ESG-RELATED EXCLUSION POLICY

Coutts

This policy sets out the investment exclusions applied by Coutts. As a responsible investor, Coutts has taken the decision to implement an ESG-related exclusion policy to funds and portfolios managed by Coutts on a discretionary basis.

As a responsible investor our preferred strategy is to engage with those companies in which we invest to help mitigate material risks associated with environmental, social and governance issues. However, there are certain investments where we believe that engagement will not be effective or where we decide to take a prudent approach until we gain sufficient confidence that the relevant issues can be addressed. As a result, whilst we do not exclude sectors from our investible universe, there are a number of business activities that we have excluded.

The table below lists the exclusions we have applied to our Coutts funds managed by BlackRock and J.P. Morgan in addition to the Coutts direct securities, applying the methodology set out later. Cash, alternatives, and government bonds are out of scope and therefore do not have the policy applied to them. Where we invest in third party funds, we do not have control over the investment manager, so we adopt a different approach, set out on page 10, Scope of Exclusion.

	Coutts Funds (custom-built)[1]	Coutts Direct Securities[2]
Adult Entertainment	✓	✓
Arctic Oil/Gas Production	✓	✓
Civilian Firearms	✓	✓
Controversial Weapons	✓	✓
Gambling	✓	✓
Human Rights	✓	✓
ILO	✓	✓
Nuclear Weapons	✓	✓
Predatory Lending	✓	✓
Tar Sands	✓	✓
Thermal Coal Energy Generation	✓	✓
Thermal Coal Extraction	✓	✓
Tobacco	✓	✓
UNGC	✓	✓
Unconventional Oil/Gas	✓	✓

[1] Coutts US ESG Insights Equity Fund, Coutts Europe Ex UK ESG Insights Equity Fund, Coutts UK ESG Insights Equity Fund, Coutts Actively Managed US Equity Fund, Coutts Actively Managed Global Investment Grade Credit Fund, Coutts North America ESG Insights Equity Fund, Coutts Emerging Markets ESG Insights Equity Fund, Coutts Global Credit ESG Insights Bond Fund, Coutts Diversifying Alternatives Multi-Manager Fund.

[2] Direct Securities are managed by the Coutts Direct Equity team across various portfolios

FOSSIL FUEL-RELATED EXCLUSIONS

Exclusion	Definition	Rationale	Revenue Threshold[3]
Thermal Coal Extraction	Thermal coal extraction refers to the mining of coal either through surface or underground mining.	Thermal coal generates some of the highest levels of CO2 emissions compared to the energy it produces. It also has significant effects on the environment (air pollution, water pollution). There is consensus among scientists that, to limit global warming to below 2˚C, a drastic phase-out of (thermal) coal will be required.	5%
Thermal Coal Energy Generation	Energy is generated by burning thermal coal in power stations to generate electricity. During the process coal is ground to a powder and fired into boilers to produce steam, which drives turbines to produce electricity.		25%
Tar Sands	Tar sands, also known as oil sands, are a mixture of clay, sand, water, and bitumen that are mined and refined into oil.	This method of extraction is significantly less efficient and more damaging to the environment than extracting and refining liquid oil. Crude oil from tar sands emits 14-20% more greenhouse gases than conventional oil. It also has a negative impact on biodiversity and air quality.	5%

[3] The revenue threshold refers to the maximum acceptable percentage of estimated revenue derived from the specified activities. For example, we will not invest in a company that derives more than 5% of its revenue from thermal coal extraction.

Arctic Oil or Gas Production	Arctic production refers to drilling for oil or gas in the Arctic region. This is evaluated based on whether or not a company holds at least one licence or permit for drilling within the Arctic offshore region.	Extreme conditions and the high degree of unpredictability increase the danger of irreparable damage to the planet’s ecosystem.	5%
Unconventional Oil & Gas	Unconventional Oil & Gas refers to crude oil and natural gas that is not produced by traditional extraction methods. This includes but is not limited to offshore, oil sands, tight oil, shale gas and coal bed methane.	The unconventional oil and gas method of extraction can be more harmful to the environment than “conventional” methods as they can require the use of hydraulic fracturing “fracking” which can lead to increased risks of earthquakes and tremors, water contamination and high-water usage.	15%

CONTROVERSIAL & NUCLEAR WEAPONS

As per our policy, we will not invest in the following:

Exclusion	Definition	Rationale	Criteria[4]
Controversial Weapons	Companies with any involvement to Controversial Weapons (including cluster munitions, landmines, depleted uranium weapons, biological/chemicals weapons, blinding lasers, non-detectable fragments and incendiary weapons) as defined by the methodology of the MSCI Ex-Controversial Weapons Indices available at MSCI Global ex Controversial Weapons Indexes Methodology	Controversial weapons and Nuclear weapons have an indiscriminative and disproportionate impact on civilians, even years after a conflict may have ended.	"Fail"
Nuclear Weapons	Companies that manufacture specific or exclusive components, nuclear warheads and/or whole nuclear missiles, alongside companies that manufacture or assemble delivery platforms or provide auxiliary services related to nuclear weapons as defined by the methodology available at MSCI Global ex Controversial Indexes Methodology.		"Fail"

