



BlueOrchard's Public Asset Exclusion Policy

This document describes the public assets exclusion list applied at BlueOrchard Asset management (Luxembourg) SA (the “Firm”; “we”; “our”; “BlueOrchard”). More specifically, it provides a detailed overview of the scope, roles and responsibilities as well as details on which characteristics of a company or a country leads to its exclusion of BlueOrchards investment universe.

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Abbreviations

| | |
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| IEA | International Energy Agency |
| IM Team | Impact Management Team |
| IPCC | Intergovernmental Panel on Climate Change |
| SDGs | Sustainable Development Goals |
| SLB | Sustainability-linked Bond |
| UN | United Nations |
| WHO | World Health Organization |

1. Introduction & Scope

1.1 Intention and policy scope

BlueOrchard is a leading asset manager in emerging and frontier markets. At the heart of its investment objective lies the aim of positively impacting society and the environment, while generating financial return for the investors. In order to have a durable and pronounced impact, we are convinced that financial stability is needed, and we therefore pursue a long-term investment horizon.

However, certain type of investments in companies with specific business models can have harmful effects on our environmental and social objectives. This policy defines criteria to identify investments that are incompatible with our role as an impact investor.

While certain specific ESG elements may not be covered directly by this policy, we that all investments are evaluated within the context of our comprehensive ESG assessment to ensure that the product is within an acceptable range of ESG risk. Any controversial investment opportunities need separate approval of the Impact Committee as defined in our Impact & ESG procedure.

All sustainable investments of actively managed BlueOrchard public debt strategies are in scope of this policy, investments for the sole purpose of hedging or cash management are excluded.

BlueOrchard looks closely at the use of proceeds for any issuance, as we feel this is the most tangible way to understand and monitor the impact of our investment. Use-of-proceeds instruments are defined as Social, Sustainability and Green Bonds compliant with an appropriate framework (e.g. ICMA, CBI) and subject to independent external review¹. With all use of proceeds classifications, there is an ongoing requirement for the issuer to report on the allocation of proceeds and the status of efforts outlined in the issue document. We note that given the lack of specific reporting criteria and performance indicators, Sustainability linked bonds. As visibility is high and we expect companies to report on a regular basis, use-of-proceeds instruments from issuers in breach of some of the exclusions defined below can still be eligible for our investment universe, as indicted in table 1 and detailed in the respective chapters.

1.2 Roles and responsibilities

The definition as well as implementation of this policy lies within the responsibilities of the Impact Management (IM) Team. The metrics are checked on a best-efforts basis prior to investment as part of the independent ESG and impact assessment and on a quarterly basis through MSCI data points, where applicable. In case of a breach an Impact Committee is convened and a timeline for divestment will be defined.

¹ For some specific issuers, namely sovereign and supranational institutions, this might be slightly different but would always be justified in the respective ESG & impact analysis.

2. Exclusion criteria - Companies

In scope of the below exclusion criteria are companies that are directly involved in harmful activities as well as companies providing dedicated equipment or services to enable these activities (“supporting activities”). BlueOrchard will identify such supporting activities on a best-efforts basis.

If not defined otherwise, the activities of wholly or majority owned subsidiaries of a company need to be taken into consideration when evaluating the overall ESG risk profile of an issuer.

BlueOrchard will also take into consideration the exposure of controlling shareholders to excluded activities in order to define eligibility if such information is available and deemed reliable.

Some activities are, such as weapons production, are unacceptable across the board, however this policy and our investment strategy allow for investments in businesses that are making a demonstrable commitment to transition activities in other sectors that have historically not embraced sustainability as an objective. If an investment can be classified on a “transitioning trajectory”, the IM Team is responsible to check the credibility and if it is intended to change the core business of an issuer or if it’s only a side project used for PR purpose. The credibility can be verified with alignment to Paris agreement, interim targets, disclosure practice, oversight and embedded into broader Sustainability strategy.

