RIVER AND MERCANTILE

RIVER AND MERCANTILE GROUP EXCLUSIONS POLICY

June 2021

Policy Owner	Roger Lewis, Head of ESG	**Effective date of current version**	1st June 2021
Oversight	ESG and Stewardship Committee	**Review frequency**	Annual
Scope	This Policy mandates the exclusion of certain investments.		
Structure	This is a River and Mercantile Group Policy, specifically developed for and applicable to the activities of all River and Mercantile entities.		

Policy updates

Amendment Number	Date of Change	Summary of Change
1		
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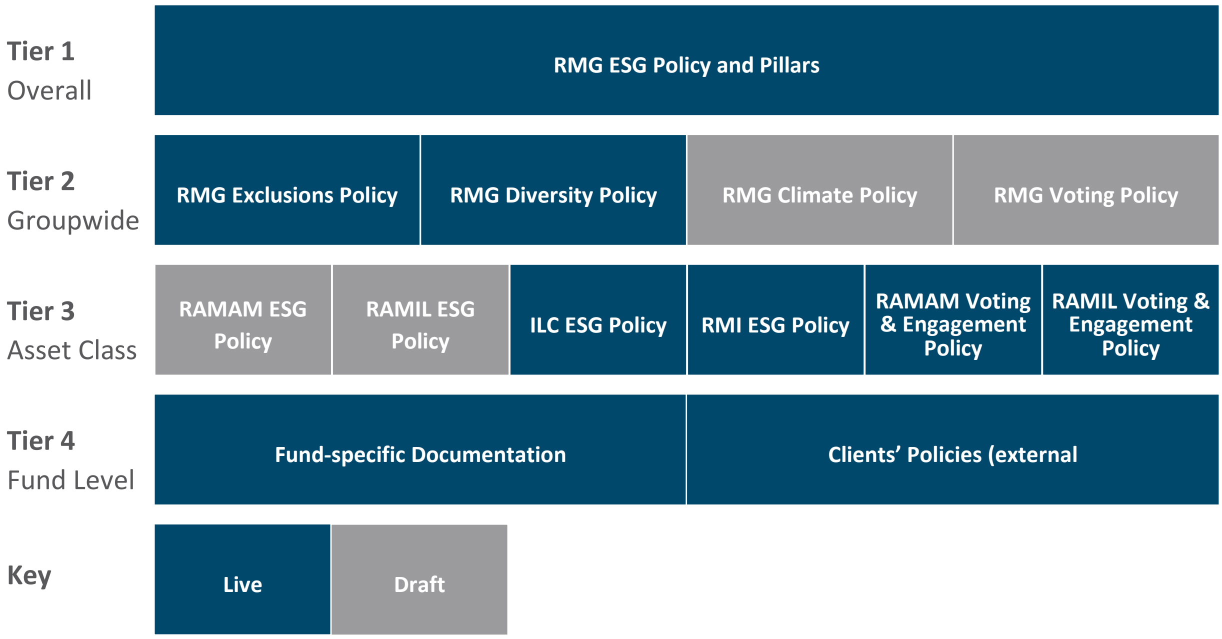
1. Policy statement

- The purpose of this Policy is to formally outline the application of exclusionary / negative screening to investments at River and Mercantile Group (“RMG”)
- On the ESG Policy Architecture, this is a Tier 2 Policy. Its scope applies to all investment teams, all asset classes and all regions. Specific application is then achieved via Tier 3 Policies:

River and Mercantile ESG Policy Architecture



2. Our approach to exclusions

2.1 Commitments

- Through this Policy, River and Mercantile Group will exclude from its investments:
    1. Controversial weapons: Companies involved in the manufacture, distribution, maintenance, trade, transport or storage of controversial weapons and deriving income from these activities
    2. Climate: Companies whose operations we believe can create excessive (as defined in Section 3 of this Policy) climate change impacts and these are not being well managed

