

Our minimum standards and exclusions



This is a methodological document aimed at clarifying how Mirova establishes minimum standards and sectoral exclusions in the sustainability analysis of companies.

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An affiliate of:



Mirova was created to finance economic models that aim to positively contribute to sustainable development. Much of our work is focused on attempting to identify solution providers that create positive impact, but this does not dispense us of the need to ensure that our investments always meet or exceed minimum standards including with regards to controversial activities.

Minimum standards are defined for each sector based on their key environmental and social issues and are detailed in our sectoral research papers. These are available on Mirova's website, at:

<https://www.mirova.com/en/research/understand>.

This document summarizes our positions on major issues deemed controversial and illustrate the criteria we have implemented to ensure compliance with these positions in our analysis of companies.

It applies to all our listed equities and fixed income portfolios.

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Mirova does not exclude any industry on principle. All our positions are the result of an extensive analysis of environmental and social impacts. For certain sectors, this analysis may lead to the exclusion of all players in the sector.

Energy

Fossil Fuels

Coal

With 15 Gt of CO₂ in 2021, coal is both the largest emitter of energy-related carbon dioxide and the largest source of electricity generation (standing at 36%). Achieving a net zero world by the end of the century involves a rapid phase-out of coal while considering development needs and accessibility to clean energy. In the NZE scenario from the IEA, global coal supply falls by 90% by 2050 and the global power sector is completely decarbonized in advanced economies by 2035 and worldwide by 2040¹.

With regards to coal, Mirova applies the following investment principles:

1/ Projects: no direct investment in coal projects or any type of specialized financial support.

2/ Exclusion of companies planning additional coal capacity, through the development of new coal projects or the expansion of existing capacities, for mining, power generation, infrastructure (coal transportation, other assets), and dedicated services.

3/ Exclusion of companies operating or supporting the operation of existing coal-related facilities that have no clear phase-out plan by 2030 for OECD countries, and 2040 worldwide.

4/ Exclusions based on relative and absolute exposure thresholds:

- **Power generation: exclusion of companies if at least 20% of their electricity generation derives from coal OR if the average carbon intensity of their electricity generation exceeds 300 gCO₂/kWh.**
- **Outside of power generation: exclusion of companies involved in coal mining, coal infrastructure, EPC², O&M³, Coal-to-Gas, Coal-to-Liquids, coal trading, starting at 5% of revenues.**
- **Exclusion of companies producing more than 10 Mt of thermal coal per year, or whose installed coal-fired power capacity generation exceeds 5 GW, as of 2022. Mirova intends to progressively reduce these thresholds towards 0 by 2030.**

¹ <https://www.iea.org/reports/coal-in-net-zero-transitions/executive-summary>

² Engineering, Procurement and Construction

³ Operation and Maintenance



External exclusion lists: Mirova monitors in particular the Global Coal Exit List (GCEL) from Urgewald⁴ to identify companies involved in coal activities, and systemically excludes companies from this watchlist if they have no clear phase-out plan by 2030.

Exceptions apply: i) For Green Bonds issued by utility companies exhibiting credible decarbonization objectives, ii) If power capacity generation thresholds are exceeded on a temporary basis due to national legal obligations in the context of energy provision security; and iii) On a case-by-case basis, if a threshold is temporarily exceeded, with a view to support utility companies exhibiting the most ambitious transition plans, provided that the majority of their capex is allocated towards “clean energy” projects (e.g., as per the European Taxonomy) and they have set SBTi-validated targets aligned with a 1.5°C warming.

Oil & Gas

In 2021, oil & gas have caused the emission of 12 Gt and 8 Gt of CO₂⁵, respectively. Around two thirds of oil production is used for transportation, while gas production is broadly evenly split between electric power, the industry sector, and residential and commercial uses. Gas is the second largest source of electricity generation, with 23%⁶. In addition, the oil & gas sector is responsible for fugitive emissions⁷ due to gas flaring emitting CO₂, but also due to methane emissions at all stages of its activity (wells, gas transportation and storage, processing of petroleum products). Achieving a net zero world by the end of the century involves a rapid phase-out of oil and gas. IEA’s NZE scenario⁸ indicates that: i) global oil and gas supply will have to fall by around 78% and 72%, respectively, by 2050; ii) no fossil fuel exploration is required; and iii) no new oil and gas fields are required beyond those that have already been approved for development.

