

• **EXCLUSION POLICY
WORST OFFENDERS**
(Controversy management)

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- **1. INTRODUCTION**

With a commitment to sustainable development and socially responsible investment (SRI) spanning more than 30 years¹, Ostrum Asset Management has gone further in recent years by setting ambitious goals for responsible investment, the business component of its Corporate Social Responsibility (CSR) strategy.

As a leading asset manager, Ostrum Asset Management is committed to promoting greater inclusion of ESG criteria in investment decisions across the board, in accordance with the recommendations of the main international standards bodies, such as the United Nations Principles for Responsible Investment (UN-PRI), to which Ostrum Asset Management has been a signatory since 2008. This approach now ambitiously covers all its asset classes and the full range of methods at fund managers' disposal as they act to promote a responsible financial and economic system.

This responsible asset management approach is the result of extensive efforts over a number of years, and is applied on a daily basis by the investment teams according to the specific characteristics of their asset class. Ostrum Asset Management is firmly committed to relevant, ambitious responsible investment management, which drives performance over the long term and creates added value for its clients.

Ostrum Asset Management is a responsible asset manager that refuses to support, through its business, sectors or issuers that do not comply with certain fundamental principles of responsibility. What is at stake is the credibility of its responsible approach and its fiduciary responsibility towards its clients.

Sector and exclusion policies are at the very heart of Ostrum Asset Management's CSR strategy.

As part of its CSR policy, Ostrum Asset Management defines sector and exclusion policies that are in line with its shareholders' philosophy and comply with the goals and pledges outlined specifically by the company to align with its Responsible Asset Management strategy, and with national and international regulations.

Sector and exclusion policies defined and implemented by Ostrum Asset Management aim to identify issuers excluded from the company's investment scope based on their operations, geographical locations, the way they work, their reputation, breaches of international standards, etc.

The list of issuers covered by the sector and exclusion policies is updated at least once each year.

Find out more about Ostrum Asset Management's CSR initiatives at www.ostrum.com.

¹Through the capitalistic combination that led to the creation of Ostrum AM on 1 October 2018.

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- **2. SCOPE OF APPLICATION**

Investment bans on issuers associated with Worst Offenders apply to all portfolios managed by Ostrum Asset Management² (open-ended funds, dedicated funds or mandates), regardless of the lead management company (internal or external to Groupe BPCE), and also to portfolios whose financial management is delegated to other management companies. However, as regards mandates, this policy only applies to new investments, and not to existing investments.

Following Seeyond's merger through absorption into Ostrum Asset Management and the transfer to Ostrum AM of NIM Solutions' institutional insurance portfolio management and structured management activities (1 January 2023), the funds that were managed by Seeyond and NIM Solutions were included in the scope of application of this policy as of 1 January 2023.

² With the exception of trackers, and excluding structured funds existing at 1 January 2023, regardless of the type of exclusion (except regulatory), and based on the objectives and constraints related to the contractual documentation of Ostrum Asset Management's clients.

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- **3. DETAILED DESCRIPTION**

3.1. IDENTIFYING CONTROVERSIES

Ostrum Asset Management uses several sources to identify controversies:

- 1) non-financial data providers that specialise in identifying controversies, in particular Sustainalytics: we always deal with all its “Global Standards Screening” alerts³;
- 2) the expertise of its teams (in particular analysts, portfolio managers and members of the Sustainable Transitions Department), who may at any time issue an alert about a company following a controversy they have identified.

³ Sustainalytics' Global Standards Screening module assesses the extent to which a company causes, contributes to or is linked to breaches of international standards. The research is based on the principles of the UN Global Compact (UNGC), the International Labour Organization (ILO) conventions, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs).

3.2. METHODOLOGY FOR ANALYSING THE CONTROVERSIES IDENTIFIED

Ostrum Asset Management is committed to excluding from its investments any issuers that are proven to contravene the main principles of internationally established standards (United Nations Global Compact and the OECD Guidelines for Multinational Enterprises) as regards:

- Human rights,
- Labour rights,
- Environmental protection,
- Business ethics.

To this end, Ostrum Asset Management has defined an analysis methodology based on four criteria:

1. **The proven nature** of the facts;
2. **The seriousness of the facts** and their impact on stakeholders;
3. **The systemic nature** of the breaches observed;
4. **Lack of, or ineffective, remediation.**

Classification of controversies

The controversies are analysed using this methodology by the Worst Offenders Working Group, which presents its analyses to the Worst Offenders Committee, which will make the final decision. The Worst Offenders Committee may decide that the issuers identified are:

- a) placed on the *Worst Offenders Exclusion List* (excluded issuers), **or**
- b) placed on the *Worst Offenders Watch List* (issuers not excluded but monitored), **or**
- c) considered as *Other Controversies*.

a) Worst Offenders Exclusion List

Issuers presenting controversies that contravene the principles of internationally established standards and which tick all four analysis criteria are placed on the Worst Offenders Exclusion List.

b) Worst Offenders Watch List

Issuers presenting controversies that contravene the principles defended by the international standards commonly established but which do not tick all four analysis criteria are placed on the Watch List, if the Worst Offenders Committee considers that increased monitoring of the controversy is necessary.

