

Appendix I – ESG Label Exclusion and Engagement Policy

A. List of sectors and activities¹⁰, in which investments must be excluded:

Controversial behaviors: Investments in companies which may be involved (whether credibly alleged or actual involvement), and/or whose management bodies may be involved in severe or very severe harm in violation of one or more of the following: the UN Global Compact Principles, the UN Guiding Principles on Business and Human Rights, the ILO Conventions, and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (see Appendix II. A for further details).

Controversial jurisdictions: Investments in sovereign or corporate issuers and/or individuals or entities involved in countries or entities listed in one of the following: the United Nations Security Council sanctions regimes¹¹, the list of high-risk jurisdictions subject to a Call for Action by the Financial Action Task Force¹², the consolidated list of persons, groups and entities subject to the European Union financial sanctions¹³.

Controversial weapons: Investments in companies involved, or through owned entities, in the manufacturing of controversial weapons, including anti-personnel mines, cluster munitions, chemical, biological weapons, white phosphorus, depleted uranium weapons and nuclear weapons and/or essential components of such weapons and/or relevant services in relation to such weapons, (see Appendix II. B for further details).

Tobacco: Investments in companies deriving their revenues from production or cultivation of tobacco, or more than 15% from sales and/or distribution of any traditional tobacco products, as well as tobacco-related products (including without limitation e-cigarettes and next-generation tobacco/nicotine products) and/or tobacco-supporting services (including without limitation filters and smoking halls).

¹⁰ The activities listed here are in no way exhaustive and their interpretation by LuxFLAG may vary over time depending on the data provider. The accuracy and completeness of the data provided by third parties cannot be guaranteed. LuxFLAG assumes no responsibility or liability for any damages that may arise as a result of the use of such data.

¹¹ Additional information is available at <https://www.un.org/securitycouncil/sanctions/information>.

¹² Additional information is available at <https://www.fatf-gafi.org/en/home.html>.

¹³ Additional information available at <https://data.europa.eu/data/datasets/consolidated-list-of-persons-groups-and-entities-subject-to-eu-financial-sanctions?locale=en>.

B. List of sectors and activities¹⁴, in which - in relation to investments - engagement is encouraged¹⁵ on ESG-related matters, unless they are excluded:

Coal¹⁶: Investments in companies deriving more than 1% of their revenues from the exploration, mining, extraction, distribution or refining of hard coal and lignite.

Oil & Gas¹⁷: Investments in companies deriving more than 10% of their revenues from exploration, extraction, distribution or refining of oil fuels.

Investments in companies deriving more than 50% of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels.

Electricity generation¹⁷: investments in companies deriving more than 50% of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.

These include – but are not limited to – thermal coal, arctic oil & gas, shale energy, oil sands, hydraulic fracturing/fracking, and deep-water drilling.

Palm Oil: Investments in companies involved in the extraction, production or distribution of palm oil as well as companies which use palm oil in their products, including- but not limited to- the upstream (plantations, mills) or downstream (refining/trading) palm oil value chain.

Pesticides and Genetically Modified Organisms (“GMOs”): investments in companies deriving more than 5% of their revenues from the activities listed below:

- a. Production of pesticides, including plant protection products, that are not approved for use in the EU and which are identified in the Rotterdam Convention Prior Informed Consent (PIC) procedure.
- b. The development, distribution and cultivation of food or feed from genetically modified varieties of plants that have not passed a risk assessment carried out according to the criteria in Annex II to Regulation EN 503/2013 or equivalent.

LuxFLAG reserves the right to update this Exclusion and Engagement Policy at regular intervals as the market evolves.

¹⁴ The activities listed here are in no way exhaustive and their interpretation by LuxFLAG may vary over time depending on the data provider. The accuracy and completeness of the data provided by third parties cannot be guaranteed. LuxFLAG assumes no responsibility or liability for any damages that may arise as a result of the use of such data.

¹⁵ The Principles for Responsible Investment (PRI) defines engagement as “interactions between the investor and current or potential investees on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosures.” LuxFLAG would require engagement to be monitored and reported, including at least the following aspects: theme, target outcome and timeline.

¹⁶ The definition of this activity and/or sector is aligned with the exclusions set out in Article 12 of the Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum standards for the EU Paris-aligned Benchmarks.

¹⁷ The definition of this activity and/or sector is aligned with the exclusions set out in Article 12 of the Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum standards for the EU Paris-aligned Benchmarks.

Appendix II. – Internationally recognised standards referred to in the controversial behaviors and controversial weapons exclusions

A. Controversial behaviors exclusion:

Internationally recognized standards include, without limitation, the following:

- the Universal Declaration of Human Rights;
- [the United Nations Guiding Principles on Business and Human Rights](#);
- [the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct](#);
- [the International Labour Organization's Fundamental Labour Conventions](#);
- the International Bill of Human Rights;
- [the United Nations Global Compact](#); and
- the Declaration on Fundamental Rights and Principles at Work.

For sovereign issuers, human rights due diligence may rely, without limitation, on the Freedom House Index and the Transparency International's Corruption Perceptions Index.

In the case of companies operating in conflict-affected or high-risk areas, their investments are required to be subject to robust human rights due diligence processes, including engagement, particularly where credible allegations of human rights' violations have been identified.

B. Controversial weapons exclusion:

Relevant international conventions include, without limitation, the following:

- the Geneva Protocol (1925) (on chemical and biological weapons);
- the Treaty on the Non-Proliferation of Nuclear Weapons (1968);
- the Convention on the prohibition of biological weapons (1972);
- the Convention on Cluster Munitions (2008);
- Protocol III to the Convention on Certain Conventional Weapons (1980) (on incendiary weapons);
- the Convention on the Prohibition of Chemical Weapons (1993);
- the Convention on the Prohibition of Anti-Personnel Mines (Ottawa Treaty) (1997); and
- the Treaty on the Prohibition of Nuclear Weapons (2017).