# Exclusion Policy

January 2024

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*Implemented as of 31st of January 2024*

# Exclusion Policy

## Overview

Flexstone Partners ('Flexstone', the 'Firm') has an exclusion policy (the 'Policy') seeks to ensure that all investments align with the Firm's core values and to minimize exposure to material sustainability and business ethics related risks. Our objective is to ensure that each of our investments meets minimum standards with regards to controversial and high risk activities. For each of the sectors covered by Flexstone's Policy, we have defined specific exclusionary criteria and materiality thresholds, based on the materiality of the risks associated with each activity.

The sector and norms based exclusions included in our Policy are activities that Flexstone believes are unethical and/or have significant negative impacts on environmental and social outcomes. In addition, the Policy has been defined in alignment with the exclusion policy of Groupe BPCE[1] as well as industry best practices.

## Scope

The Policy applies to all of Flexstone's commingled funds as of the 31st of January 2024. Therefore, the exclusionary criteria defined in the Policy are not applicable to investments made before the 31st of January 2024, which are subject to the previous version of Flexstone's Policy[2].

For separately managed accounts (SMAs), Flexstone is able to customize the Policy applied to the mandate and defines the business activities and materiality thresholds with each client in order to reflect their ESG preferences and policies. Flexstone provides its standard Policy as a default option for SMAs.

[1] https://natixis.groupebpce.com/articles/sector-policies/

[2] The most recent version of Flexstone's Policy was implemented in January 2023.

# Pre-Investment Screening Methodology

## Direct investments

In the case of co-investments where Flexstone invests directly or indirectly in a company as a minority investor alongside the lead General Partner (the 'GP'), Flexstone has full transparency on the sector exposure of the underlying company. Flexstone screens each co-investment opportunity against its Policy to ensure that the company is not active in any of the sectors excluded by Flexstone and satisfies the materiality thresholds defined for each activity.

If a co-investment has activities in sectors that have specific materiality thresholds and/or exempt activities, Flexstone will conduct further due diligence to ensure that the revenue threshold is satisfied or that the activity is not included in the scope of the Policy and will included in side letter signed with the GPs accordingly.

In order to ensure that any add-on investments (including parallel funds and continuation vehicles, if any) made by the GP are aligned with Flexstone's Policy, Flexstone systematically negotiates contractual provisions which prohibit add-on investments in excluded business activities in side letters signed with GPs. These provisions also require GPs to report any breaches of Flexstone's Policy over the holding period in a timely manner.

## Primary investments

Due to the blind-pool nature of primary investments in funds, Flexstone is not able to screen the fund against its Policy during the pre-investment stage. In order to ensure that the fund will not invest in excluded sectors, Flexstone conducts due diligence on the fund's investment strategy (sector and geographic focus) and systematically integrates contractual clauses prohibiting the fund from investing in excluded sectors in alignment with the materiality thresholds defined by Flexstone and to report any breaches of the policy in a timely manner[3]. These provisions are negotiated on a best effort basis in side letters.

In the case that Flexstone is not able to integrate its exclusion policy in side letter clauses, Flexstone will engage with the GP to find an alternative solution for ensuring that the GP will respect Flexstone's exclusionary criteria. Notably, Flexstone will request confirmation that it will be excused from any investments made by the GP in companies that do not meet the materiality thresholds defined in the Policy.

## Secondary investments

For secondary transactions, Flexstone has transparency on the underlying asset(s) that the GP has invested in at the time of due diligence, and is able to use a look-through approach to ensure that the underlying asset(s) are not invested in excluded sectors or business activities.

For GP-led secondary transactions (single or multi-asset), Flexstone screens the underlying portfolio company(ies) to ensure that their business activities are aligned with Flexstone's Policy.

In the case of LP-interests transactions, Flexstone conducts ESG due diligence on at least 10 of the underlying portfolio companies with the most significant weight in the portfolio as a % of the NAV at the time of due diligence.

[3] *When clauses prohibiting the fund from investing in specific sectors are not possible in the side letter, Flexstone will negotiate a clause requesting the Firm to be excused from any investments made by the fund in companies that do not align with Flexstone's Policy or to have the opportunity to sell its position easily.*

Side letters are generally not negotiated for secondary transactions. However, as a part of the due diligence process, Flexstone will review the fund's bylaws for the investment restrictions implemented by the fund manager.

Flexstone will also use its best efforts to ensure that the rest of the portfolio is in line with the Firm's Policy (beyond the 10 highest weighted portfolio companies analyzed during due diligence). Moreover, when relevant, Flexstone will initiate discussions with the lead GP concerning Flexstone's Policy.