The below table 1 summarizes the applied exclusion criteria. Please refer to the respective chapters for more details.

| Criteria | Production | Supporting activities | Use-of-proceeds instruments |
|-----------------------------|------------|-----------------------|-----------------------------|
| Controversial behavior | 0% | 0% | Full adherence |
| Controversial Weapons | 0% | 0% | Full adherence |
| Conventional Weapons | 5% | 5% | Full adherence |
| Coal | 5% | 5% | Specific treatment defined |
| Unconventional Oil & Gas | 0% | 5% | Specific treatment defined |
| Conventional Oil & Gas | 5% | 5% | Specific treatment defined |
| Power generation | 5% | 5% | Specific treatment defined |
| Radioactive material | 0% | 0% | Full adherence |
| Unbonded asbestos fibers | 0% | 0% | Full adherence |
| Drift net fishing | 0% | n/a | Full adherence |
| Tobacco | 0% | 5% | Full adherence |
| Cannabis | 5% | 5% | Full adherence |
| Alcohol (excl. beer & wine) | 5% | 5% | Full adherence |
| Gambling | 0% | 0% | Full adherence |
| Pornography | 0% | 5% | Full adherence |

Table 1: Exclusion thresholds applied for companies

2.1 Controversial behavior

As an impact investment manager, we expect our portfolio companies to safeguard basic rules of ethical business practices. We identified four international best practice frameworks, that we expect companies to consider when doing business:

- The UN Global Compact

- The UN Guiding Principles on Business and Human Rights (UNGPs)
- The ILO Conventions
- The OECD Guidelines for Multinational Enterprises (if relevant)

Companies which are involved on a structural, repetitive, and severe basis directly or indirectly via their subsidiaries in controversies or violations of these frameworks are excluded from BlueOrchard's investment universe.

Additionally, BlueOrchard expects companies to communicate in an honest way on any potential negative environmental and social impact and to have, if applicable, respective safeguarding measures in place.

2.2 Weapons

Manufacturing of weapons as well as supporting activities providing dedicated equipment or services therefor are fundamentally in opposition to the values of BlueOrchard and thus its products.

We therefore exclude all companies deriving revenues from activities related to the manufacturing or manufacturing tailor-made components, using, repairing, putting up for sale, selling, distributing, importing or exporting, storing or transporting of **controversial weapons** such as anti-personnel mines, submunitions, inert ammunition and armour containing depleted uranium or any other industrial uranium, weapons containing white phosphorus, biological, chemical or nuclear weapons.

For any company involved directly or indirectly in the production or distribution of **conventional weapons** or tailor-made components thereof, we expect the revenues derived from this activity to not account for more than 5% of total company revenue. Tailor-made products might include dual-use items which can be used for both civil and military purposes. If the company profile does not indicate a targeted production for military purposes and we do not identify any evidence suggesting so, such companies can still be eligible for the portfolio.

2.3 Coal

Coal is by far the highest carbon-emitting source of energy and a fundamental contributor to climate change. The United Nations and the Intergovernmental Panel on Climate Change (IPCC) have been very clear in their call for immediate action asking countries to phase out coal².

At BlueOrchard, we see coal as incompatible with our objectives for positive environmental and social impact. As a result, we exclude companies deriving more than 5% of their revenues from activities involved in the exploration, mining, extraction, transportation, distribution or refining of coal or providing dedicated equipment or services therefor. In addition, we expect companies to not increase their absolute production of or capacity for coal-related products or services.

Relevant use-of-proceeds instruments from companies in violation of the above thresholds are still eligible for our investment universe if their Framework explicitly excludes coal-related activities. We consider Use-of-proceeds instruments as an important tool to support companies' transition away from coal and consider the impact of such instruments as aligned with our overall objectives.

2.4 Unconventional Oil & Gas

Extraction of unconventional oil and gas, namely tar and oil sands, shale oil/gas (also known as "fracking") and arctic drilling, are not only considerably more carbon-intensive ways of oil production but carry important

² <https://www.un.org/sg/en/content/secretary-generals-statement-the-ipcc-working-group-1-report-the-physical-science-basis-of-the-sixth-assessment>

environmental and social risks within the communities in which such extraction processes occur. As a result, BlueOrchard excludes companies deriving any revenues from the exploration or extraction of unconventional oil and gas and companies deriving more than 5% of revenues from providing dedicated equipment or services therefor. In addition, we expect companies to not increase their absolute production of or capacity for such products or services.

