

STRICTLY CONFIDENTIAL

Environmental, Social and Governance (ESG) Exclusions Policy

Arcmont Asset Management

Effective March 2021

Introduction

This document outlines the list of activities that are excluded from Arcmont’s investment activities. While Arcmont believes that engagement on ESG matters is vital for improving a borrower’s ESG profile, we believe that some activities, by virtue of their operations, are fundamentally counter to Arcmont’s responsible investment objectives. We therefore elect to screen these borrowers from all of our investment activities. Screening of prospective investments in line with our Exclusions Policy is the first stage in Arcmont’s responsible investing process and applies to all co-mingled funds and associated vehicles. This policy is reviewed on a regular basis, at least annually, by the Risk Committee and is updated when necessary to reflect changes in circumstances and actual practice.

The following table summarises the activities that are excluded from Arcmont’s funds. For further information on each exclusion, please see the supporting background material.

Excluded Activities	Exclusion Type
Violation of the UN Global Compact Principles	Absolute Exclusion
Adult Entertainment	Absolute Exclusion
Controversial Weapons	Absolute Exclusion
Conventional Weapons	Absolute Exclusion
Fur Products	Absolute Exclusion
Genetically Modified Organisms (GMOs)	Absolute Exclusion
Tobacco	Absolute Exclusion
Thermal Coal	Revenue Threshold - Greater than 5%
Oil/Tar Sands	Revenue Threshold - Greater than 5%
Nuclear Power Generation	Revenue Threshold - Greater than 10%
Gambling	Revenue Threshold - Greater than 25%

Contact Details

For more information about Arcmont’s approach to exclusions, please contact ESG@Arcmont-am.com.

Background

1. UN Global Compact

Arcmont will not knowingly invest in corporate borrowers that engage in human or labour rights infringements, serious environmental harm, corruption, or any other action that is considered a violation of the principles of the UN Global Compact.

Exclusions	Notes
Human Rights	Corporate borrowers engaged in serious or systematic violations of the UN Universal Declaration of Human Rights (UDHR) ¹ are excluded under this policy. Examples of activities may include murder, torture, or the deprivation of liberty. When assessing corporate borrower against this exclusion, Arcmont considers the severity and frequency of the violation as well as the corporate borrower’s degree of complicity.
Labour Rights	Corporate borrowers engaged in serious or systematic violations of the labour rights conventions of the International Labour Organisation (ILO) ² are excluded under this policy. Examples of activities may include forced labour, child labour, or restrictions on collective bargaining rights. When assessing corporate borrower against this exclusion, Arcmont considers the severity and frequency of the violation as well as the corporate borrower’s degree of complicity.
Environmental Harm	Environmental harm involves the act of discharging substances or energy into the environment (water, air, soil) in such quantities or concentrations that inflicts damage to the environment, or to plant or animal life, or that it is detrimental to the health or well-being of humans. When assessing corporate borrower against this exclusion, Arcmont considers the severity of the environmental harm as well as the geographical impact, reversibility, context, and impact on health associated with it. The measures a corporate borrower has implemented to prevent repeats of the incident are also central to the assessment.
Corruption	Corruption is a form of financial crime and can be defined as the misuse of a trusted position by giving/offering or receiving/accepting improper advantages. Corruption includes trading in influence, money laundering and attempts to conceal or prevent the investigation of such activities.

2. Adult Entertainment

Arcmont will not knowingly invest in corporate borrowers generating any revenue from the production of adult entertainment.

¹ [The UN Universal Declaration of Human Rights \(UDHR\)](#)

² [Conventions and recommendations of the International Labour Organisation \(ILO\)](#)

Definition

Adult entertainment is the sale, rental, or exhibition, through any form of media or live performances that are characterised by an emphasis on the exposure or display of specified sexual activity.

3. Controversial Weapons

Arcmont will not knowingly invest in companies that produce, use, store, trade, or ensure the maintenance, transport, and finance of controversial weapons or components specifically designed for controversial weapons. This also includes companies that support or provide assistance, research and technology dedicated to controversial weapons, in addition to companies that own 25% or more of a company engaged in an excluded activity. Controversial Weapons are considered in breach of the fundamental principles that govern international relations, therefore, Arcmont abstains from these investments. Arcmont’s controversial weapons policy has been in place since 01 November 2019.

Definition

Controversial weapons are weapons that cause indiscriminate and disproportionate harm to civilians at the time of use. In some cases, controversial weapons may continue to cause harm to the local population even after a conflict has ended. The production of these weapons is often illegal under international and national convention. Please refer to the table below for further details on the outlined exclusions based on this definition.