## Data Sources

As a limited partner, Flexstone depends on its GPs to report and monitor on the exposure of underlying portfolio companies to excluded sectors and activities during the pre-investment and monitoring period.

In the case of normative exclusions for direct and secondary investments (involvement in material business ethics and human rights litigation or incidents), Flexstone uses World-Check[5] to screen the underlying portfolio companies at the time of investment.

[5] https://www.refinitiv.com/fr/products/world-check-kyc-screening/world-check-one-kyc-verification

# Normative Exclusions

Flexstone excludes all investments that are involved in significant human rights and/or business ethics violations or whose business activities are involved in illegal practices such as money laundering, fraud, and corruption.

Flexstone does not invest in any fund or underlying portfolio company which fails to comply with the Ten Principles of the UN Global Compact[6] and the OECD Guidelines for Multinational Enterprises[7], including but not limited to:

- Violations of fundamental human rights;
- Involvement in any form of modern slavery, including child labour;
- Activities that cause significant negative harm to the communities or ecosystems in which they operate;
- Violations of freedom of association and recognition of the right to collective bargaining and
- Any form of occupational and employment discrimination.

[6] The UN GC principles are derived from the Universal Declaration for Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.
https://www.unglobalcompact.org/what-is-gc/mission/principles
[7] The OECD Guidelines for Multinational Enterprises provide principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards. http://mneguidelines.oecd.org/guidelines/

# Sectoral Exclusions

Flexstone excludes investments with business activities in the following sectors with two types of exclusions: (i) 'zero tolerance' exclusion of a sector or activity (0% revenue threshold) and (ii) exclusions based on materiality thresholds defined as the % of revenue derived from a specific activity.

## Fossil Fuels

Acknowledging the importance and urgency of climate change and the active role financial institutions and asset managers have to play in addressing the global energy transition, Flexstone seeks to minimize its exposure to companies active in the fossil fuel industry. This is also in alignment with Flexstone's general investment strategy, which is focused mainly on buyout and growth investments in SMEs operating across diverse sectors.

### Coal

Flexstone seeks to end all financing of coal-related activities. Coal is the most carbon-intensive fuel and produces nearly double the greenhouse gas emissions as burning gas. Flexstone seeks to end all financing for the coal projects, and to align with Groupe BPCE's commitment towards ending the financing of coal-fired power plants, mines, and coal-related infrastructures.

Flexstone excludes all investments involved in the following activities (**0% revenue threshold**):

- Exploration and mining of coal, including thermal coal;
- Coal-fired power generation, including the distribution and sale of coal-fired energy;
- Financing and/or development of new coal projects, or the expansion of existing coal projects, including the development of heat networks relying on coal-fired energy;
- Financing and/or development of infrastructure dedicated to the exploration, extraction, or production of coal-fired power generation, including coal mines.

For clarification, the Policy does not exclude activities involved in the restoration, clean up, or transition of coal mining or production sites after their closure.

### Oil & Natural Gas

#### Unconventional Oil & Natural Gas

Flexstone excludes all investments in companies with activities linked to unconventional oil and gas **(0% revenue threshold)**, including:

- The exploration and/or production of shale oil;
- The exploration and/or production of oil extracted from tar sands;
- The exploration and/or production of extra-heavy oil;
- Facilities involved in the financing and production of pipelines, storage installations, export terminals, and other related infrastructures supplied with oil from tar sands and/or extra-heavy oil;

- Facilities involved in coal-to-liquid projects[8];
- Financing of onshore or offshore oil and/or gas exploration and production in the Arctic region[9];
- Financing of projects located in an area classified as a UNESCO World Heritage Site, or registered by the Ramsar Convention, or covered by the International Union for Conservation of Nature (IUCN) I – IV and
- Activities involved in the extraction, production, and/or financing of oil projects in Ecuador.

Conventional Oil & Natural Gas

Flexstone's Policy on oil and gas includes oil & gas exploration and production (offshore and onshore), processing (e.g., oil refineries, liquefaction and regasification terminals), power generation and distribution, and dedicated financing, notably to new oil & gas projects.

Flexstone excludes all investments in conventional oil and gas (**0% revenue threshold**), including companies involved in the following activities:

- The exploration, extraction, and refining of oil or gas;
- Power generation from oil and gas, including the production of energy for electricity and central heating / cooling;
- Financing and/or development of new oil and gas related projects or the expansion of existing oil and gas related projects and
- Financing and/or development of dedicated and strategic infrastructure to the exploration, extraction, or production of oil- and gas-based power generation, including pipelines and ports.

