Rothschild & Co: Wealth & Asset Management and Merchant Banking

Investment principles for the thermal coal sector

Rothschild & Co is supportive of the transition towards a low-carbon economy including activities which aim to reduce global carbon emissions and increase the use of renewable energy. As engaged investors we want to play an active role in influencing business practices and drive investment flows towards the most sustainable players. As part of the group's ESG investment integration framework, we are implementing investment principles for the thermal coal sector[1] in line with the international coal phase-out schedule, which sets clear deadlines for 2030 for Europe and the OECD, and for 2040 for the rest of the world.

These principles are part of a comprehensive Responsible Investment framework for Wealth & Asset Management and Merchant Banking activities and are:

- Aligned with our approach to ESG criteria integration among our investment strategies;
- Part of a response to the risks induced by climate change for our investors;
- Representative of our desire to contribute to the transition to a sustainable economy.

The thermal coal investment principles apply to our various discretionary listed and unlisted investment activities in:

- Private equity
- Private banking
- Asset management

These investment principles do not cover assets under advice or execution only accounts nor do they apply to dedicated discretionary funds or managed accounts, for which the management company is required to comply with the constraints expressed by the client which may conflict with these principles. They also do not apply to structured products.

Defining thermal coal exposure, absolute and relative thresholds

The investment principles deal with investments that we make on our own behalf or on behalf of clients in companies directly engaged in thermal coal production, exploration, mining & processing and power generation using thermal coal.

The investment principles impose the following broad restrictions on investments (subject to the detailed rules below):

- We will not invest in or lend to companies involved in new thermal coal mining or thermal coal fired power plants.
- We will not invest in or lend to companies with:
    - more than 20% of revenue generated through activities related to thermal coal;
    - more than 20% of the energy mix (per MWh produced) derived from coal;
- We will not invest in or lend to companies whose:
    - annual thermal coal production exceeds 10 MT per year;
    - installed coal capacities are greater than 5 GW.

These investment principles were designed to respect the specific characteristics of our different investment businesses, and to protect the interests of our investors. These thresholds are applied until the end of 2022 and will be reconsidered in 2023.

[1] According to European Taxonomy, metallurgical coal should be considered separately from thermal coal. There is currently no economically viable substitute for metallurgical coal.

These principles will be implemented according to the following rules

Listed assets under direct management

- No investment will be made, and no lending provided to companies involved in projects to develop new thermal coal capacity.
- Where companies are not involved in developing new thermal coal capacity but have direct exposure to thermal coal in excess of the thresholds defined above, we will:
    - Engage with companies to discuss their coal exposure;
    - Continue to support companies implementing a thermal coal exit strategy on a case-by-case basis;
    - Cease to invest in or lend to companies which, following our engagement, do not implement a thermal coal exit strategy.

Non-listed assets under direct management

In relation to unlisted investments, divestment is more complex, and policy implementation needs to be cater to the underlying differences.

1. In relation to companies in which we have existing investments:

- Where companies are involved in the development of new thermal coal capacity, we will engage with companies to discuss their coal exposure. No new investment will be made in or loans provided to these companies.
- Where companies are not involved in developing new thermal coal capacity but have direct exposure to thermal coal in excess of the thresholds defined above we will:
    - Engage with companies to discuss their coal exposure;
    - Continue to support companies implementing a thermal coal exit strategy on a case by case basis;
    - Cease to make further investments in or offer further lending to companies which, following our engagement, do not implement a thermal coal exit strategy.

2. In relation to companies in which we do not have existing investments:

- No investment will be made, and no lending provided to companies involved in the development of new thermal coal capacity.
- Where companies are not involved in developing new thermal coal capacity but have direct exposure to thermal coal in excess of the thresholds defined above:
    - We may invest in or lend to companies who have implemented a thermal coal exit strategy on a case-by-case basis;
    - We will not invest in or lend to companies which do not implement a thermal coal exit strategy.

Assets under indirect management and listed and non-listed funds of funds

Where we do not invest in individual companies but rather in third-party funds or funds of funds the implementation of this principles is more complex. We will:

- Integrate the analysis of the coal investment guidelines implemented by third party fund managers into our funds selection process.
- Specifically review all allocations, to third-party funds where the manager of those funds has not established a coal exit strategy.

Rothschild & Co believes that engagement in dialogue with companies about their thermal coal exposure can help them to further enhance their knowledge of climate-related risks and take action to reduce their environmental impact.

Engagement policies implemented at the level of individual entities within the Rothschild & Co Group follow the Group's above outlined approach based on dialogue with management and an active voting policy, and are reflective of the different nature of our investment businesses.

In this discussion, companies should provide the evidence of a commitment for implementing a thermal coal exit strategy in line with the international thermal coal exit calendar, that considers the social impact generated by this transition. Furthermore, our investment teams will expect the provision of quantitative proof, demonstrating the credibility of the company's exit strategy.

Transparency

- These investment principles are published on the Rothschild & Co Group website.
- These investment principles, first implemented in 2020, have been updated in 2021 and will be reviewed on an annual basis.

Source: Urgewald (Global Coal Exit List), ESG data providers, companies.