Relevant use-of-proceeds instruments from companies in violation of the above thresholds are still eligible for our investment universe if their Framework explicitly excludes unconventional oil and gas activities. We consider Use-of-proceeds instruments as an important tool to support companies' transition and consider the impact of such instruments as aligned with our overall objectives.

2.5 Conventional Oil & Gas

The burning of fossil fuels is a primary driver of climate change and air pollution. It is estimated that the burning of oil accounts for approximately a third of the world's total carbon emissions³. In addition, oil spills can have a devastating impact on ecosystems. Natural gas, even though often promoted as a cleaner source of energy than oil, is still responsible for approximately a fifth of the world's total carbon emissions⁴.

Similar as with coal, BlueOrchard sees oil and gas production as being incompatible with our objectives for positive environmental and social impact. As a result, we exclude companies deriving more than 5% of their revenues from activities involved in the exploration, extraction, refining and transportation of oil and gas, or providing dedicated equipment or services therefor.

Relevant use-of-proceeds instruments from companies in violation of the above thresholds are still eligible for our investment universe if their Framework explicitly excludes oil and gas activities. We consider Use-of-proceeds instruments as an important tool to support companies' transition and consider the impact of such instruments as aligned with our overall objectives.

2.6 Power Generation

The way the world produces energy and in particular electricity will be playing a major role in slowing global climate change. As the International Energy Agency (IEA) estimates, two-thirds of global greenhouse gas emissions are produced by the energy sector⁵. A switch to renewable energy production, accelerating the so-called energy transition, is a key policy in most countries' plans to combat climate change and cut down their national emissions.

BlueOrchard is a strong supporter of this energy transition. Consequently, we limit our exposure to any power and heat generation from non-renewable energy sources or providing dedicated equipment or services therefor, by applying a 5% threshold on revenues from such activities. Given the problems related to disposal of radioactive waste, BlueOrchard also excludes above mentioned activities related to nuclear energy with a 5% revenue threshold. The distribution of nuclear energy is, however, excluded from the criteria. We expect companies further to not increase their absolute production of or capacity for coal-based or nuclear-based energy-related products/services on a structural basis.

Relevant use-of-proceeds instruments from companies in violation of the above thresholds are still eligible for our investment universe if their Framework explicitly excludes above mentioned activities. We consider Use-of-proceeds instruments as an important tool to support companies' transition and consider the impact of such instruments as aligned with our overall objectives

³ <https://www.clientearth.org/latest/latest-updates/stories/fossil-fuels-and-climate-change-the-facts/>

⁴ <https://www.clientearth.org/latest/latest-updates/stories/fossil-fuels-and-climate-change-the-facts/>

⁵ <https://www.iea.org/commentaries/if-the-energy-sector-is-to-tackle-climate-change-it-must-also-think-about-water>

2.7 Radioactive Material

BlueOrchard do not invest companies for which we identified, based on available information and on a best-efforts basis, that they are involved in the production or trade in radioactive materials. This does not apply, however, to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is trivial and/or adequately shielded.

2.8 Unbonded asbestos fibers

For decades, Asbestos have been widely used in the construction of buildings in Western Europe and the United States, before its negative health effects have been discovered. In its unbonded state as asbestos fibers, the toxic mineral dust can remain in the air for hours⁶. Inhaling it can have significant effects on a person's health, in particular causing lung cancers years after being exposed to it.

As a result, BlueOrchard do not invest companies for which we identified, based on available information and on a best-efforts basis, that they are involved in production or trade in unbonded asbestos fibers. This restriction does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

2.9 Drift net fishing

Drift netting is a fishing technique where nets hang vertically in the water without being anchored to the bottom. During the 1950, use of this technique expanded and the materials used changed from natural to synthetic with smaller mesh sizes⁷. Given its cost effectiveness, this method rapidly grew in scale, having a variety of negative effects related to the amount of bycatch and environmental damage caused by lost or abandoned drift nets in the sea. In 1992, the United Nations (UN) banned the use of drift nets longer than 2.5 km in international waters. Several countries followed this direction and regulate drift net fisheries within their territories⁸.

