

# EXCLUSION POLICY



**LA FRANÇAISE**  
INVESTING TOGETHER

# PHILOSOPHY

The La Française group has a positive view of business and its philosophy is based on trust. Thus, the Group believes in the ability of companies to evolve and transform, a belief that is based primarily on a progress oriented approach. However, in the light of the crises and challenges we are all currently facing, we can no longer afford to ignore a number of factors worthy of exclusion. Some specific technologies, for example, carry with them negative consequences that persist for so long that they cannot be allowed to go on. For this reason, we have implemented an exclusion policy based on the principles set out below.

The group is implementing three types of **exclusions**.

Exclusions that we call normative: they share common features which have acquired a level of universality and may even be embodied in regulations in certain countries. This is the case for controversial weapons whose exclusion is generally based on conventions signed by many countries, including France. For example, the Ottawa Convention on anti-personnel landmines and the Oslo Convention on cluster munitions. La Française therefore excludes **controversial weapons** from the entirety of its operations.

The Group has also decided to implement **public interest exclusions**. These exclusions relate to products whose use – despite being a matter of personal freedom – is nevertheless generally not in the public interest due to their negative effects on health and the environment. Therefore, the Group has decided to exclude **tobacco** as a public health issue. The UN Global Compact has excluded tobacco producers from being signatories, just as it originally did for companies producing or selling anti-personnel landmines or cluster munitions<sup>(1)</sup>. This decision was taken in 2017 following several WHO reports<sup>(2)</sup> highlighting mortality rates and the public health impact of tobacco consumption, including the «Global Tobacco Epidemic report, 2017». In addition, in May 2022, the WHO highlighted the disastrous environmental impact of tobacco in a report<sup>(3)</sup> «Tobacco: poisoning our planet».

Finally, **we are applying exclusions necessary to meet the Group's commitment to the Paris Agreement to decarbonise the economy** as well as the commitment we made by signing the Net Zero Asset Managers Initiative<sup>(4)</sup> (NZAMi) to achieve zero net carbon emissions by 2050. The resolute transition of our economy to a low-carbon world is primarily the responsibility of the energy sectors and in particular the coal, oil and gas industries, which must anticipate the decline of these energy sources and reinvent themselves. In this respect, finance, and thus asset managers like us, must encourage this transition. The scientific literature is diverse and unambiguous in convincing us of the necessity of this transition, for example:

- ◆ The first volume of the 6th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) on the scientific elements of climate change (August 2021), as well as the two subsequent volumes published in February 2022 on impacts and adaptation, and in March 2022 on solutions.
- ◆ The report «Net Zero by 2050: A Roadmap for the Global Energy Sector» by the International Energy Agency (IEA), published in May 2021, emphasises the issues of financing and investment. In particular, it emphasises the need for an annual reduction of investment in fossil fuel-based electricity supplies.
- ◆ An article published in 2021 in the journal Nature estimates that by 2050, almost 60% of fossil oil and gas reserves (and 90% of coal reserves) should not be extracted («unextractable reserves»).

(1) <https://www.unglobalcompact.org/participation/join/who-should-join>

(2) WHO: World Health Organization; <https://www.who.int/fr/news-room/fact-sheets/detail/tobacco>

(3) [Tobacco: poisoning our planet \(who.int\)](https://www.who.int/news-room/fact-sheets/detail/tobacco)

(4) [Signatories - The Net Zero Asset Managers initiative](https://www.who.int/news-room/fact-sheets/detail/tobacco)

◆ Researchers have identified and located the world's largest fossil fuel extraction projects, the so-called «climate bombs», which they define as coal, oil and gas infrastructure that could emit more than 1 billion tonnes of CO<sub>2</sub> over their lifetime. They published their results on 12 May 2022 in the journal *Energy Policy*. According to them, there are currently 425 «climate bombs» either in operation or in the planning stages across 48 countries. If they were all fully exploited, their combined potential emissions would represent twice the global carbon budget, i.e. the emissions ceiling that must not be exceeded if global warming is to be held to 1.5 °C above pre-industrial levels. This would undermine the objectives of the Paris Climate Agreement and the fight against climate change.

While the entire business model of the extractive industries needs to be revisited, we must urgently act on the parts that emit the most CO<sub>2</sub><sup>(5)</sup> and are the most harmful to biodiversity and ecosystems: fossil fuels and in particular coal, which is already the subject of an exclusion policy in our Group, as well as non-conventional fossil fuels.