The oil and gas industry is typically divided into three sectors: upstream, midstream, and downstream. The table below details the scope of activities considered within these sectors:

Upstream	Midstream	Downstream
<ul style="list-style-type: none"> • Exploration (including seismic surveys) • Drilling of exploration and production wells • Production of crude oil, gas, and condensates • Processing/treatment of oil & gas 	<ul style="list-style-type: none"> • Transport by pipeline, rail, barge, truck, and shipping, from production sites to oil refineries and gas hubs • Storage • Gas liquefaction • LNG regasification • Trading 	<ul style="list-style-type: none"> • Refining and petrochemicals • Distribution by pipeline, rail, road from refineries and gas hubs to users and retailers • Retail (petrol stations, gas retailers) • Users (power generation, heat, etc.)

⁴ <https://www.coalexit.org/methodology>

⁵ <https://ourworldindata.org/grapher/CO2-by-source>

⁶ <https://ourworldindata.org/electricity-mix>

⁷ https://www.ipcc-nggip.iges.or.jp/public/2019rf/pdf/2_Volume2/19R_V2_4_Ch04_Fugitive_Emissions.pdf

⁸ <https://www.iea.org/reports/net-zero-by-2050>



With regards to the oil & gas value chain, Mirova applies the following investment principles:

1/ Exclusions based on relative exposure thresholds:

- **Unconventional oil & gas⁹: exclusion starting at 5% of revenues¹⁰ (includes exploration, production, processing, transport, storage, gas liquefaction, and trading activities).**
- **Upstream, both conventional and unconventional oil & gas: exclusion starting at 5% of revenues¹⁰ (includes exploration and production activities).**
- **Midstream & downstream: exclusion of companies generating more than 50% of their revenues from related activities.**
- **Power generation: exclusion of companies if the average carbon intensity of their electricity generation exceeds 300 gCO₂/kWh.**

2/ Exclusion of companies expanding upstream and midstream activities, as follows:

- **Exclusion of companies involved in the exploration or development of new oil and gas fields (i.e., fields that are not yet in production), or in the expansion of existing fields already in production.**
- **Exclusion of companies involved in the development of new midstream oil and gas capacities¹¹ if i) they have more than 300 km of pipeline under development, or ii) they develop LNG regasification terminals of more than 1 Mt per annum of capacity. Mirova intends to revise these criteria regularly to ensure alignment with a sustainable climate scenario.**

3/ Exclusion of equipment & services companies (i.e., companies manufacturing dedicated products and equipment and/or offering services supporting the oil & gas value chain) if more than 50% of their revenues derive from these activities

External exclusion lists: Mirova monitors in particular the Global Oil & Gas Exit List (GOGEL) from Urgewald¹², notably to identify companies involved in midstream expansion projects.

Exceptions apply for: i) Green Bonds issued by upstream- and midstream-focused oil & gas companies if the majority of the company's capital expenditure is allocated towards "clean energy" projects (e.g., as per the European Taxonomy), ii) Activities dedicated specifically to non-fossil oil and

⁹ Arctic oil and gas (AMAP program definition), tar sands, oil and gas produced from fracking, ultra-deep water (production from offshore wells below 1500 meters), coalbed methane, extra-heavy oil.

¹⁰ Exception is allowed if the threshold is exceeded because of a one-off price effect due to a sharp increase in commodity prices compared to normalized market conditions (e.g., average prices over the last 3 years), rather than a volume effect.

¹¹ As absolute thresholds need to be completed by a qualitative assessment, exception is allowed for midstream companies where our analysis has concluded that no significant negative impact stems from such projects, notably for companies whose transport capacity expansion projects are more than offset by permanent shutdowns, thus resulting in no net capacity expansion.

¹² <https://gogel.org/>



gas (including the production, transportation, and sale of advanced biofuels, e-fuels, biogas, biomethane, and green hydrogen).