GLOBAL NORM EXCLUSIONS

As a participant of the United Nations Global Compact[5] (UNGC) since 2003, we are strong in our commitment to advocate for human rights, labour rights, environmental responsibility, and anti-corruption. We assess companies across a variety of globally recognised norms to understand how they are aligned against fundamental rights. We recognise the severity of violating such fundamental rights and have an exclusion policy in place for companies that do not adhere to the following standards:

[4] The "Criteria" refers to the whether a company is found to be in breach of the data point which will result in them being excluded. Companies will either pass or fail this criteria.
[5] The NatWest Group | UN Global Compact

Exclusion	Definition	Rationale	Criteria[6]
United Nations Global Compact Principles	The Ten Principles of the UN Global Compact take into account the fundamental responsibilities of business in the areas of human rights, labour, environmental, corruption alongside others which can be found here.	Companies that "Fail" the UNGC ten principles have been involved with a severe controversy where there have been credible allegations that the company or its management has inflicted serious large-scale harm in violation of the principles.	"Fail"
Human Rights Compliance	HR Compliance is based on The United Nations Guiding Principles on Business and Human Rights (UNGPBHR). Identifying companies that have credible allegations of involvement in human rights abuses, forced labour, child labour, discrimination, and serious union-management conflict.	Companies that are found to have serious involvement in human and labour rights abuses have shown a disregard for their responsibility to respect and protect human rights in business.	"Fail"
Labour Compliance – Core & Broad	Labour Compliance assess companies against the core fundamentals of the International Labour Organisation (ILO) which has 8 fundamental conventions on labour rights. The ILO also addresses a broader set of labour rights issues covered through their wider set of conventions. Standards covered include working conditions, wages and hours, and health and safety.	The ILO is a United Nations Agency with the focus on setting labour standards and promoting decent work for all men and women. The 8 ILO fundamental conventions are considered to be the fundamental principles and rights at work. We recognise that individuals should be afforded basic rights within the workplace and assess companies against the core fundamentals. We also recognise developing labour standards above the minimum requirements is essential to developing an individual's respect and dignity within the workplace. The broader set of ILO conventions aim to ensure that labour is treated not as a commodity but focused on improving the life of men and women.	"Fail"

[6] The "Criteria" refers to the flag that a company will exhibit if found to be in breach of the data point.

Other Societal Based Exclusions

We aim to invest in companies that are aligned with our purpose and commitment to being a B-Corp[7] . We have assessed our investment universe and taken the decision to exclude companies involved in sectors or products that we do not think are aligned with our net zero commitments and B Corp status.

Exclusion	Definition	Rationale	Revenue Threshold[3]
Adult Entertainment	Companies that are involved in producing, directing, or publishing adult entertainment alongside those that distribute sexually explicit products and services and speciality stores or online sites that sell adult entertainment products.	Companies involved in adult entertainment activities face significant risks with regards to the social impact of their business, especially with strong risks related to human trafficking.	Producer: 5% Distributor: 15% Retailer: 15%
Civilian Firearms	Companies that manufacture firearms and small arms ammunitions for civilian markets alongside companies that derive revenue from the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.	While firearms can sometimes be used for legitimate and peacekeeping purposes, their use by civilians, especially automatic and semi-automatic firearms, poses a significant threat to society. This is because there is a high risk that they will be used illegally or indiscriminately against others, resulting in mass casualties or death.	Producer: 0% Retailer: 5%
Gambling	Companies that are involved in the ownership or operation gambling facilities or by providing key products or services fundamental to gambling operations.	Companies involved in gambling activities face significant risks with regards to the social impact of their business, and the sector does not appear to have developed sufficient policies to properly address the risks of addiction and over-indebtedness linked to their activities.	Operations: 5% Support: 15%

[7] Coutts & Company | Certified B Corporation

Predatory Lending	Companies that are involved in predatory lending activities. Predatory lending typically means imposing unfair, deceptive, or abusive loan terms on borrowers.	Predatory lenders often use aggressive sales tactics and exploit borrowers' lack of understanding of financial transactions. These companies operate typically unsustainable business models and negatively impact society.	5%
Tobacco	Companies that are involved in the manufacture, retail sales and distribution of tobacco products alongside supplying products essential to the tobacco industry.	Tobacco consumption is associated with pervasive health consequences and fatalities for smokers and non-smokers. According to the World Health Organization (WHO), the tobacco epidemic is one of the biggest public health threats the world has ever faced, killing over 8 million people a year around the world. More than 7 million of those deaths are the result of direct tobacco use while around 1.3 million are the result of non-smokers being exposed to second-hand smoke.	Producer: 5% Retailer: 15% Distributor: 15% Supplier: 15%

SCOPE OF EXCLUSION

The above exclusions apply to our Coutts funds managed by BlackRock and J.P. Morgan[8] and to our direct equity holdings as detailed on page 2.