       [At the date of approval of this Policy, conduct-related exclusions are under review as a third Group-level area of exclusion (target for decision: Q3 2021). We define this as verified, sustained (beyond allegation) breaches of the ten principles of the UN Global Compact, covering Human Rights, Labour, Environment and Anti-Corruption, as identified on a controversy screening service from an external provider]
- This covers all companies worldwide: state owned / private, listed / unlisted
- Sanctions and legal restrictions applicable to the jurisdictions where we operate are followed
- It applies to any financial instrument, except exposure to a financial index in which the company is a constituent or to holdings in third party fund managers (where individual security selection is outside of our direct control). Where we identify third party funds with exposure to controversial weapons, we shall engage with the managers to understand their rationale for holding and possible future options
- For parent undertakings of a company involved in these activities and where RMG has indirect exposure:
    - A materiality revenue threshold, defined for this Policy as above 10%, is applied in order to recognise that this is not their primary activity. Subject to the exclusion in section 2.2, parent undertakings which derive revenue above the threshold from controversial weapons or excessive climate impacts shall be excluded. This is in addition to revenue thresholds for subsidiaries (below)
    - Where third party data is used to determine the revenue vs. threshold of parents' activities, investment teams have the ability to over-rule this if it is not believed to be an accurate representation of the overall business. If utilising this exemption, evidence for over-ruling the exclusion shall be documented by the investment team and verified by the Group ESG Committee
- This Policy applies to all sub entities and funds managed or operated by R&M. It is not automatically applied to separately managed accounts where the client may have expressly requested to opt out or where the terms of the mandate were agreed prior to this Policy coming into effect
- This Policy applies to investments made and managed by R&M; it does not apply to services where we advise clients on their investments
- Additional exclusions may be applied at the specific request of clients (such as faith-based or other idiosyncratic exclusions), for example alcohol, gambling, pornography, tobacco, nuclear, coal, whale meat or low ESG scores from rating agencies. This is due to our clients' discretion as Asset Owners
- Additional exclusions may also be applied at RMG entity level within their Tier 3 ESG Policies

2.2 Philosophy and permitted exception to exclusion

- Our investment approaches are varied and focus on bottom-up stock selection, sector allocations, fund investments (where ability to influence individual security selection is limited) or influencing the cost of capital (downwards for good companies / upwards for bad). This Policy therefore allows investment teams discretion around investing in companies who are considered high ESG risk
- We are prepared in certain circumstances to consider companies that are not yet great but are demonstrating a willingness to improve and are already making progress. This should be matched by an expectation of higher economic returns than we could achieve on already great companies. These principles are integrated into our wider investment process, and we employ them in a pragmatic way to monitor the improvement. We consider each company in the context of its peer group, and also consider industry, geography, market capitalisation and style
- Other than controversial weapons, we do not exclude industries or activities for what they do, provided they are legal. However, we do believe that behaviour within certain controversial activities must continually improve, and that this is achieved by motivated employees, innovation and outcomes in other ESG dimensions. We seek to reward change from within by supporting the better, more transformational companies within each industry, and this can include certain sectors perceived as high ESG risk
- Therefore, for climate impacts only, R&M may consider exceptions for companies where we have confidence that they have robust transition plans and where proactive engagement will be a factor in achieving these. This aligns with the EU Climate Transition Benchmark and the Climate Action 100+ initiative which permit such investments only as part of an energy transition

2.3 Governance

- As a Tier 2 Policy, Group ESG has overall accountability for achieving this Policy's requirements. This accountability is supported by the ESG Committee and Investment & Client ESG Working Groups
- Overall responsibility for implementation of Asset Class (Tier 3) ESG Policies lies with business level Boards or Executive Committees. This oversight and monitoring responsibility can be delegated to investment team heads, to ensure policies are followed by each of their respective teams. Support is provided as required from Group ESG
- All ESG Policies are reviewed annually and approved by the Group ESG Committee and relevant business level Board or Executive Committee. Once approved, they are made publicly available on the RMG website. Updates are made during the review process to measure success and continuing alignment with beliefs