Engagement¹³: for eligible utility companies that comply with these exclusion guidelines but cannot yet commit to a 1.5°C scenario per SBTi¹⁴ (or equivalent), Mirova has adopted engagement measures aimed at strengthening those issuers' climate policies over time¹⁵.

¹³ For more information with regards to our Engagement Priorities and Report (including process): <https://www.mirova.com/en/research/voting-and-engagement>

¹⁴ Science Based Targets Initiative <https://sciencebasedtargets.org/>

¹⁵ Practices expected from Utilities companies by Mirova are detailed in the Energy sector papers here: <https://www.mirova.com/en/research/understand>



Nuclear Power

Nuclear power has a CO₂ footprint equivalent to that of renewable energies because fission reactions emit no greenhouse gases. Nonetheless, it is an energy source with risks of its own:

1/ The risk of nuclear accidents. Events like Three Mile Island, Chernobyl and Fukushima have demonstrated that nuclear accidents can take place.

2/ Management of nuclear waste. Even after reprocessing, by-products of fission result in radioactive waste that remain dangerous for hundreds of thousands of years.

These risks mean that nuclear power is not appropriate in many contexts. Political stability is essential, a high level of technical know-how, and strong, independent nuclear regulatory bodies are essential.

We apply a case-by-case analysis of the strategies pursued by actors within the nuclear industry, especially when they are present in countries where the industry is insufficiently monitored.

Specific case for green bonds

For the case of green bonds issued by companies involved in energy and electricity production, we conduct a specific analysis. We do not consider an investment in a green bond equivalent to an investment in the issuer itself but rather in the green projects stated in the use of proceeds. To be considered as eligible to our investments, the green bond has to comply with the following criteria:

1/ positive contribution of the use of proceeds to environmental objectives,

2/ good management of environmental and social risks linked to underlying projects along their life cycle,

3/ alignment with the issuer's overall energy transition strategy.

Food and Agriculture

Palm Oil

At its current scale, palm oil production and use lead to considerable environmental and social problems: deforestation, climate change, biodiversity loss, infringement on indigenous rights, and negative health impacts. Even so, it can support development and help to meet global needs.

Coupled with the increasing demand for vegetable oils, the prominence of palm oil in the world markets indicates that its demand will only continue to grow, reinforcing the need to address the social and environmental issues it raises. As a result, traceability and sustainable supply of palm oil represent a significant area of engagement with companies from this sector.

Exclusion applies to palm oil producers failing to meet the following criteria:

1/ Subscription to the RSPO (Roundtable on Sustainable Palm Oil), with all production certified.

2/ A broad commitment to avoid deforestation and protect peatlands.

Although sustainable palm oil production is an indirect issue for companies positioned downstream of the agriculture value chain, we systematically incorporate palm oil in our review of their supply chain management.

Our requirements in terms of traceability and sustainable supply represent a significant area of engagement with companies from this sector.

Genetic Engineering

While we acknowledge the public mistrust surrounding GMOs and, more broadly, vegetable biotechnology, we believe these technologies have an often-overlooked role to play in ensuring food security and improving nutrition. Given that it can lead to more efficient plant breeding, offering possibilities beyond what can be achieved using conventional techniques, we do not consider biotechnology use as a reason for exclusion in and of itself.

But most of the GMOs marketed today support conventional farming practices as herbicide-tolerant or insect-resistant crops. We thus consider them akin to conventional agrochemicals which tend to create negative effects on ecosystems and do not present any environmental or social benefit.

We apply a case-by-case analysis of the strategies pursued by actors involved in genetic engineering, looking specifically at their commitment to appropriate risk management and transparency around the potential impacts of their products.

Agrochemicals

Agrochemicals are becoming increasingly controversial due to their impacts on the health of farmers, end-users, and local communities. Local bans on certain products, lawsuits from farmers indicating the harmful effect of products, and an increasing number of scientific studies suggest causality between the use of agrochemicals and serious illness.

We analyse the strategies pursued by the actors in the sector on a case-by-case basis, focusing on their product mix, health and safety policies, implementation of the precautionary principle, and communication to users.

Exclusion applies to companies with >5% of revenues from chemicals banned for sale in certain markets, with no phase-out target over the next three years.