This has two objectives: 1) to alert Portfolio Management to potential controversies associated with this issuer (non-blocking pre-trade alert) and 2) to monitor the developments in the controversy over time.

c) Other controversies

Controversies reviewed by the Worst Offenders Committee that do not fall into the previous categories are considered to be Controversies not requiring any particular follow-up.

3.3. GOVERNANCE, COMMITTEE STRUCTURE AND LIST MONITORING

Governance and committee structure

The Worst Offenders Working Group (the Working Group) comprises members of Portfolio Management, of the Risk department, of Credit Research and of the Sustainable Transitions Department. The Working Group is responsible for monitoring and updating the list of issuers covered by this Policy. It also analyses the alerts and submits them to the Worst Offenders Committee.

The Worst Offenders Committee (the Committee) comprises, through a specific governance structure, Investment Officers and the Heads of the Sustainable Transitions, Risk and Compliance departments (or their representatives). The Committee decides whether issuers are to be added to or removed from the Worst Offenders Exclusion List and the Worst Offenders Watch List. In the event of disagreement within the Committee, the decision is escalated to the Executive Committee. The committee meets at least once a year.

Follow-up to Committee decisions

Minutes of all Committee meetings are circulated to all departments concerned. The lists are monitored by the Sustainable Transitions Department. Exclusions (Worst Offenders Exclusion List) and non-blocking pre-trade alerts (Worst Offenders Watch List) are configured in the management tools.

Updating of lists

As soon as a new alert is received, the Working Group places the issuer concerned on the Worst Offenders Watch List as a preventive measure, to alert management. These issuers are reviewed as a priority by the Working Group and the Committee. In the event of a major issue that cannot wait until the date of the next regular Committee meeting, an exceptional Committee meeting may be organised.

The Working Group conducts the analyses and, where necessary, checks the quality of the data reported by the data providers.

Ostrum Asset Management updates the list of issuers covered by this Policy at least once a year and as often as necessary in the event of a major incident involving the issuer. The updating of the list of issuers covered takes into account the various elements of analysis available and the results of engagement initiatives with issuers.

The Worst Offenders Committee reviews and confirms the list of issuers covered. Under the process in place, any addition to or removal from the Worst Offenders exclusion list and the Watch List must have been approved by the Committee.

If a security held in a portfolio is identified as to be excluded from the investment universes following an update to the exclusion lists (post-investment identification), **the securities must be sold within one month of the distribution of the updated lists**. This period is granted in order to best manage the sale in the interest of the holder.

Any exception to this period must be approved by the Investment Officers and the Risk department, and **the security may not be held for more than three months after the update to the distributed lists, or after 15 December of the current calendar year**.

Conditions for removal from the lists

The analyses of the issuers include conditions for removal from the lists, presented by the Working Group to the Committee. These conditions may include, for example, the recognition of the facts by the issuer and the taking of remediation actions. The definition of the conditions for removal is intended to objectify the criteria that may lead to removal from the Worst Offenders Exclusion List or the Worst Offenders Watch List.

3.4. ENGAGEMENT INITIATIVES

Issuers on the Worst Offenders Exclusion List are those subject to the most severe controversies, and investment in them is prohibited.

Ostrum Asset Management focuses its commitment initiatives on issuers placed on the Worst Offenders Watch List, giving priority to issuers for which the severity criterion is ticked and on which Ostrum Asset Management has leverage.

The engagement and escalation process is carried out in accordance with Ostrum Asset Management's Engagement Policy.

New information obtained during the engagement with the issuer may influence the analysis, and lead to a change of list (addition to or removal from the Worst Offenders Exclusion List or the Worst Offenders Watch List, or classification as Other Controversies).

3.5. POLICY COMMUNICATION

All parties involved are informed of the contents of the policy via various media:

- General information on sector and exclusion policies is published on [Our CSR and ESG publications | Ostrum Asset Management](#)
- Ostrum Asset Management's exclusion policies are widely distributed by Client Experience to dedicated fund and discretionary management clients to confirm the application of the policies to these portfolios.

3.6. MANAGING CONFLICTS OF INTEREST

Ostrum Asset Management pays particular attention to the identification and management of conflicts of interest as part of the monitoring of controversies, particularly as regards potential conflicts of interest between the management company/portfolio manager and the issuers subject to identified controversies.

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- **4. REFERENCE TEXTS**

Ostrum Asset Management refers to internationally established standards in defining its exclusion categories and their scope for application:

- **UN Global Compact – 1999:** this United Nations initiative aims to mobilise companies in countries around the world to adopt a socially responsible approach by pledging to the Ten Principles of the Global Compact and incorporating them into their strategy as regards human rights (derived from the Universal Declaration of Human Rights), international labour standards (derived from the International Labour Organization’s Declaration on the Fundamental Principles and Rights to Work), the environment (derived from the Rio Declaration on Environment and Development) and the fight against corruption (derived from the United Nations Convention against Corruption).
- **The OECD Guidelines for Multinational Enterprises – 1976 and revised in 2000 and 2011:** these comprise recommendations that governments send to multinational enterprises to set out their expectations on how to act responsibly in terms of labour rights, human rights, the environment, tax, information disclosure, anti-corruption, consumer interests, science, technology and competition.

ADDITIONAL NOTES

This document is intended for clients of Ostrum Asset Management. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorisation of Ostrum Asset Management.

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Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.



Ostrum Asset Management

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