Overfishing and the effect of fishing on the marine environment are a very complex topic. BlueOrchard sees it crucial that, at least, the most damaging fishing methods are banned from oceans. As a result, we do not invest in companies for which we identified, based on available information and on a best-efforts basis, that they are deriving revenues from drift net fishing in opposition to the UN resolution from 1992 from our investment universe.

2.10 Tobacco

Tobacco products are a major cause of death and illness. The World Health Organization (WHO) estimates that tobacco kills more than 8 million people each year, making it one of the biggest public health threats the world has ever faced⁹. In addition, the farming of tobacco is a complicated process involving heavy use of pesticides, growth regulators and chemical fertilizers which can considerably influence the environment¹⁰.

Given these reasons, BlueOrchard sees Tobacco as incompatible with its social and environmental objectives. We exclude companies involved in the production with a 0% threshold on revenues and companies involved in wholesale trading of tobacco products or providing dedicated equipment or services therefor with a 5% threshold on revenues. Retail distribution of tobacco products is not counted in the revenue threshold.

⁶ <https://www.asbestos.com/exposure/>

⁷ Caddell, R., "Caught in the net: driftnet fishing restrictions and the european court of justice", "Journal of Environmental Law", 2010

⁸ <https://earthtrust.org/archive/dnpaper/intllaw.html>

⁹ <https://www.who.int/news-room/fact-sheets/detail/tobacco>

¹⁰ <https://www.who.int/fctc/mediacentre/news/2017/environmental-impact-of-tobacco/en/>

2.11 Cannabis

Like tobacco, Cannabis can have negative effects on people's physical and mental health. Even though medical usage has been increasingly linked to curative and overall positive properties, the long term social and health related implications of expanded cannabis use and distribution are unknown.

BlueOrchard therefore decided to exclude companies deriving 5% or more from production and distribution of Cannabis from its investment universe.

2.12 Alcohol (excl. beer & wine)

Similar to tobacco, alcohol is a major health issue, causing 10% of all deaths worldwide, according to a WHO report from 2016. The same study estimates that more than 2500 people die every day from alcohol-attributable causes and that alcohol adversely impacts 13 of the 17 Sustainable Development Goals (SDGs)¹¹.

As a result, alcohol creates major social issues and BlueOrchard sees it therefore incompatible with its social objectives. We exclude companies with 5% or more revenue from production and distribution of all types of alcohol.

2.13 Gambling

From a sustainability point-of-view, the business model of gambling is problematic. The promotion and/or hosting of gambling activities plays no role in advancing any of the SDGs and has been shown time and time again to be an exploitative practice that leads to addictive behavior and disproportionately affects people who are already economically vulnerable.

BlueOrchard decided to exclude all companies with revenues from gambling, casinos, and equivalent enterprises. This does not apply for companies which are not substantially involved in these activities, whereby "not substantially involved" means that the activity is ancillary to a company's primary operations, e.g., a real estate company renting its building to a casino.

2.14 Pornography

The pornography industry is frequently subject to issues related to abuse or humiliation, particularly of women. As mentioned in an article by an Australian Government Agency, pornography is further associated with unsafe sexual health practices and may strengthen attitudes supportive of sexual violence and violence against women¹².

As a result, BlueOrchard does not invest in any company involved in the production of pornography. Such activities seem incompatible with our social objectives. In addition, we exclude companies with 5% or more revenues derived from the production and/or distribution of pornography.

2.15 Financial Intermediaries

Financial intermediaries have important roles in a society. By providing funding and distributing money from investors/savers to clients, they are able to provide important inputs for economic development of the individual or a company, and ultimately the society. However, this important role has its challenges as money might be provided for the wrong means and financing negative environmental or social impacts.