Health and Addiction

Tobacco

The tobacco epidemic is one of the biggest and most serious global public health threats – its effects counteracting the advances in health made in the past. The World Health Organisation estimates that tobacco is killing around 8 million people a year around the world¹⁶.

In 2005, the WHO Framework Convention on Tobacco Control (WHO FCTC) came into force. Its main objective is to protect present and future generations from the devastating health, social, environmental, and economic consequences of tobacco consumption and exposure. Ratified by 174 countries covering 90% of the world's population, the WHO FCTC is a legally binding treaty by which these countries commit to developing and implementing a series of evidence-based tobacco control measures to regulate the tobacco industry, reduce demand for tobacco and provide alternatives to those involved in growing and producing tobacco.

Exclusion applies to companies with >0% sales from tobacco¹⁷ production or companies with 5% sales from tobacco retail and wholesale.

Alcohol

Alcohol-producing and retailing companies face significant risk related to harmful social effects stemming from their products. The World Health Organisation suggests that alcohol overuse can lead to a wide range of acute and chronic health effects¹⁸.

¹⁶ World Health Organisation, *Fact Sheet Tobacco*, last updated on 26 July 2021

<https://www.who.int/news-room/fact-sheets/detail/tobacco>

¹⁷ Including alternative to nicotine products

¹⁸ World Health Organisation, *Fact Sheet Alcohol*, last updated on 21 September 2018

<https://www.who.int/news-room/fact-sheets/detail/alcohol>



However, we consider that certain groups are the most exposed to risks of overuse and negative health effects: consumers of companies' low-end product ranges, consumers in areas where the company has large operations but is subject to limited regulation, and/or young people. We believe that companies with risk management frameworks in place to limit the risks associated with the alcohol use of these consumer groups may be able to substantially reduce their negative social impacts and risk exposure.

Since industry self-regulation is the main force driving mitigation of social risk for companies involved in alcohol production (i.e. large companies mainly act together within industry initiatives to tackle this issue), companies have a major responsibility to promote responsible marketing and distribution practices, tailored to their product ranges and markets.

Exclusion applies to alcohol producers or retailers failing to meet the following criteria:

1/ Transparency about how the company ensures responsible marketing practices in high-risk markets (i.e. countries with limited regulation, low-end product ranges, etc.), and regarding high-risk population.

2/ Detailed risk mappings and social risk management plans.

Cannabis

Cannabis contains a variety of different compounds, namely cannabidiol (CBD) and tetra-hydro-cannabinol (THC). CBD is not psychoactive but is used as a medicinal ingredient. THC is a psychoactive substance with various legal standings, depending on the country or state.

Consumer goods: Companies producing, and marketing cannabis-based foods, beverages, and cosmetics have limited risks associated with the use of their products because they generally only contain CBD (no psychoactive component). However, there is still very little knowledge around the true positive and negative effects of these products over the long term, and no regulation marketing.

At the moment, industry self-regulation is the predominant means of monitoring cannabis use in consumer goods. We focus on companies' marketing policies and practices on a case-by-case basis in order to assess their risk management profile, especially in countries where regulation around cannabis in consumer goods is scarce.

Pharmaceutical cannabis-based products: health authorities have issued stringent regulation regarding the medical applications of pharmaceutical cannabis-based products. Use is limited to certain specific health conditions, full medical trials are required; these medicines must be approved, licensed, and prescribed.

The sustainability assessment of cannabis-based pharmaceutical companies follows the same principles as the broader pharmaceutical industry; cannabis-based pharmaceuticals will not be considered controversial products.

Recreational cannabis-based products: in jurisdictions where permissible by law, companies can sell THC-containing cannabis products for recreational use. At present, the World Health Organization discourages the protracted use of cannabis due to reported acute and chronic health effects, and reports that substance abuse is recurrent among young consumers¹⁹.

All companies exclusively involved in producing and retailing recreational cannabis are excluded from our investments.

Sugar-Sweetened Beverages

Sugar-sweetened beverages create significant, negative impacts on human health, especially because of their connection with obesity and type 2 diabetes. The World Health Organisation recommends that the consumption of added sugars be limited to 5-10% of daily energy intake²⁰. However, actual sugar consumption is substantially higher (and rising) in many countries. Sugar-sweetened beverages are a major contributor to excess sugar consumption. Furthermore, as calories in liquid form are not registered by the digestive system in the same manner as calories in solid form, those that consume sugary beverages tend to take in more calories than those who don't.

