



ESG-RELATED EXCLUSIONS 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 exclusions policy to funds and portfolios managed by the Coutts Asset Management team on a discretionary basis. We recognise that as responsible investors we have an obligation 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 and as a result exclude these from our investment universe.

The below sections detail the exclusions that we have applied as an asset manager. These exclusions are applied to our discretionarily managed portfolios.

FOSSIL FUEL-RELATED EXCLUSIONS

Exclusion	Definition	Rationale	Revenue Threshold ¹
Thermal Coal Extraction	Thermal coal extraction refers to the mining of coal either through surface or underground mining. Thermal coal is one of the principle sources of energy and is mainly used for the generation of heat and electricity.	Thermal coal generates some of the highest levels of CO ₂ emissions compared to the energy it produces. It also has significant effects on the environment (air pollution, water pollution, contribution to global warming) and the typical use of chemicals and explosives poses significant health and safety risks for mine workers. While demand for coal is expected to rise, there is consensus among scientists that, in order to limit global warming to below 2°C, a drastic phase-out of (thermal) coal will be required. Countries in both developed and developing regions have already put in place regulations to limit the amount of coal used in power stations, and this restriction is expected to rise materially in the short term.	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%

¹ 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.

Exclusion	Definition	Rationale	Revenue Threshold
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.	We believe that oil and gas production from the Arctic (including the Arctic National Wildlife Refuge and Antarctic areas) is inherently unsustainable and is not in line with the commitments set out in the Paris Agreement. Extreme conditions and the high degree of unpredictability increase the danger of irreparable damage to the planet's ecosystem. Damage inflicted on Arctic ice and tundra would also cause a release of carbon at a materially higher rate than on other continents.	5%

CONTROVERSIAL WEAPONS

We will not invest in any company that is involved with controversial weapons. Controversial weapons have an indiscriminate and disproportionate impact on civilians, even years after a conflict may have ended. As per our policy, we will not invest in the following:

1. **Companies with any tie 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 <https://www.msci.com/indexmethodology>.
2. **Companies that:**
 - Manufacture nuclear warheads and/or whole nuclear missiles
 - Manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles)
 - That manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons
 - Provide auxiliary services related to nuclear weapons
 - Manufacture components that were or could be developed or significantly modified for exclusive use in nuclear weapons (warheads and missiles)
 - Manufacture or assemble delivery platforms that were or could be developed or significantly modified for the exclusive delivery of nuclear weapons; or
 - Manufacture components for nuclear-exclusive delivery platforms

SCOPE OF EXCLUSION

The above exclusions apply to our Coutts funds managed by Blackrock² and to our direct equity and fixed income holdings. 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.

PROCESS FOR CHANGING POLICY

As stated, we review our exclusion policy annually to ensure that we are investing in assets that are aligned with the policy. If upon reflection it is deemed that a sector or activity is no longer meeting those parameters, we will take the necessary action to add this to our exclusion policy.

In order to add to our ESG exclusion policy we must be able to explain the rationale for exclusion. 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 all impacts that will arise from implementation.

Following an approval from the investment committee, the new ESG exclusion will be added to our ESG-related exclusions policy, and any necessary action to remove securities held in portfolios that conflict with that policy will be enacted within 100 days.

² Refers to the Coutts funds launched as part of our partnership with BlackRock, which include: Coutts US Equity Index Fund, Coutts UK Equity Index Fund, Coutts Europe Ex-UK Equity Index Fund, Coutts Actively Managed US Equity Fund, Coutts Actively Managed UK Equity Fund, Coutts Actively Managed Global Credit Fund

IMPACT OF EXCLUSIONS 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. However, before any investment exclusion is applied, an extensive review is undertaken to understand the impact of that restriction on investment portfolios and funds. The main objective of our ESG-related exclusions 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 can only be employed once and should therefore be applied carefully.

We apply a rigorous analysis of the impact of any potential and existing exclusions to ensure we are comfortable with our decisions. We also believe that exclusions should only be used where the use of engagement is unlikely to yield a tangible result, because the relevant sector is unable or unwilling to change its practices.

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