020	2025	2030	2040
	30%	20%	10%	0%

Example of OECD zone: *From 2025, Covéa Finance will exclude companies generating more than 15% of their revenue from coal*

Example outside the OECD zone: *From 2025, Covéa Finance will exclude energy companies generating 20% or more of their electricity from coal*

b. On absolute thresholds:

- For **energy companies** with more than 5GW of coal-fired (i.e. thermal coal) installed capacity;
- for **extractors** with extraction capacities greater than 10Mt.

In both cases, Covéa Finance is committed to excluding from its investments, by gradually lowering the thresholds, energy companies and other companies (including extractors) as specified below:

OECD	2020	2030	
	5GW / 10 Mt	0GW / 0 Mt	
non-OECD	2020	2030	2040
	5GW / 10 Mt	5GW / 10 Mt	0GW / 0 Mt

For absolute thresholds, exclusions apply from the publication of the exclusion policy.

For relative and absolute thresholds¹, issuers that have made clear and public commitments to reduce their share below these thresholds by 2025 can be kept in the portfolio. For the latter, Covéa Finance will verify, as part of shareholder dialogue, the reduction of their coal exposure and the fulfilment of their commitments at least once a year.

C. The most active companies in terms of developing new coal capacity

All **companies active in terms of the development** of new coal capacity are also excluded. The development of new coal capacity may include new coal-fired power plants as well as new extraction capacities.

Certain coal-based infrastructure projects may be carried out with the aim of reducing CO2 emissions from combustion. A company will be excluded if the value of its coal-related infrastructure projects exceeds the threshold of 25% of tangible assets on the balance sheet. This threshold will fall to 0% in 2030 for companies in the OECD, and in 2040 for non-OECD countries.

OECD	2022	2030	
	25%	0%	
non-OECD	2022	2030	2040
	25%	25%	0%

4. Unconventional oil and gas

Covéa Finance is committed to excluding direct investments in **unconventional oil and gas** companies from its investments.

¹ Covéa Finance has based both its relative and absolute thresholds on agreed thresholds as proposed by professional organisations and NGOs

The definition of unconventional oil and gas adopted by Covéa Finance first takes into account (from 2022 to end 2025):

- Shale oil and gas
- Oil and gas from oil sands
- Coal-bed methane
- Heavy crude oil

It will then extend to include as early as 2026:

- Oil and gas produced in the Arctic (using the geographical definition established by the AMAP, Arctic Monitoring and Assessment Programme).

However, deepwater drilling is not taken into account in our definition of unconventional hydrocarbons, due to a lack of consensus on the criteria to use to establish the depth threshold.

An in-house document identifies the companies involved and steers our divestment strategy, which will enable an effective exit from unconventional oil and gas by 2030.

Covéa Finance is committed to gradually excluding unconventional oil and gas producers from its investments

- by broadening its definition of unconventional
- by lowering the thresholds

Exclusion scope:

Producers whose production of unconventional oil and gas exceeds 25% of their total production of hydrocarbons are therefore excluded from 2022.

	Stage 1	Stage 2	Stage 3
Unconventional oil and gas	2022		2026
	25%	25%	0%

Example: From 2022, Covéa Finance will exclude companies generating more than 25% of their annual production from shale, oil sands, coal-bed methane and extra heavy oil.

Example: As of 2026, Covéa Finance will exclude companies generating more than 25% of their annual production from shale, oil sands, coal-bed methane, extra heavy oil and the Arctic.

Exclusions apply from the publication of the exclusion policy.

Issuers exceeding the thresholds but having made clear and public commitments to reduce their share to below these thresholds by 2026 may be kept in the portfolio. Covéa Finance will verify, as part of shareholder dialogue, the reduction of their unconventional oil and gas exposure, the fulfilment of their commitments at least once a year and any plans for expansion.

Scope of application

Exclusion refers to securities issued by a company, independently of other companies in the parent group (parent company, subsidiaries).

Covéa Finance is committed to complying with this exclusion policy in all of its UCIs and mandates, for any direct investment in equities or bonds in the companies identified above.

Procedure

Covéa Finance compiles the list of exclusions by a process of identifying and applying the predefined scope of exclusion, based on its own internal research and data provided by various external service providers.

As part of the verification by sampling of the quality of the data of its service providers, Covéa Finance will conduct all of the necessary due diligence (verification of thresholds for revenues or electricity generation mix, further development of the strategy to exit coal, etc.), in the form of shareholder dialogue conducted jointly with the company, our financial and non-financial analysis department and members of management. Depending on the results obtained (confirmation/invalidation of data), the security will be kept in or removed from our exclusion list.

For its bond exposures, Covéa Finance will cease any new investment in the above-mentioned companies, but retains the right to hold securities already invested until maturity (with a maximum deadline of 2025 for thermal coal and 2030 for unconventional hydrocarbons).

For equity exposures, Covéa Finance will cease any new investment in the above-mentioned companies, but retains the right to keep



securities already invested if the issuer has made clear and public commitments to reduce its share to below the thresholds by 2025.

In all other cases, the securities covered by the exclusion must be divested within a maximum period of one year. If a security in the portfolio exceeds the above thresholds and the company in question is not able to provide us with an exit strategy in compliance with our exclusion policy within six months, the security must be divested within no more than six months.

The list of excluded securities is subject to review at least quarterly.

Application, control and communication

An automatic blocking pre-order is ensured on all securities featured in the list of exclusions.

Portfolio checks are carried out by the Compliance and Internal Control Officer – Permanent Control to subsequently ensure the full enforcement of the exclusion policy on all securities held by Covéa Finance.

Covéa Finance strives to strictly enforce its exclusion policy. The completeness of the list of exclusions depends mainly on the investment universe covered by our external provider ISS ESG and the NGO Urgewald, as well as the information published by companies.

Covéa Finance's exclusion policy is reviewed annually and a communication on any management impacts is included in our annual ESG report