To minimise the public health impacts of sugar consumption, regulators have started implementing taxes on highly sweetened products and beverages to reduce consumption of these products. However, we have yet to see stronger restrictions (e.g. banning the sale of these products to consumers under a certain age) as for the sale of alcohol and tobacco. Companies have responded by working to decrease the sugar in their products, in part by developing alternatives sweetened with low-calorie sweeteners. Since studies have not yet been conclusive on whether low-calorie sweeteners are healthier than the sugars they replace, we consider them equivalent to sugar as a precaution.

Companies that sell products with added sugar in solid form are not necessarily excluded, but are instead subject to a case-by-case analysis, including 1) a strategy to decrease the sugar, salt, and fat in their products with time-bounded targets, 2) a transparent and third-party verified measurement of their products' nutritional profile, 3) responsible marketing practices that promote a healthy lifestyle and limit marketing of sugary products to children, and 4) transparent nutrition labels.

Exclusion applies to companies with >10% sales derived from sugar sweetened beverages.

¹⁹ World Health Organisation, Fact Sheet Tobacco, last updated on 11 November 2016 <https://www.who.int/teams/mental-health-and-substance-use/alcohol-drugs-and-addictive-behaviours/drugs-psychoactive/cannabis>

²⁰ World Health Organisation, WHO calls on countries to reduce sugars intake among adults and children, 4 March 2015 <https://www.who.int/news/item/04-03-2015-who-calls-on-countries-to-reduce-sugars-intake-among-adults-and-children>



Gambling

Gambling companies' business creates substantial social risks, namely addiction and over-indebtedness. We do not consider any company exposed to gambling as having sufficient policies to properly address the social risks linked to their activities.

Exclusion applies to companies with >5% sales derived from gambling.

Fundamental Rights

Military equipment and weapons

In our view, military equipment can play a role in both war and peace; they are not excluded on principle. The term "military equipment" includes all weapons, weapon systems, platforms, and ammunitions. Military equipment also refers to products which have not been designed for combat such as vehicles, military clothing, protection items etc. Although military equipment can contribute to peacekeeping, weapons must not be used on a discretionary basis or against civilians.

For this reason, our exclusion only targets weapons for which non-reexportation cannot be ensured.

Weapons are defined as products, or components:

- **Key for lethality/** essential in the offensiveness of these products. In other words, that have been developed for military purposes and designed to injure/kill human.
- **Tailor-made:** developed primarily to be integrated into a weapon system.

Exportability is qualified when the company cannot guarantee that their products will not be exported or re-exported to high-risk, undemocratic countries, where they may be used against civilians.

Exclusion applies to companies with:

- **>0% sales derived from re-exportable weapons (as defined above);**
- **>0% sales of banned or controversial weapons such as antipersonnel mines, cluster munitions, biological and chemical weapons, depleted uranium, and nuclear weapons.**

No exclusion applies to other military equipment not considered key for lethality (vehicles, soldiers protections, GPS etc) or for which non-reexportability can be ensured.

Adult Entertainment

Companies involved in producing and retailing adult entertainment are exposed to high social risk, especially related to human trafficking. We have not identified any companies involved in this industry within our investment universe. Nevertheless, we consider that no company in the sector has developed sufficient policies to properly address its social risks.

Exclusion applies to companies with >5% sales derived from adult entertainment.

Animal testing

In the pharmaceutical industry -

While animal testing can appear to be irrelevant and cruel in some industries, the development of medical products continues to require pre-clinical tests, usually performed on animals due to the lack of relevant alternative. Pharmaceutical companies performing animal testing are not excluded yet are instead expected to formalize an ambitious commitment to the three “Rs” (Reduction, Refinement, Replacement) which entails the minimization of experiments on animals whenever substitute tests are possible, the avoidance of animal suffering and a commitment towards finding alternatives to animal testing. Companies are also expected to invest in the development of alternatives to animal testing using in vitro methods or advanced computer-modelling techniques.