In this context, **coal** is excluded, not only because of the issue of climate change but also because of public health concerns. Coal is, unfortunately, an inexpensive source of energy. But it is by far the most polluting energy source in terms of CO<sub>2</sub> emissions per kWh produced<sup>(6)</sup>. In the case of coal, exclusion is particularly necessary because the construction of new coal-fired power plants with an average lifespan of 40 years would result in locked-in emissions through 2060 at a time when the world will already have to be net carbon neutral. So while it is necessary to reduce coal consumption, it is vital not to support investments that will lead to CO<sub>2</sub> emissions for decades to come. The group therefore undertakes to exclude the main players linked to coal and to withdraw from it gradually (total withdrawal by 2040) in line with its own transition-oriented philosophy.

**Non-conventional fossil fuels** are also excluded. Non-conventional fossil fuels are energies which, due to their very nature (e.g. methane) or the nature of their extraction (e.g. shale gas) are high emitters of greenhouse gases or which, because of their techniques or locations, seriously endanger climate, biodiversity and ecosystems (e.g. deepwater or Arctic oil).

However, the definition of non-conventional energy is evolving and a consensus has yet to be reached on it. Our Group has adopted the approach chosen by the Scientific Committee of the Observatoire de la Finance Durable<sup>(7)</sup>, by its main shareholder Crédit Mutuel Alliance Fédérale<sup>(8)</sup> and finally by the NGO Urgewald, which provides the data enabling the operational implementation of the exclusions.

In our definition of non-conventional energy, we therefore focus on 6 categories:

- 1 - Coal bed methane;
- 2 - Oil shale and shale oil; shale gas;
- 3 - Oil sand;
- 4 - Extra heavy oil;
- 5 - Ultra-deep offshore oil and gas; and
- 6 - Oil and gas fossil resources in the Arctic.

Finally, for the definition of the Arctic perimeter, we refer to the Arctic Monitoring and Assessment Programme (AMAP)<sup>(9)</sup>.

For non-conventional fossil fuels, as for coal, there is an urgent need to stop funding new projects and to be clear to companies in this sector that the current threshold requirements will be tightened over time in line with the objectives of the Paris Agreement.

(5) Or CO<sub>2</sub>eq, i.e. all other greenhouse gases including methane

(6) <https://bilan-electrique-2020.rte-france.com/production-emissions-de-co2/#>

(7) [https://observatoiredelafinancedurable.com/documents/70/Reco\\_n2\\_du\\_Comite\\_Scientifique\\_et\\_dExpertise\\_de\\_lOb-servatoire\\_de\\_la\\_finance\\_du\\_Gp13W.pdf](https://observatoiredelafinancedurable.com/documents/70/Reco_n2_du_Comite_Scientifique_et_dExpertise_de_lOb-servatoire_de_la_finance_du_Gp13W.pdf)

(8) Our shareholder Crédit Mutuel Nord has been a member of the Crédit Mutuel Alliance Fédérale since 01/01/2022

(9) Arctic Monitoring and Assessment Programme | AMAP : Land and sea areas north of the Arctic Circle (66°32'N), as well as north of [parallel] 62°N in Asia and north of [parallel] 60°N in North America, modified to include the sea area north of the Aleutian islands, Hudson Bay and parts of the North Atlantic Ocean including the Labrador Sea

## GROUP EXCLUSIONS

Certain exclusions apply at Group level and to all its areas of business: securities, real estate, private equity. In this way,

- ◆ The Group does not invest in controversial weapons:
  - Anti-personnel landmines,
  - Cluster munitions,
  - Biological and chemical weapons,
  - White phosphorus,
  - Depleted uranium.
  
- ◆ The La Française group<sup>(10)</sup> is gradually but completely withdrawing from coal. It is committed to completely phasing out its exposure to coal within the following timescale: withdrawal from coal by 2030 for EU and OECD business exposure and by 2040 for emerging countries. This time frame corresponds to the recommendations of the IEA and we consider it to offer a certain fairness towards emerging countries and to ensure the necessary transition towards closures rather than a sale of assets which would not guarantee the cessation of their operation.

