

EXCLUSION POLICY

Procedure Number:	PR_FARAD IM_REG34
Enter into effect last version:	25/01/2022
Approval by FARAD I.M. Executive Committee:	25/01/2022
Line Managers or departments involved	Compliance Risk Management Portfolio Management
Legal requirements	SFDR (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019)
Aim and application	The Exclusion policy defines FARAD I.M. principles and commitments towards sustainable investing and its exclusion criteria.
Accessibility	In accordance with the legal requirements a digital copy of the policy is accessible to all employees and it is shared with the clients.
Updating / Review	<ul style="list-style-type: none"> - Change of applicable legislation; - Any new legal requirement; - Any other change that would have an impact on the policy.
Communication to the CSSF	Upon request of the CSSF

I. ESG Mission

FARAD Investment Management S.A. (hereinafter: "FARAD I.M.") vision is being a sustainable investment firm that takes responsibility for its actions and engagements, as a member of society with its own impact on the planet and on people, but also as a provider of financial services with an indirect impact through the activities of its clients and investments. The mission will be achieved by fully incorporating sustainability into the investment firm's daily business, and by bolstering the investment firm's sustainability risk management.

For FARAD I.M., sustainability means adhering to the values and business principles of the investment firm and bringing sustainable solutions to the current and future environmental, economic and social challenges of the investment firm's stakeholders and the organization itself, that are in line with the investment firm's risk profile.

FARAD I.M. believes that investments with an appropriate focus on management structure and the capability to manage and mitigate environmental, social and governance risks are ultimately more likely to deliver sustainable risk-adjusted performance.

Similarly, in an effort to raise client awareness about the challenges faced by society today, FARAD I.M. is committed to sustainable investing, focusing on investments that mitigate and improve Environmental, Social, and Governance issues, and integrating ESG factors into its investment decisions.

As a signatory of the UN PRI (UN Principles for Responsible Investment), FARAD I.M. has made a commitment to the six Principles for Responsible Investment, which are:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the principles.
- We will report on our activities and progress towards implementing the principles.

FARAD I.M. incorporates ESG factors into its investment decisions, being aware of the fact that with its investment activity can contribute to build a better and fairer future society.

II. Exclusion Policy

FARAD I.M. acts in accordance with the **10 Principles** promoted in the United Nation Global Compact (UNGC) by the 2030 Agenda, which encompasses human rights, labor, environment, and anti-corruption areas:

Figure 1. UNGC Principles



Source: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

In accordance with the above and with UN PRI framework, FARAD I.M. implements a strict exclusionary policy in its investment selection, actively monitoring sectors with high ESG risks, as well as disregarding totally companies and/or funds that operate or invest in sectors and/or activities that do not comply with the UNGC principles or that are considered controversial.

We have thus defined an Exclusion List. This Exclusion List defines the base-level exposure that FARAD I.M. is willing to have to certain sectors / activities considered controversial and/ or harmful and to avoid investing in controversial behavior flagged companies.

FARAD I.M. is wary of expanding the exclusion criteria to encompassing other sectors / activities of controversy as we believe that blanket exclusion is not always the best conduit to addressing the challenges posed by such sectors / activities. ESG analysis, engagement and active ownership can be at least equally effective, if not better, at improving such practices.

FARAD I.M. excludes from its investment universe specific companies that generate more than a certain threshold revenue of their revenues from specific economic activities (Figure 2), as well as disregarding totally funds and/or companies that operate or invest in sectors and/or activities that do not comply with the UNGC principles, that are considered controversial, that are listed in controversial jurisdictions and that are involved in controversial behavior.