Exclusions	Notes
Anti-Personnel Landmines (APMs)	Landmines are victim-activated explosive weapons that are placed under, on or near to the ground. They are considered controversial as they cannot distinguish between civilians and military personnel. The 1997 Anti-Personnel Landmines Convention ³ prohibits the use, stockpiling, production, transfer of and destruction of anti-personnel mines. It does not address the issue of financial support for companies that manufacture such weapons.
Chemical & Biological Weapons	Chemical weapons are toxic chemicals and their precursors that can cause death, temporary incapacitation, or permanent harm through their chemical action. Biological weapons are biological agents or toxins designed for hostile purposes or armed conflict. The development, production, stockpiling, acquisition, retention and transfer of such weapons, including their delivery systems, are banned under multiple conventions. ⁴

³ Formally the ‘1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction’ or (“Ottawa Convention”)

⁴ Banned under the 1925 Geneva Protocol, the 1972 Biological Weapons and Toxin Convention (‘BTWC’), and the 1993 Chemical Weapons Convention(‘CWC’).

Exclusions	Notes
Cluster Munitions	Cluster munitions are single ‘parent’ containers containing multiple explosive sub-munitions. They are controversial as when they are released, they impact a wide area and are unable to specifically target combatants. The manufacture, use, and stockpiling of these weapons and their components is banned under international convention. The implications of financial support are less clear and restrictions are likely to vary at the country level, however, the financing of cluster munitions is excluded under this policy irrespective of the country level restrictions. ⁵
Depleted Uranium	Depleted uranium (‘DU’) is a by-product from enriching natural uranium to use in nuclear power reactors and is deployed as tank armour or in bullets due to its high density. The use of DU is controversial as it is a poisonous heavy metal (similar to lead or mercury), with a radioactive component. There are currently no international conventions banning depleted uranium weapons.
White Phosphorus	White phosphorus (‘WP’) is an incendiary and toxic chemical substance used as a filler in several different munitions that can be employed for a variety of military purposes. Because it has legal uses, white phosphorus is not banned as a chemical weapon under international convention, however, it is a toxic chemical and can have severe negative health and environmental impacts.
Nuclear Weapons	An explosive device that derives its destructive force from nuclear reactions, either fission or from a combination of fission and fusion reactions. Nuclear weapons are indiscriminate and can have long-term damaging effects on the natural environment and lives of future generations. International treaties ban their development, testing, production, acquisition, possession, stockpiling, stationing, transfer, use and threat of use. ⁶

4. Conventional Weapons

Arcmont will not knowingly invest in companies that produce, store, or trade Conventional Weapons or components specifically designed for the following types of conventional weapons. This also includes companies that support or provide assistance, research and technology dedicated to Conventional Weapons, in addition to companies that own 25% or more of a company engaged in an excluded activity.

Definition

Conventional Weapons are those whose ability to damage comes from kinetic or incendiary, or explosive energy, including all armaments produced with the specific purpose of being used in crimes

⁵ Banned under the Convention on Cluster Munitions (“Oslo Convention”)

⁶ Banned under the Treaty on Non-Proliferation of Nuclear Weapons (1970), and the Treaty on the Prohibition of Nuclear Weapons (2017)

and conflicts around the world. Please refer to the table below for further details on the outlined exclusions based on this definition.

Exclusions	Notes
Battle Tanks	A self-propelled armoured fighting vehicle, capable of heavy firepower, primarily of a high muzzle velocity direct fire main gun necessary to engage armoured and other targets, with high cross-country mobility, with a high level of self-protection, and which is not designed and equipped primarily to transport combat troops.
Armoured combat vehicles	A self-propelled vehicle with armoured protection and cross-country capability. Armoured combat vehicles include armoured personnel carriers, armoured infantry fighting vehicles and heavy armament combat vehicles.
Artillery	Large calibre systems capable of engaging ground targets by delivering primarily indirect fire.
Combat aircraft	A fixed-wing or variable-geometry wing aircraft armed and equipped to engage targets by employing guided missiles, unguided rockets, bombs, guns, cannons, or other weapons of destruction, as well as any model or version of such an aircraft which performs other military functions such as reconnaissance or electronic warfare. The term “combat aircraft” does not include a primary trainer aircraft.
Combat helicopters	A rotary wing aircraft armed and equipped to engage targets or equipped to perform other military functions. The term “combat helicopter” comprises attack helicopters and combat support helicopters. The term “combat helicopter” does not include unarmed transport helicopters.
Warships	Vessels or submarines armed and equipped for military use with a standard displacement of 500 metric tons or above, and those with a standard displacement of less than 500 metric tons, equipped for launching missiles with a range of at least 25 kilometres or torpedoes with similar range.
Missiles and missile launchers	Guided or unguided rockets, ballistic or cruise missiles capable of delivering a warhead or weapon of destruction to a range of at least 25 kilometres and means designed or modified specifically for launching such missiles or rockets. This includes remotely piloted vehicles with the characteristics for missiles as defined above as well as Man-Portable Air-Defense Systems (MANPADS).
Small arms and light weapons	Any man-portable lethal weapon that expels or launches, is designed to expel or launch, or may be readily converted to expel or launch a shot, bullet or projectile by the action of an explosive, excluding antique small arms and light weapons or their replicas.