(10) Excluding index funds, manager-guided funds; for mandates and dedicated funds the option is systematically offered to clients, who are still the ones ultimately taking the final decisions

# ASSET MANAGEMENT COMPANIES EXCLUSIONS

## LA FRANÇAISE ASSET MANAGEMENT (LFAM), LA FRANÇAISE SYSTEMATIC ASSET MANAGEMENT (LF SAM), NEW ALPHA ASSET MANAGEMENT (NEW ALPHA)

LFAM and LF SAM have developed an exclusion policy that applies to all their assets under management (see the section entitled «Scope of application for this policy») and is based on thresholds and requirements which differ by range:

- ◆ All assets under management, including the Sustainable Inside range (securities funds classified under Articles 8 and 9 of the European SFDR nomenclature in which E, S and G criteria are integrated into the management of the funds),
- ◆ Carbon Impact range: securities funds predominantly classified under article 9 (European SFDR nomenclature) that have a quantified environmental target for carbon intensity reduction.

New Alpha applies the Carbon Impact range policy to equity and private equity funds.

	All management including the Sustainable Inside range	Carbon Impact range
<b>Tobacco<sup>(11)</sup></b>		
Production	Max 5% of turnover	Max 5% of turnover
Services, distribution	Max 25% of turnover	Max 25% of turnover
<b>Coal<sup>(12)</sup></b>		
Mining groups	Max 20% of turnover	Max 10% of turnover Max 20MT ore production
Electric Utilities	Max 20% of turnover or energy production	Max 10% of turnover or energy production Max 10GW energy production
Expansion	0 plans to open new mines or coal-fired power plants	0 plans to open new mines or coal-fired power plants
Withdrawal	Full withdrawal by in 2030 (OECD) or 2040 (emerging)	Full withdrawal by 2025
<b>Non-conventional fossil fuels<sup>(13)</sup></b>		
All 6 categories	Max 33% of overall production	Max 20% of overall production Max 10% in a single category
Tar sands / oil sands	Max 20% of production	
Expansion	0 expansion in 2025	0 expansion

(11) Sources: ISS, SIR

(12) Sources: ISS and Urgewald, SIR

(13) Sources: Urgewald, SIR

# REAL ESTATE MANAGEMENT COMPANY EXCLUSIONS

## LA FRANÇAISE REAL ESTATE MANAGERS (LFREM)

In the case of LFREM, a real estate management company, the exclusion policy applies to property assets, i.e. the buildings themselves.

The table below summarises the application of the exclusion policy at LF REM:

Real estate funds	
Tobacco	
	Assets housing a tobacco production, storage or distribution activity
Coal	
	Assets used for the extraction, storage, transportation or production of energy from coal
Non-conventional fossil energies	
All 6 categories	Assets used to extract, store, transport or produce energy from non-conventional fossil fuels

## DEDICATED RESOURCES

The implementation of an exclusion policy requires resources for checking via trusted external third parties whether the types and thresholds established for exclusions are being respected (or not!).

The Group relies on both external and internal research, including the following among its external research providers:

- ◆ ISS, a provider of ESG data including data on coal and tobacco,
- ◆ Sustainalytics, a provider of ESG data for controversial weapons,
- ◆ Urgewald, an NGO providing data on coal and non-conventional fossil fuels (GCEL and GOGEL files)

We also have an ESG-climate research centre, La Française Sustainable Investment Research<sup>(14)</sup> (LF-SIR). LF-SIR analysts can, on a case-by-case basis, go into further depth with the data received from our suppliers.

For real estate, the management company uses its own data to verify the use of its assets.

(14) [https://www.la-francaise.com/fileadmin/docs/Actualites/FR/2021/01\\_2022\\_LF\\_Sustainable\\_Investment\\_Research\\_EN.pdf](https://www.la-francaise.com/fileadmin/docs/Actualites/FR/2021/01_2022_LF_Sustainable_Investment_Research_EN.pdf)

# OPERATIONAL IMPLEMENTATION

The implementation of the exclusion policy is based on a number of steps and involves several functions and structures.

## The Compliance and Internal Control Department

◆ The lists of companies prohibited from being purchased and/or held are sent to portfolio managers, either quarterly or based on the frequency of data updates from our suppliers, by the Internal Control Compliance department.

The established exclusion lists are systematically integrated into the internal pre-trade system, thereby ensuring that no investments are made in prohibited companies.

◆ Internal Control checks the correct application of the exclusion policy via Property Investment Committees.