¹¹ https://www.euro.who.int/__data/assets/pdf_file/0008/464642/Alcohol-consumption-and-sustainable-development-factsheet-eng.pdf

¹² Quadara A., El-Murr A. Latham, J. (2017), *The effects of pornography on children and young people: An evidence scan*. Melbourne, Australian Institute of Family Studies

BlueOrchard thinks that it is important to have some safeguarding measures in place when investing in financial intermediaries. As a result, we do not invest in financial intermediaries for which we identified, based on available information and on a best-efforts basis, that they are involved in one of the following areas:

- Harmful or exploitative forms of forced labor and/or harmful child labor
- Commercial logging operations for use in primary tropical moist forest
- Production or trade in wood or other forestry products other than from sustainably managed forests

In addition, if a financial intermediary has microfinance activities, BlueOrchard adds the following areas:

- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (including gasoline, kerosene, and other petroleum products)
- Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples

3. Exclusion criteria - Countries

As an impact investment manager, we are convinced that the impact of one dollar invested in the emerging markets is much bigger than the impact of one dollar invested in the developed market. Unfortunately, some countries in the emerging markets display severe issues regarding, for instance, human rights or environmental protection. Consequently, BlueOrchard does not invest in any general sovereign issuances.

However, we do want to channel funds to tackle most-needed policy changes and provide a country's population with a sustainable development path. As a result, BlueOrchard provides such support either via transparent use-of-proceeds instruments or via sustainability-linked bonds (SLB) issued by sovereigns.

Use-of-proceeds issuances allow us to make sure our funds are used in the intended way, targeting directly an important environmental or social issue, and supporting the country's development. In order to be eligible for BlueOrchard's investment universe, an issuance needs a credible framework, and the use-of-proceeds need to be directed towards social or environmental objectives.

For **sustainability-linked bonds**, we expect the chosen KPIs to be relevant and material in the country context. In addition, BlueOrchard applies some general safeguarding standards. As the visibility on the use-of-proceeds is not given, such standards make sure that funds are not provided to a country with severe environmental or social issues. Investment into a certain SLB issuance is only possible, if below conditions are fulfilled. In specific cases a separate IMCO approval can be obtained for an investment opportunity to pass.

Environmental dimension

- Party to the Paris Agreement
- Party to the UN Convention on Biological Diversity

Social dimension

- All eight fundamental conventions of the International Labour Organization have been ratified
- At least half of the 18 core International Human Rights Treaties have been ratified
- Not considered as 'Not free' by the Freedom House 'Freedom in the World'-survey
- Party to the Nuclear Non-Proliferation Treaty
- Military budget is below 4% of GDP

Governance dimension

- Not on the list of 'Jurisdiction with strategic AML/CFT deficiencies' by FATF
- Score of more than 40/100 on the Transparency International Corruption Perception Index

Note on considerations regarding the following elements of sovereign issuer regimes:

- Taxation

- Oppressive regimes
- Death penalty
- Forward contracts on agricultural commodities

BlueOrchard does not maintain specific exclusion criteria in regard to the above referenced elements of sovereign issuers in this Policy. However, it is to be clearly understood in reading this Policy and implementing the investment strategy that each element, and in turn the overall approach of a ruling regime, should be carefully considered prior to seeking approval for an issuer or issuance to be placed in the public assets investment universe.

As an impact investor in emerging and frontier markets, we acknowledge that certain countries in most need of benefit from Use of Proceeds based issuances are ruled by individuals and political organizations whose values and approach to human rights are at squarely at odds with our own. The benefits of our potential investment have to be weighed carefully against the actual or perceived risk of underwriting the activities of governments that do not share our institutional and individual views on human rights, freedom of the press and treatment of women, among others.

As noted in this Policy and elsewhere in the BlueOrchard policy framework, certain countries are and will remain completely off limits. Any countries which are subject to international sanctions regimes stemming from their approach to governance and treatment of citizens are and will remain completely off limits. It should be understood that in choosing the investment universe for public assets, the members of the Bond Committee will scrutinize and often reject proposals for issuers/issuances stemming from countries with negative records on the above referenced criteria and/or other key elements of overall human rights protection.