Figure 2. Revenue threshold per exclusion category

	Category	Description	Company's Revenue threshold
Activity-based exclusion category	Controversial Weapons	FARAD IM believes that any company or investment involved in controversial weapons fail to meet the criteria established by the United Nations SDGs. Companies that are involved in the production, sales and distribution of controversial weapons are excluded. The controversial weapons category include cluster munitions, personnel landmines, biological, nuclear, and chemical weapons.	0%
	Tobacco	FARAD IM considers tobacco as an unhealthy practice, which clashes with the SDG 3, which promotes "good health and well-being". Companies that are involved in the production, sales and distribution of tobacco products and supporting services (e.g. cigarettes, cigars, smoking and chewing tobacco, filters, and next generation products such as e-cigarettes).	5%
	Coal Extraction	FARAD IM considers coal extraction activity as polluting and not in line with the development of a cleaner and sustainable future society. Coal is a resource that does not comply with the clean and affordable energy criteria established in the SDG 7. Therefore, FARAD IM excluded any investment involved in the coal energy business.	5%
	Gambling	FARAD IM restricts the investment in companies that operating in the gambling supply chain, meaning all companies that own gambling facilities (e.g. casinos, online gambling), produce gambling equipment, and provide associated services to the industry.	5%
	Alcohol	FARAD IM limits the investment in companies that produce, distribute, and sell alcohol beverages. According to the WHO, excessive alcohol consumption are responsible for premature mortality, home violence, and mental health issues. Alcohol consumption clashes with 13 out 17 SDG goals.	5%
	Adult Entertainment	FARAD IM limits the investment in companies produce, distribute, or sell adult entertainment content. Adult content may be linked to human trafficking and a cause of gender inequality. This topic fails to meet the goals aimed by SDG 5,8, and 16	5%
	Palm Oil	FARAD IM acknowledges that the palm industry has contributed to eradicating poverty and social equality in numerous developing nations. However, the extensive production may be linked to environmental risks such as deforestation, and we have decided to restrict the exposure in this industry.	5%
Normative	Controversial Behavior	FARAD IM acts in accordance with the UN Global Compact and the OECD Guidelines for Multinational Enterprises standards to assess the behavior of the companies.	0%
Country-based	Controversial Jurisdictions	FARAD IM excludes all investments issued or listed in countries that are considered controversial and deemed as high risk jurisdictions by the United Nations Security Council.	0%

FARAD I.M. currently does not include nuclear sector in a specific exclusion list, as it waits for the EU Taxonomy to come into force and it commits to adapt the exclusion policy on the new regulatory requirements.

The monitoring of the look-through of the portfolio holdings is performed on a quarterly basis. FARAD I.M. carefully monitors if there are any breaches of the UNGC principles and of the Exclusion Policy above described using mainly as source a third-party provider data. Currently FARAD I.M. is adopting Morningstar Direct / Sustainalytics as main provider on ESG data. Divestment of holdings in the Exclusion List shall be undertaken within the month of a company / fund being added, and communicated, to the Exclusion List, in case of breaches of the hard-sectors exclusion mentioned in the Exclusion List, while an additional "monitoring" phase of maximum one quarter before deciding to divest, in case of breaches of maximum exposure in discouraged sector. In both cases, the divestment will be implemented within one month from the decision to divest, in order to assess within maximum one month time the exit strategy and to assure not be negatively influenced by any possible volatility spikes in the market.

In the case the assessment is not directly possible through the third-party provider data, FARAD I.M. commits to contact the related Fund houses to perform a deeper due diligence process of potential breaches.

In addition to an hard-exclusion of any companies in breach of UN Global Compact, as part of our desire to help finance higher environmental standards and the transition to a lower carbon economy, FARAD I.M. favors companies with higher environmental practices, seeking for instance the protection of biodiversity, sounder water consumption, or the reduction of their carbon footprint.

Additionally, FARAD I.M. does not invest in companies or funds that do not display adequate ESG performance, according to our proprietary ESG scoring system (minimum ESG Score allowed of 3,5 out of 5, with 5 as best score on a ESG standpoint).

In conclusion, FARAD I.M. considers the exclusion category list only as a starting point to identify ESG non-compliant sectors, keeping an active engagement and analysis on individual basis.

FARAD I.M. does not want to blindly exclude all the companies belonging to a specific category, but rather it focuses on positive selection and it engages in analyzing the actions and commitments undertaken by those companies to move towards a more sustainable and compliant business model.

The exclusion list is regularly updated, at least annually following the market/companies/legislation evolution.