Investment principles for the thermal coal sector

2024

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Rothschild & Co is supportive of the transition towards a low-carbon economy including activities which aim to reduce global carbon emissions and renewable energy.

As engaged investors we want to play an active role in influencing business practices and drive investment flows towards the most sustainable players.

As part of the group's ESG investment integration framework, we are implementing investment principles for the thermal coal sector in line with the international coal phase-out schedule, which sets clear deadlines for 2030 for Europe and the OECD, and for 2040 for the rest of the world.

These principles are part of a comprehensive Responsible Investment framework Asset Management. They are:

- Aligned with our approach to ESG criteria integration among our investment strategies;
- Part of a response to the risks induced by climate change for our investors;
- Representative of our desire to contribute to the transition to a sustainable economy.

The thermal coal[1] investment principles apply to our various Asset Management investment activities.

Certain securities held may be subject to exceptions, in the event that the management company is required to comply with the constraints or choices expressed by the client on his dedicated vehicle which may conflict with these principles. These principles do not apply to index-based structured products.

Defining thermal coal exposure, absolute and relative thresholds

The investment principles deal with investments that we make on our own behalf or on behalf of clients in companies (i) directly engaged in thermal coal production, exploration, mining & processing and power generation using thermal coal, and (ii) indirectly through service and infrastructure activities:

The investment principles impose the following broad restrictions on investments (subject to the detailed rules below):

- We do not invest in companies involved in projects for new thermal coal mines, thermal coal fired power plants or coal transport infrastructure or other coal-related infrastructures;
- We do not invest in companies with:
  - More than 20% of revenues generated through activities directly related to thermal coal;
  - More than 20% of the energy mix (per megawatt produced) derived from coal.

From June 2024, the above two thresholds will be lowered to 10%, in line with the recommendations of the NGO Urgewald.

- We will not invest in or lend to companies whose:
  - Annual thermal coal production exceeds 10 megatons (MT) per year;
  - Installed coal capacities are greater than 5 gigawatts (GW).
- No more investments are made and no new financing is granted to companies with:
  - More than 50% of revenues generated through service or infrastructure activities related to thermal coal.

These investment principles were designed to respect our different investment businesses, and to protect the interests of our investors. These thresholds are updated annually.

Compliance with these principles is based on information from the Global Coal Exit List of the NGO Urgewald. The list of issuers concerned is updated annually.

(1) This policy focuses on thermal coal and does not currently cover coal used for cement or steel production, in accordance with the Urgewald Global Coal Exit List Methodology.

These principles are implemented according to the following rules

Direct management of listed and non-listed assets

- Where companies are involved in projects to develop new thermal coal capacity:
  - No investment are made, and no lending provided to those companies.
  - For existing investments, we will cease to invest from these companies within 3 months.
- Where companies are not involved in developing new thermal coal capacity but have direct and indirect exposure to thermal coal in excess of the thresholds defined above:
  - On a case-by-case basis, we continue to support:
    - Companies implementing a thermal coal exit strategy: evidence, preferably publicly available, of a commitment for implementing an exit strategy in line with the international thermal coal exit calendar, considering the social impacts generated by this transition, should be communicated by the companies as well as quantitative underlying elements, demonstrating the credibility of their exit strategy. These elements include, among others, the exit timetable (planned exit date, phasing and closures), the corporate strategy and social guarantees put in place, progress monitoring and the existence of external recognition and/or reference framework.
    - Green bonds that comply with the framework of the International Capital Market Association (ICMA) and are issued by subsidiaries of companies whose activities are unrelated to thermal coal.
  - For existing investments, we will divest within 12 months from companies that do not implement a coal exit strategy.

As part of our engagement policy, we are required to exchange with companies that would be exposed to thermal coal in order to ensure the proper conduct of their exit plan.

As a matter of principle, we apply the exclusions to the parent company and its subsidiaries.

Indirect management, listed and non-listed funds of funds

Where we do not invest in individual companies but rather in funds or funds of funds the implementation of this principles is more complex. Therefore:

- We integrate into our funds selection process the analysis of the coal investment guidelines implemented by fund managers;
- We have defined, at the level of listed funds of funds, a residual threshold of 1% maximum of real exposure to companies that would not comply with these investment principles and that would be present in products whose composition is linked to indices, or/and in underlying actively managed funds that do not apply a thermal coal exclusion policy.

Only illiquid funds (such as private equity funds) and those linked to commodities, as defined in the Rothschild & Co Asset Management buy list or by the Private Assets activity, are excluded from this framework for technical reasons (lack of data transparency, concentration of the universe, composition of indices, etc.). These funds continue to be subject to engagement to set up a policy or to discuss their possible exposure. Since 2022, the Private Assets activity has raised its thermal coal requirements in its funds selection, systematically verifying with its stakeholders the existence and implementation of an exclusion policy, or where appropriate through the signing of a cover letter when possible. In all cases, we always make our best efforts to find the alternative that best respects our investment principles regarding thermal coal.

In delegated management

For direct investment, our exclusion policy applies to the delegated management company by delegation for the part of the portfolio that is delegated to it.

For delegates investing in mutual funds, the latter (with the exception of certain strategies for the technical reasons explained above) must apply the thermal coal exclusion policy defined by the delegates.