Although Flexstone generally excludes investments in the oil & gas sector, we also recognize the importance of financing the green transition of the global economy, notably the role of natural gas as a transition energy source. Therefore, Flexstone can invest in companies with activities in the oil & gas sector, given that they have in place time-bound, measurable, and transparent objectives for transitioning to renewable energy sources in alignment with the objectives of the Paris Agreement (e.g., transition plan aligned and approved by SBTi), and have banned the expansion and development of new fossil fuel projects. In this case, Flexstone's ESG team will conduct in-depth due diligence to understand how the GP engages with its portfolio companies to measure, verify, and report on the GHG reduction and energy transition targets, including the international frameworks and standards used for GHG emissions accounting and scenario modelling.

For clarification, Flexstone's exclusion on the oil and natural gas sector does not apply to company's that are specialized in products and services dedicated to significantly reducing and mitigating the GHG emissions of companies in the oil and gas sector, as well as companies seeking to reduce the environmental impacts of companies active in the oil and gas sector.

[8] A coal-to-liquids project is a project in which a liquefaction process is used to convert coal into liquid fuels or petrochemicals.
[9] All waters and lands identified in the AMAP area (Arctic Monitoring and Assessment Programme), excluding the Norwegian Sea, West Shetlands Sea and Barents Sea.

## Weapons

While recognizing the right of countries to protect their citizens and to defend themselves within the framework of international agreements and conventions, Flexstone is concerned with the specific risks inherent to the defense sector, including human rights violations, diversion of weapons, especially in sensitive countries, corruption and money laundering, including the financing of terrorist groups, and the long-term impacts of the sector on human lives, safety, and health of civilian populations, in particular in the case of controversial weapons as defined by international conventions and legal frameworks (see appendix 1).

### Controversial Weapons

Flexstone prohibits investment in any activities linked to controversial weapons (0% revenue threshold). This includes the production, sale, or distribution of controversial weapons (0% revenue threshold), notably cluster munitions, anti-personnel landmines, depleted uranium weapons, white phosphorus munitions, biological and chemical weapons, blinding lasers, non-detectable fragments, incendiary weapons, and nuclear weapons.

### Conventional Weapons

Flexstone defines activities in the conventional weapons sector as companies engaged in the manufacture, trade, or storage of weapons (including armored vehicles, military vehicles, warships, and warplanes), ammunition, or components for weapons. Specifically, Flexstone defines weapons on the basis of the **<u>product’s primary purpose / majority use:</u> all weapons and ammunition are included in the scope of this Policy, provided that their primary purpose or majority use is for military purposes and designed to injury / kill humans.**

Companies engaged in the manufacture, trade, or storage of key components of weapons, ammunition, and weapons systems are also included in the scope of the Policy. **Components that meet one of the two following criteria are defined as key:**

(i) Their sole purpose is to be used in a weapon, ammunition, or weapon system; OR
(ii) Their use conditions the lethality of the instrument used.

Flexstone excludes investments in companies that generate **<u>5% or more revenue from the conventional weapons sector.</u>**

For clarification, companies involved in the production of non-dedicated, non-strategic equipment, products, or services that have dual use and are not considered key for lethality are not excluded by this Policy, as long as the revenue derived from the sale of such equipment, products, or services to military use does not exceed 20% (e.g., GPS, protective gear, etc.).

## Tobacco

The fight against smoking is at the heart of the prevention of non-transmissible chronic disease. As a cause of death, disease and disability, the tobacco epidemic is considered by the World Health Organization (WHO) as 'one of the biggest public health threats the world has ever faced, killing more than 8 million people a year, including around 1.2 million deaths from exposure to second-hand smoke'[10].

In alignment with Groupe BPCE's exclusion policy on the tobacco industry and the Firm's concerns about the negative social, economic, and environmental consequences of smoking, Flexstone excludes investment activities related to the tobacco industry on a zero tolerance basis (0% revenue threshold).

The Policy applies to any company involved in the production, manufacturing, wholesale, and/or trading of tobacco products, including the following activities:

- Financing of infrastructure or equipment related to the operating cycle of tobacco-related activities;
- The production, distribution, and sale of e-cigarettes;
- Financing of non-dedicated companies that derive more than 20% of their revenue from tobacco.

## Adult Entertainment

Flexstone does not invest in companies that are involved in the production, sale, or distribution of adult entertainment due to the inherent social risk associated with such activities, notably risks related to human trafficking.

Flexstone does not believe that any company in the sector has developed sufficient policies to properly address its social risks, and therefore excludes all investments in the adult entertainment sector (0% revenue threshold).