In cosmetic or retail industry –

Animal testing in other industries persists, even though some market such as the European Union have started to ban animal testing for cosmetics for example. In the past, China required by the law to test imported products on animal, such regulation slowly changing. Consequently, we expect companies to commit not to test their products on animals unless it is stipulated by legal regulations or accepted alternative test methods obtaining the necessary safety data are not available. We also expect the formalisation of the strategy to implement the three “Rs”.

We apply a case-by-case analysis of the strategies implemented by companies in these sectors, looking specifically at their commitment to reduce the number of tests conducted on animals and to develop relevant and effective alternatives. We engage with companies to ensure the development and implementation of robust 3Rs policies.

Stem cell research

Stem cell refers to cells that can be self-renewed, multiply infinitely and differentiate into all types of human cells. Stem cells research carry the potential to actively contribute to addressing unmet medical needs, by improving the understanding of a disease occurrence, by offering opportunities in the development of transplant and regenerative medicine or in diabetes, Parkinson's or Alzheimer's diseases treatments. As of today, only a small number of stem cells treatments have been authorized by national regulators,

and cautious should be exercised due to the remaining lack of scientific evidence of stem cells therapy's safety²¹.

Most stem cells are collected from embryos or foetal tissues. Indeed, while adult stem cells exist, they may not produce all other cell types, remain sensitive to environmental hazards, or may contain errors resulting from the process of cells replication. The development of "induced pluripotent stem (IPS) cells" (cells which have been reprogrammed back into an embryonic state) is promising, yet such cells still struggle in delivering similar benefits. Thus, at this point, no relevant other alternative has been identified to conduct this research.

International bodies such as the World Health Organization are still calling for stronger international regulation on stem cells research and therapies. Regarding embryos research for example, in France, the regulation imposes to use embryos only from in vitro fertilization for which the parental project was finally abandoned. Some countries such as Germany prohibits research on human embryos, yet, working with imported of embryonic stem cell lines is permitted if the stem cells line has been created prior a certain cut-off date²². Stem cells may also be collected from tissues of aborted foetus. In this case, the regulation is often tied up with political and ideological considerations. For example, in 2019, the US had passed a law forbidding the new acquisition of human foetal tissue from voluntary abortions. Since the President Biden's election, the past regulation was reversed. However, the Sustainable Development Goals (SDG 5.6) clearly include abortion rights under the "universal access to sexual and reproductive health and reproductive rights⁴". Considering the lack of standardized regulation, it is difficult to solely rely on national laws to enforce minimum ethical standards. The International Society for Stem Cell Research (ISSCR)²³ issued specific Guidelines. While they lack in political enforcement, we consider many of these guidelines as essential to ensure minimum standards of ethics.

- **Existence of a scientific oversight process** to review and to raise potential bioethics dilemma about, among others, procurement of embryos. The role of the instance is also to assess the scientific rationale of the research proposal. Indeed, stem cells research should solely serve a medical purpose and should not be used in any genetic manipulation, human reproductive cloning projects, or chimera creation projects.
- **Informed consent:** Voluntary informed consent should always be provided by donors. Perfect transparency on the origin of stem cells is necessary to initiate research.
- The prerequisite for an ethical sourcing of stem cells is that foetal tissue **should strictly rely on donation** following an abortion or stillbirth. In what regards research should only be conducted from in vitro embryo for which parental project would have been abandoned. The creation of a stem cell line can be approved for the study of specific pathologies but should remain under the control of the oversight body.

²¹ Bulletin – World Health Organization; 2017 Regulating the stem cell industry: needs and responsibilities <https://www.who.int/bulletin/volumes/95/9/16-189977.pdf>

²² Regulation of stem cell research in Germany – EuroStemCell <https://www.eurostemcell.org/regulation-stem-cell-research-germany>

²³ ISSCR Guidelines for Stem Cell Research and Clinical Translation https://www.isscr.org/docs/default-source/all-isscr-guidelines/2021-guidelines/isscr-guidelines-for-stem-cell-research-and-clinical-translation-2021.pdf?sfvrsn=979d58b1_4



- **No incentive** should exist to encourage women to donate embryos or foetal tissues. No remuneration or compensation should be allowed to encourage the harvesting of embryos.