It is important to recognise that the exclusions might not apply consistently across funds managed by external fund managers. While we actively engage with all fund managers that we invest in and make clear our position on climate change and the activities we will not invest in, we are not able to enforce our exclusions policy.

We continuously seek to understand external fund managers' views on climate risks and how they manage these risks within their funds. We also strongly urge them to support the transition to a low-carbon economy.

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[8] Refers to the Coutts funds launched as part of our co-operation agreement with BlackRock, which include: Coutts US ESG Insights Equity Fund, Coutts Europe Ex UK ESG Insights Equity Fund, Coutts UK ESG Insights Equity Fund, Coutts Actively Managed US Equity Fund, Coutts Actively Managed Global Investment Grade Credit Fund, Coutts North America ESG Insights Equity Fund, Coutts Emerging Markets ESG Insights Equity Fund & Coutts Global Credit ESG Insights Bond Fund. Coutts Diversifying Alternatives Multi-Manager Fund launched as part of our co-operation agreement with J.P. Morgan.

COMPLIANCE

To monitor investments against our chosen exclusionary criteria we use MSCI data to assess company and third-party fund exposure. MSCI are an industry leading data provider with coverage of 53,000 third-party funds and more than 600,000 equity and fixed income securities globally[9]. MSCI look at company disclosures within their annual reports to determine areas of business involvement and the levels of revenue derived from certain activities. Using this data, we can set specific revenue thresholds or exclude companies that have any involvement with activities that are part of our exclusionary criteria. We can also monitor existing investee companies for ongoing compliance. While the majority of ESG data sourced from MSCI is quantitative in nature, there are certain datapoints, more specifically those relating to the Global Norms described earlier, that rely on a qualitative assessment. We rely on MSCI for this assessment but recognise that, due to their qualitative nature, there might be discrepancies between assessments made by different external ESG data providers.

Our Coutts funds managed by BlackRock and J.P. Morgan are monitored in accordance with MSCI data; however, this is subject to BlackRock and J.P. Morgan and their choice of ESG data providers. For third-party fund managers we do not require they use MSCI data as we do not impose our exclusionary policy on those managers, but instead share our exclusionary policy.

As part of our process for monitoring compliance with our exclusion policy we review the securities within our investable universe. We will also undertake a manual check of the investible universe against our exclusion policy on a periodic basis. There can be scenarios where securities are added or removed from our exclusions lists for a variety of reasons, such as changes in business operations, disposal or acquisition of business unit or changes in the ESG data provider methodology for assessment.

Where we become aware that a security:

1. Fails any exclusions criteria.
2. No longer fails any exclusions criteria.

We will act within 90 days of becoming aware to remove/add the security from/to our exclusions list.

[9] MSCI ESG Fund Ratings Summary

PROCESS FOR CHANGING POLICY

We review the exclusion policy annually to ensure it aligns with our approach to responsible investing. If, upon reflection, it is deemed that an activity no longer aligns with these, we will take the necessary action to amend this within our exclusion policy. This may involve adding or removing exclusions alongside modifying thresholds.

In order to make changes to our ESG exclusion policy we must be able to explain the rationale for any added or removed exclusions. An ESG analyst will evaluate the potential impact that an exclusion might have on a portfolio. These findings will culminate in an investment report which will be presented to our investment committee. It is the responsibility of the investment committee to ensure that any exclusionary decisions have been through a rigorous assessment, and that we have considered the key impacts that will arise from implementation.

Following an approval from the investment committee, the new ESG exclusion will be added to our ESG-related exclusion policy, and any necessary action to remove securities held in portfolios that conflict with that policy will be enacted within 90 days.

IMPACT OF OUR EXCLUSION POLICY

As a long-term investor, we are conscious of the potential impact of reducing the investment universe as a result of putting in place ESG-related exclusions. The main objective of our ESG-related exclusion policy remains to reduce risks within the investment portfolios and funds we manage on behalf of our clients.

While we believe that divestment can be a powerful tool to drive change at companies, we believe it is a blunt instrument that should be applied carefully.

We also believe that exclusions should only be used where the use of engagement is unlikely to yield a tangible result.

It is strongly recommended that you also read the Investment Managers Cautionary Note on climate data which provides helpful context for interpreting and using the data provided in the Investment Manager's Report on ESG Data (ESG factsheets) across the Coutts Personal Portfolio, Coutts Managed and Coutts Discretionary Portfolio Service funds. The ESG factsheets communicate progress versus Net Zero trajectories within our core investment models on a quarterly basis and can be viewed under ‘literature’ on our investment product pages.

For more information on our investment exclusions, please contact your private banker or wealth manager or visit coutts.com.

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