2.4 Application of this policy in practice

- Exclusions will be informed and made possible by external data created by third party providers and our own internal research analysis. At the date of approval, Business Involvement Screening Research data from MSCI is used. Further detail on ESG data is in each entity's Tier 3 ESG Policy
- Controversial weapons: A data feed from MSCI of specific company names / identifiers to be excluded under this Policy is added to a central restriction list. This is updated frequently, coded in to various trading systems and made available to investment teams for monitoring, screening and application
- Climate: In addition to the MSCI process, the Global Coal Exit List (a source of coal data, published by Urgewald: www.coalexit.org) and resources from the Powering Past Coal Alliance (www.poweringpastcoal.org) will be referred to as needed
- For River & Mercantile Infrastructure specifically, given the nature of assets, MSCI company industry data is not applicable. Instead, as part of the Preliminary Investment Evaluation ("PIE") stage and ahead of the Infrastructure Investment Committee, the team shall ensure as part of the deal assessment that sectors involved do not fall under the exclusions contained within this Policy
- Where material ESG concerns arise (this can be a low score from pre-investment analysis, utilising the climate exception above or anything else in the opinion of investment teams), a process for high ESG risk shall be followed:
    - Detail is shared by the investment team with the relevant Managing Director and Group ESG
    - The asset is placed on a High ESG Risk Watchlist maintained by the Group ESG Function and reviewed quarterly at the ESG Committee for active monitoring and oversight
    - Further detail on the process for high ESG risk is in each entity's Tier 3 ESG Policy
- Furthermore, if utilising the exception in Section 2.2 above, a plan for engagement with the investee shall be created. This applies equally to adding new exposure or to retaining existing holdings
    - This covers rationale for holding, expectations, targets (such as emissions reduction or disclosure) and progress against these. However if companies are already actively managing and improving their climate impacts in our opinion, this engagement is not required or necessary
    - This plan will be frequently reviewed by Group ESG and the ESG Committee
    - Further detail on the process for climate engagement is in each entity's Tier 3 ESG Policy
    - For all engagement activities, collaborative industry working groups and initiatives will be considered and participated in when appropriate
- This Policy applies to any new investment from the effective date. Existing holdings, if any, that become excluded will be monitored for future action

3. Controversial weapons and climate risk in detail

- Controversial weapons that are excluded are specified below, together with the applicable treaties and conventions that RMG hereby agrees to comply with. Any new treaties regarding controversial weapons agreed by international law will be considered for future updates of this Policy
  - Cluster Munitions (a munition that is designed to disperse or release explosive submunitions). The UN Convention on Cluster Munitions (Oslo, 2008)
  - Landmines (mines designed to be exploded by the presence, proximity or contact of a person and which will incapacitate, injure or kill one or more persons). The Anti-Personnel Landmines Treaty (Ottawa, 1997)
  - Biological & Chemical Weapons (use pathogens: viruses, bacteria, disease-causing biological agents, toxins; or use chemical substances). The Biological Weapons Convention (1975) and The Chemical Weapons Convention (1977)
  - Depleted Uranium (long term radiation risk)
  - Incendiary (weapons that are designed to set fire to objects or to cause burn injury to people, including white phosphorous)
  - Laser Blinding Weapons
  - Non-detectable (by x-ray) Fragments
- For the purpose of this Policy, companies whose operations create excessive climate change impacts and are excluded are specified as any with greater than 30% revenue from the following:
  - Mining companies that extract thermal coal
  - Mining companies developing significant new thermal coal assets
  - Mining companies that extract other non-renewable energy sources with high Greenhouse Gas impacts: oil and tar sands
  - Power generation companies with electricity generated by coal that do not have credible plans to move to renewable or low carbon alternatives such as gas
  - Power generation companies that plan to expand coal power generation capacity
- The following are not excluded under this Policy:
  - Mining companies that extract metallurgical ("met") coal
  - Physical coal plant facilities as real assets, acquired by R&M Infrastructure for the purpose of converting to green / renewable energy generation
- For context, we include our rationale for these exclusions:
  - As a responsible investor with ESG integrated horizontally and vertically across the Group, we do not want to be financing these activities with either equity or debt
  - Clients are increasingly demanding or expecting this exclusionary screening
  - Alignment with our five corporate Sustainability Pillars: Responsible Stewardship, People, Community, Environment and Innovation
  - Regulatory requirements – in certain areas it may be illegal to invest in these activities
  - Reputational risk to both RMG and our clients of association with these companies

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