5. Fur Products

Arcmont will not knowingly invest in corporate borrowers generating any revenue from the production or design of products that are primarily comprised of fur pelt, fur or fur trim. We also exclude corporate borrowers that hunt, raise, or trap animals for their fur.

Definition

Arcmont defines fur products as those that make use of an animal's fur in the production of commercially available goods.

6. Genetically Modified Organisms (GMOs)

Arcmont will not knowingly invest in corporate borrowers generating any revenue from the modification of organisms (e.g. seeds or crops) using genetic engineering or transgenic technology.

Definition

Arcmont employs the definition of a GMO provided by the EU Commission in their legislation of GMOs. A genetically modified organism means an organism, with the exception of human beings, in which the genetic material has been altered in a way that does not occur naturally by natural recombination.⁷

7. Tobacco

Arcmont will not knowingly invest in corporate borrowers generating any revenue from the production of tobacco components exclusively designed for such products (such as filters). This includes companies involved in cultivating and processing tobacco. Companies are not covered by this exclusion if they supply other products or services to the tobacco industry, such as advertising, fragrances, or packaging or where the sale of tobacco is incidental to its wider business (e.g. convenience stores).

Definition

Arcmont employs the WHO's definition of tobacco as products entirely or partly made of the leaf tobacco as raw material which are manufactured to be used for smoking, sucking, chewing or snuffing.⁸

8. Thermal Coal

Arcmont will not knowingly invest in corporate borrowers generating more than 5% of revenue from thermal coal, thermal coal mining, coal-based power generation as well as the financing of coal-based power generation. The use of thermal coal in electricity production releases around 33% more CO₂ per million into the atmosphere than the next highest polluting fossil fuel.⁹

⁷ See GMO legislation from the EU Commission [here](#)

⁸ [WHO, Chair's text of a framework convention on tobacco controls \(revised\), 13 January 2003](#)

⁹ See the [Energy Information Administration](#) for more details

Definition

Arcmont defines thermal coal as any type of coal burned as a means of energy or electricity generation.

9. Oil/Tar Sands

Arcmont will not knowingly invest in corporate borrowers generating more than 5% of revenue from the production, upgrading, refinement, or distribution of crude oil sourced from oil or tar sands. This exclusion also extends to borrowers that generate more than 5% of revenue from the financing of oil or tar sands projects. Arcmont's understanding is that oil mined from tar sands is significantly more polluting than conventional oil due to the energy required during extraction and processing.

Definition

Oil or Tar Sands are a loose sand deposit which contain a very viscous form of petroleum known as bitumen. Bitumen is made of hydrocarbons and is used to produce gasoline and other petroleum products.

10. Nuclear Power Generation

Arcmont will not knowingly invest in corporate borrowers generating more than 10% of revenue from nuclear power generation activities.

Definition

Nuclear power is the use of nuclear reactions that release nuclear energy to generate heat, which most frequently is then used in steam turbines to produce electricity in a nuclear power plant. Nuclear power can be obtained from nuclear fission, nuclear decay and nuclear fusion reactions.

11. Gambling

Arcmont will not knowingly invest in corporate borrowers that generate more than 25% of revenues from the operation of gambling establishments, such as a casino, racetrack, or online gambling website. This covers borrowers involved in the manufacture of specialized equipment used exclusively for gambling, including slot machines, roulette wheels, and lottery terminals, or borrowers that sell products/services to gambling operations, such as gambling technology or credit lines to casinos.

Exclusions	Notes
Betting	Betting is defined as the making or accepting of a bet on the likelihood of something occurring. Betting can be offered in several ways, including fixed odds betting, pool betting, acting as a betting intermediary, or spread betting. Examples of excluded industries under this definition include betting shops, racecourses, or online gambling websites.

Gaming Gaming is defined as playing a game of chance for a prize. Examples of excluded industries under this definition include casinos, bingo halls or adult gaming centres. Licensed and unlicensed family entertainment centres (FECs & UFECs) are not excluded under this policy.

Definitions

Arcmont bases its definition of gambling on the UK Gambling Act 2005 and defines gambling as either gaming or betting.¹⁰ Note that participating in lotteries is not considered to be gambling for the purposes of this policy.

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¹⁰ For a more precise definition please see [The Gambling Act 2005](#)