## The LFAM and LFSAM Stewardship Committee

In exceptional cases, a manager may ask an LF-SIR analyst to perform an additional analysis on an excluded company.

The SIR analyst carries out the research and documents it in writing. There are two possible cases of adjustment:

- 1 - The underlying data from the supplier is wrong or inaccurate and the company itself provides us with corrected, accurate data; the activity is not well understood and classified by the supplier.
- 2 - There is a real history of corporate transition documented by LF-SIR.

The case is subject to arbitration in an ad hoc meeting of the Stewardship Committee comprising the Managing Director of the Management Company, the Group Head of Sustainability and the Head of Corporate Engagement & Stewardship within the ESG research team: the decision of the Stewardship Committee is traceable and archived. These cases should remain exceptional and should not constitute a way of circumventing the exclusion policy. The number of arbitrated cases is monitored annually and all information is publicly available in the Group's Sustainable Investment and Climate Strategy report.

The Stewardship Committee meets annually to review LFAM's and LFSAM's exclusion policy and decides on updates proposed by the Sustainable Investment team.

## The Real Estate SRI Committee

The Real Estate SRI Committee meets at least twice a year and includes a member of General Management, Internal Control, and an Asset Management as well as an Investment Director.

In addition to other matters, the Real Estate SRI Committee may be called upon to rule on controversial cases as part of the escalation process set out in the ESG Risk Management Policy. These are escalated by Internal Control whenever necessary and the members of the SRI Committee are to decide on the positioning of LFREM in their regard.

## SCOPE OF APPLICATION OF THIS POLICY

The exclusion policy applies to all LFAM, LF SAM and LFREM funds.

It does not include:

- ◆ Index funds, funds of funds<sup>(15)</sup> and guided-management, meaning that approximately 11% of actively managed assets are excluded.
- ◆ Certain mandates and dedicated funds: the option is systematically offered to clients, who remain the ultimate decision-takers.  
In case of identification of an issuer in the portfolio that does not meet the requirements of our exclusion policy, the disposal deadline is one month<sup>(16)</sup> under normal market conditions.

It also applies to La Française's 49% consolidated subsidiary, New Alpha Asset Management, for its equity multi-management and private equity funds, representing 44% of assets under management.

(15) LFAM is developing an exclusion policy adapted to its fund of funds management activity, as the transparency of the selected funds is not always possible.

(16) This delay is extended to three months for funds managed by LFSAM, in order to take into account the systematic management strategy implemented on a quarterly basis.

# OUTLOOK

## TOWARDS AN EVOLVING POLICY IN THE SHORT AND MEDIUM TERM

### 2022 – an unusual year

Transitional phases never run smoothly. The year 2022 will mark a turning point in energy transition, due in particular to the consequences of the Covid-19 pandemic on commodities and of geopolitical tensions on the price of oil and gas. In this context, energy sovereignty, particularly in Europe, has become a fundamental issue. This issue has, for example, raised the possibility of shale gas as a temporary replacement for Russian gas. It also implies that energy self-sufficiency, which needs to come as soon as possible, will briefly require an increased use of fossil fuels.

The medium-term effects of these tensions will undoubtedly be positive for energy transition, but actuality is down to the year 2022. This is why it is useful to be both demanding and in tune with the reality of the economy, politics and business. We need to set milestones and time-specific targets which will be reviewed annually.

By its very nature, an exclusion policy must be given time to evolve. In particular, it reflects our Group's strategy to support an energy transition that is necessary but must be fair and respect biodiversity and natural capital. To this end, we maintain our confidence in the companies we support and in their ability to take into account environmental, social and governance issues. But we are conscious of the incentive effect of further minimum requirements that we will gradually incorporate in the future, including:

- ◆ Strengthened requirements for non-conventional fossil fuel exclusion thresholds
- ◆ An exit plan for non-conventional energy
- ◆ Reviewing the time frame for a total withdrawal from coal (currently by 2030 and 2040) with a view to shortening this time period in light of climate issues
- ◆ The gradual extension of the exclusion of coal and non-conventional energies to the entire value chain and thus to the so-called midstream sectors (e.g. transport infrastructure, oil refineries, etc.)
- ◆ The exclusion of 'conventional' fossil fuels
- ◆ The exclusion of companies in breach of the UN Global Compact Principles<sup>(17)</sup>

(17) <http://www.globalcompact-france.org/>



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