No specific exclusion applies for companies conducting stem-cell research. However, companies are expected to comply with stringent ethical standards including those mentioned above and to provide relevant evidence the research is conducted for a medical purpose (without relevant alternative available). Assessment is done on a case-by-case basis, with a specific focus on companies exposed to less regulated areas and is included in our engagement with the companies.

Governance and International Conventions

Tax Havens

When companies pay taxes, the private sector is essentially contributing to the social development of a country. Through this mechanism, companies can participate in governmental budgets for social development and contribute to the public good.

- However, there are still some jurisdictions that facilitate tax fraud and avoidance, reducing companies' positive social contribution through tax payments. We also carefully consider to what extent companies participate in tax optimization. Since information on tax payments and jurisdictions is often inaccessible and we seek to analyse strategies on a case-by-case basis, tax optimization represents a major topic within our engagements.

Exclusion applies to companies registered, incorporated or headquartered in a tax haven as defined and maintained by the European Commission.

Oppressive regimes

Without respect for the rule of law and fundamental freedoms, it is impossible to ensure that public funds will actually lead to the implementation of policies and initiatives that are beneficial for the environment or society. This is why we do not invest in the debt of these countries, nor in the debt of issuers affiliated with these governments. For companies or projects located in these countries, we conduct a detailed analysis of the specific issues related to both the country and the sector of activity.

As a result, we do not shy away from investing in companies or projects within sectors that offer significant social or environmental benefits such as access to water, healthcare, food, subject to a thorough analysis of their governance and links to state authorities, and the quality of their environmental and social responsibility practices.

However, we have identified several cases in which analysis led to the exclusion of companies (whether local or international) from our funds.

Exclusion applies to bonds issued by states considered as non-democratic, as well as to issuers affiliated with these governments.

Exclusion also applies to companies under the following conditions,

- **when the company operates in a strategic sector for the country, thus contributing directly to the regime,**
- **where the company operates in a sector where the risks of human rights abuses in the country appear particularly high.**

UN Global Compact's principles and/or OECD guidelines

Beyond involvement in controversial activities, companies analysed by Mirova as in serious breach of *UN Global Compact's principles and/or OECD guidelines* for international companies are also excluded on the grounds of problematic practices around human rights, labour rights, environment, business ethics and corruption issues.

Specific exclusions

For our labelled funds, in particular under the Belgian label "Towards Sustainability"²⁴ and the French label "Greenfin"²⁵, additional screenings meeting the specific criteria and exposure thresholds of the companies are applied.

Exclusions specific to Greenfin labelled funds

Beyond our minimum standards, in accordance with the label's specifications²⁶, exclusion from our Greenfin labelled portfolios applies to:

- companies whose turnover is more than 5% related to activities of the entire fossil fuel value chain or the nuclear sector as defined by the label,
- companies whose turnover is more than 33% related to activities in the production of equipment and services, transportation of equipment and services, and distribution of equipment and services dedicated to the fossil fuel or nuclear value chain as defined by the label, as well as storage and landfills without GHG capture, incineration without energy recovery, energy efficiency for non-renewable energy sources and energy savings related to extraction optimization, the transportation and generation of electricity from fossil fuels, forestry, unless managed sustainably, and peat agriculture.

²⁴ See: <https://towardssustainability.be/>

²⁵ See: <https://www.ecologie.gouv.fr/label-greenfin>

²⁶ These criteria may be reviewed according to changes in the label's specifications.



Exclusions specific to Towards Sustainability labelled funds

Fossil Fuels

Beyond our minimum standards, in accordance with the label's specifications, exclusion from our Towards Sustainability labelled portfolios applies to companies involved in the exploration, extraction, refining and transportation of conventional oil and gas or providing dedicated equipment or services therefor, if they do not meet at least one of the following criteria:

- Have a Science Based Target (SBTi)²⁷ set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
- Derive less than 5% of its revenues from oil and gas-related activities
- Have less than 15% of CapEx dedicated to oil and gas-related activities and not with the objective of increasing revenue
- Have more than 15% of CapEx dedicated to contributing activities