## Gambling

Flexstone does not invest in companies that are involved in the gambling industry, due to the proven negative impacts of gambling on social outcomes, including people's mental and physical health, and the exposure of the industry to business ethics risks, notably money laundering and corruption.

Although gambling activities are legal and regulated by national / state authorities, Flexstone does not believe that any company exposed to gambling has sufficient policies to properly address the social risks linked to their activities.

Therefore, Flexstone excludes all investments that derive revenue from gambling activities, casinos, and lotteries, online and offline (0% revenue threshold).

However, Flexstone may invest in non-dedicated companies, such as hotel groups, if the revenue derived from gambling does not exceed 20%.

[10] https://www.who.int/news-room/fact-sheets/detail/tobacco

## Palm Oil

Flexstone recognizes the significant negative externalities associated with the palm oil sector, notably the impacts of deforestation, land degradation (peatlands store approximately 550 billion tons of carbon globally[12]), and water & soil pollution on ecosystem services and climate change.

Therefore, Flexstone excludes investments in companies involved in the production of non-RSPO certified palm oil[13] (0% revenue threshold).

Flexstone may invest in companies that have received the RSPO Certification for sustainable palm oil, which requires systematic annual audits as well as continuous improvement of compliance status and sustainability practices.

## Summary of Flexstone's Sectoral Exclusions

| Sector | Revenue Threshold | Exemptions | Details |
|---|---|---|---|
| **Coal** | 0% | NO | - |
| **Oil & natural gas** | 0% | YES | Activities aligned with the EU taxonomy and the objectives of the Paris Agreement for natural gas |
| **Tobacco** | 0% | YES | 20% revenue threshold for non-dedicated activities, such as companies in the hospitality or hotel industry |
| **Controversial weapons** | 0% | NO | - |
| **Conventional weapons** | 5% | NO | - |
| **Adulting Entertainment** | 0% | NO | - |
| **Gambling** | 0% | YES | 20% revenue threshold for non-dedicated activities, such as hotel groups hosting casino activities. |
| **Production of non-RSPO certified palm oil** | 0% | NO | Does not apply to RSPO-certified palm oil production, distribution, or sale |

[12] https://www.unep.org/explore-topics/ecosystems-and-biodiversity/what-we-do/protecting-peatlands-people-and-planet
[13] https://rspo.org/as-an-organisation/certification/

# Monitoring

Flexstone monitors the implementation of the Policy through the following processes:

- Flexstone's annual ESG data collection campaign: Flexstone collects data from its GPs on an annual basis on their exclusion policies, ESG risk management processes, and the exposure of underlying portfolio companies to controversial and high risk business activities.
- Semi-annual control by Flexstone's Chief Compliance Officer, including a screening on World Check for business ethics related controversies and a screening of excluded industries using the relevant GICS codes. This control is performed for all investments made after the implementation of Flexstone's first global exclusion policy in 2021.
- Side letters: Flexstone negotiates contractual clauses in side letters on a best effort basis, requesting GPs to disclose breaches of Flexstone's Policy a timely manner. In the case that Flexstone is not able to negotiate additional clauses in side letters, Flexstone will engage with the GP to find another way to formalize their commitment to the Policy (e.g., confirmation over email, periodic reporting on the fund's exposure to excluded sectors to Flexstone)

If Flexstone's ESG team, CCO, or investment professionals identify a breach of Flexstone's Policy, the following process is implemented:

- Analysis of the risk exposure and materiality by Flexstone's ESG and compliance professionals. Flexstone will specifically focus on sector-specific risks.
- Dialogue and engagement initiated with the various parties and stakeholders impacted by the incident and involved in the coordination of a resolution and risk management plan, including Flexstone's ESG, compliance, and investment professionals.
- In the event that the engagement process does not result in a satisfactory resolution, Flexstone will use its best efforts to sell the asset in the secondary market.

## Methodology and data sources for monitoring during the holding period

As a limited partner, Flexstone depends on its GPs to ensure that its portfolio companies are aligned with Flexstone's Policy, and to report any violations of the Policy in a timely manner.

Data reported by GPs and reviewed by Flexstone's ESG team, CCO, and investment professionals include annual and quarterly portfolio reporting, information communicated during AGMs, and Flexstone's annual ESG data collection campaign.

## Data sources for negative screening of investments during the holding period

| Sector | Information source | Methodology |
|---|---|---|
| **Normative Exclusions** | World-Check, Data reported by GPs | Screening of investments made after the implementation of Flexstone's Policy for breaches / exposures to excluded sectors, screening of data submitted by GPs to Flexstone through the annual ESG data collection campaign, quarterly / annual portfolio reporting, and AGM monitoring |
| **Sectoral Exclusions** | Data reported by GPs | Screening of investments made after the implementation of Flexstone's Policy using the relevant GICS codes for excluded sectors, screening of data submitted by GPs to Flexstone through the annual ESG data collection campaign, quarterly / annual portfolio reporting, and AGM monitoring |

# Communication

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

- General information on sector and exclusion policies is published our website.
- Flexstone's Policy are broadly distributed to our clients.

Flexstone can also provide clients with dedicated reporting on the results of the screening on excluded activities on demand.

Flexstone's Policy may evolve over time, notably in alignment with industry best practices and regulatory standards. Any updates to the policy will be implemented as of the date of approval of the new policy and communicated to all relevant stakeholders.

# Appendices

## Appendix 1 – International Treaties on Weapons

Flexstone refers to a set of international conventions and legal references for its Policy on the weapons sector:

**The Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects (CCW)**[14] is a key international humanitarian law instrument adopted on the 10th of October 1980 and entered into force in 1983. The convention has since been amended on December 2001.

The purpose of the CCW is to ban or restrict the use of specific types of weapons that are considered to cause unnecessary or unjustifiable suffering to combatants or to affect civilians indiscriminately. The prohibited weapons included in the CCW protocols include:

- Non-detectable fragments, which are weapons designed to injure by fragments which cannot be detected in the human body by X-rays;
- Non-detectable anti-personnel mines and their transfer, and the use of non-self-destructing and non-self-deactivating mines outside fenced, monitored, and marked areas.
- Incendiary weapons, which are primarily designed to set fire to objects or cause burn injuries against civilians; and,
- Blinding laser weapons, designed to cause permanent blindness.

**The Ottawa (1999)**[15] **and Oslo (2010)**[16] **Conventions**, which prohibit the production, use, stockpiling, marketing and transfer of anti-personnel mines and cluster munitions. Both of these weapons are indiscriminate in nature (i.e., can't distinguish between military and civilian targets) and cause excessive suffering and pain.

**The Chemical Weapons Convention (1993**), officially known as the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction, is an international disarmament treaty. The Convention aims to completely exclude the use of chemical weapons, and strengthens the 1925 Geneva Protocol for the prohibition of the use in war of asphyxiating, poisonous, or other gases, and of bacteriological methods of warfare[17].

**The Biological Weapons Convention (1972**), officially known as the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction. The Convention prohibits the development, production, stockpiling, or otherwise acquiring or retaining microbial or other biological agents, or toxins whatever their origin or method of production, of types and in quantities that have no justification for prophylactic. Protective, or other peaceful purposes; and weapons, equipment, or means of delivery designated to use such agents or toxins for hostile purposes in armed conflict[18].

**The Treaty on the Non-Proliferation of Nuclear Weapons (1968) is based on 3 commitments**: disarmament, nuclear non-proliferation, and the peaceful uses of nuclear energy and nuclear applications. The NPT contains out 11 articles that apply to both nuclear-weapon States parties and non-nuclear weapon States parties regarding, inter alia, the obligation to prevent the spread of nuclear weapons and weapons technology, to promote cooperation in the peaceful uses of nuclear energy and to further the goal of achieving nuclear disarmament and general and complete disarmament[19].

[14] https://disarmament.unoda.org/the-convention-on-certain-conventional-weapons
[15] https://www.icrc.org/en/doc/resources/documents/legal-fact-sheet/landmines-factsheet-150807.htm
[16] https://www.icrc.org/en/document/2008-convention-cluster-munitions
[17] https://www.icrc.org/en/document/1993-chemical-weapons-convention
[18] https://www.un.org/en/genocideprevention/documents/atrocity-crimes/Doc.37_conv%20biological%20weapons.pdf
[19] https://legal.un.org/avl/ha/tnpt/tnpt.html

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Flexstone Partners ("Flexstone") is a leading investment solutions provider in private assets with a global reach and local footprints in New York, Paris, Geneva, and Singapore. It specializes in the selection of private equity, private debt, real estate, and infrastructure fund managers for investment by Flexstone's clients. Flexstone manages primary and secondary investments as well as co-investments. Flexstone's expertise is distinguished by a high flexibility in building customized portfolios that are tailored to the unique needs and constraints of each investor whether institutional or private individual. Flexstone offers a large range of services, from advising on private assets portfolio construction to the management of fully discretionary separate accounts and funds of funds. Flexstone, with more than 50 professionals, manages $10 billion. It is a majority owned subsidiary of Natixis Investment Managers, one of the largest investment managers worldwide.

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# Legal Information

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