For companies involved in the exploration or extraction of unconventional oil and gas or providing dedicated equipment or services, the exclusion applies if absolute production of or capacity for unconventional oil and gas-related products/services is increasing and if they do not meet at least one of the following criteria:

- Have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
- Derive less than 5% of its revenues from unconventional oil and gas-related activities
- Have more than 50% of CapEx dedicated to contributing activities

For companies involved in the exploration, mining, extraction, transportation, distribution or refining of thermal coal or providing dedicated equipment or services therefor, the exclusion applies if absolute production of or capacity for thermal coal-related products/services is increasing and if they do not meet at least one of the following criteria:

- Have a SBTi5 target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
- Derive less than 5% of its revenues from thermal coal-related activities
- Have less than 10% of CapEx dedicated to thermal coal-related activities and not with the objective of increasing revenue
- Have more than 50% of CapEx dedicated to contributing activities

Sovereign bonds

Exclusion from our Towards Sustainability labelled portfolios applies to sovereign bonds²⁸ issued by:

- States that have not ratified or have not implemented in equivalent national legislation:
 - the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work

²⁷ <https://sciencebasedtargets.org/about-us>

²⁸ Use-of-proceeds instruments issued by States can be eligible.



- at least half of the 18 core International Human Rights Treaties
- States which are not party to:
 - the Paris Agreement
 - the UN Convention on Biological Diversity
 - the Nuclear Non-Proliferation Treaty
- States with particularly high military budgets (>4% GDP)
- States considered “Jurisdictions with strategic AML/CFT deficiencies” by the FATF
- States with less than 40/100 on the Transparency International Corruption Perception Index
- States qualified as ‘Not free’ by the Freedom House “Freedom in the World”-survey

Implementation and controls

Failure to meet the minimum standards described in this document leads to a “Negative” assessment according to our internal qualitative rating scale. “Negative” ratings mean that issuers are excluded from Mirova’s portfolios and are subject to pre- and post-trade controls.

A pre-trade (pre-transaction) check on the ESG rating is carried out on Mirova’s funds with a view to ensuring the eligibility of portfolio securities. Second-level controls are also performed by Mirova’s Risk and Compliance teams.

With regard to specific exclusions of labels, compliance is carried out on the basis of data provided by an external extra-financial agency. Alerts are issued for the investments concerned. When an alert is identified, it is analysed by the Sustainability Research department with information from other sources and/or from the dialogue with the company concerned in order to determine the company’s actual level of involvement. Exclusion is effective when the alert is confirmed by the Sustainability Research Department.



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Mirova aims, for all its investments, to propose portfolios consistent with a climate trajectory of less than 2°C defined in the Paris Agreements of 2015, and systematically displays the carbon impact of its investments (excluding Social impact and Natural Capital funds), calculated from a proprietary methodology that may involve biases.

ESG INVESTING RISK & METHODOLOGICAL LIMITS

By using ESG criteria in the investment policy, the relevant Mirova strategies' objective would in particular be to better manage sustainability risk and generate sustainable, long-term returns. ESG criteria may be generated using Mirova's proprietary models, third party models and data or a combination of both. The assessment criteria may change over time or vary depending on the sector or industry in which the relevant issuer operates. Applying ESG criteria to the investment process may lead Mirova to invest in or exclude securities for non-financial reasons, irrespective of market opportunities available. ESG data received from third parties may be incomplete, inaccurate or unavailable from time to time. As a result, there is a risk that Mirova may incorrectly assess a security or issuer, resulting in the incorrect direct or indirect inclusion or exclusion of a security in the portfolio of a Fund. For more information on our methodologies, please refer to our Mirova website: www.mirova.com/en/sustainability



ABOUT MIROVA

Mirova is a management company dedicated to sustainable investment and an affiliate of Natixis Investment Managers. Through conviction management, Mirova's goal is to combine long-term value creation and sustainable development. Pioneers in many areas of sustainable finance, Mirova's talents aim to continue innovating in order to offer their clients solutions with high environmental and social impact. Mirova and its affiliates manage €27.2 billion as of December 31, 2022. Mirova is a mission-driven company, labeled B Corp*.

**The reference to a ranking or a label does not prejudice the future performance of the funds or its managers.*

MIROVA

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MIROVA US

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MIROVA UK

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