



# Sustainable Thematic Equities Exclusion Policy

## Overview

AB's Sustainable Thematic equity strategies are based on the UN Sustainable Development Goals (SDGs). When constructing the investment universe, the primary criteria for inclusion is an assessment of revenues and their contribution to the achievement of the SDGs. The investment universe includes companies in the *aligned* category only, according to the following three groupings of companies, which we determine by revenue exposure.

1. **Aligned** companies generate greater than 25% of their revenue from the direct production of products or provision of services that support the achievement of one or more UN SDGs.
2. **Misaligned** companies generate revenues from the direct production of products or provision of services that we believe deeply inhibit the achievement of the UN SDGs.
3. **Neutral** companies generate revenues from the production of products or provision of services that do not contribute to the achievement of the SDGs, nor deeply inhibit the achievement of the UN SDGs.

## Misalignments: Direct Exposure

The following products and services have been deemed misaligned with the achievement of the UN SDGs. Companies deriving any revenue (unless otherwise stated) from direct involvement in these products and services are excluded from the investment universe.

- **Adult Entertainment:** Companies involved in the direct production of adult entertainment (e.g., online, tv), or ownership/operation of adult entertainment establishments.
- **Alcohol:** Companies involved in the direct production of alcoholic beverages (e.g., distillers, brewers).
- **Cannabis:** Companies with >25% of revenue derived from cannabis-related business activities as covered by AB's Global Stewardship Statement ([link](#)).
- **Coal:** Companies involved in the mining, distribution, refining, and transportation of thermal and metallurgical coal.
- **Controversial Weapons:** Companies covered by AB's Statement on Controversial Weapons ([link](#))—those with direct involvement in anti-personnel landmines, cluster bombs and munitions made with depleted uranium, as well as those involved in the direct production of all other nuclear weapons, biological weapons, chemical weapons and white phosphorus.
- **Firearms:** Companies involved in the direct production of (including essential, tailor-made components) of assault and non-assault firearms or small arms, for civilian, military or law enforcement use.
- **Gambling:** Companies involved in the direct production of specialized equipment used exclusively for the use of gambling (e.g., slot machines) or ownership/operation of gambling establishments (e.g., casinos, online gambling services).
- **Genetically Modified Organisms:** Companies involved in the production of seeds and plants whose genome contains foreign DNA from another organism and are intended for agricultural use or human consumption.
- **Military Contracting:** Companies that generate 5% or more of their revenues from selling weapon systems and/or essential, tailor-made weapon-related products or services to the military or defense industry. The exclusion does not apply to companies that provide non-weapons related products or services to the military or defense industry.
- **Prisons:** Companies with >20% of revenue derived from direct involvement in private prisons, as covered by AB's Global Stewardship Statement ([link](#)).
- **Tobacco:** Companies involved in the direct production of tobacco (e.g., the growing or processing of raw tobacco leaves), as well as tobacco products (e.g., cigars, blunts, cigarettes, e-cigarettes), or those that derive 5% or more of their revenue from the wholesale distribution of tobacco.

## Misalignments: Indirect Exposure

Some companies do not directly produce misaligned products but are part of the value chain for direct producers. In the case of distributors and retailers, companies are excluded if sales from the misaligned product manufacturer represent over 20% of company revenue.

## Oil & Gas

While involvement in the production of unconventional—and some forms of conventional—oil and gas may be deemed to be misaligned with the achievement of the UN SDGs, many companies with legacy operations in the oil and gas sector are transitioning to cleaner forms of energy that are positively aligned. As such, companies with direct involvement in oil and gas exploration and extraction are subject to additional due diligence criteria that must be met for them to be considered for inclusion in the portfolio. This due diligence criteria addresses the extent of a company's UN SDG-aligned, as well as its misaligned, activity.

- The Sustainable Thematic Equities team (the Team) will not invest in any company where operations in misaligned segments—such as oil products and services—are structurally increasing.
- The Team require evidence that at least 50% of CapEX is dedicated to UN SDG-aligned activities. If a company does not meet our pre-defined thresholds, it is excluded.

## Power Generation

Companies with involvement in power generation are subject to additional due diligence criteria that must be met for them to be considered for inclusion in the portfolio. This due diligence criteria addresses the extent of a company's UN SDG-aligned, as well as its misaligned, activity.

- The Team will not invest in any company where operations in misaligned segments—such as coal-fired power generation—are structurally increasing. We also wish to see that a company's positive contribution to the UN SDGs, through the nature of the energy generation mix, is increasing.
- The Team require evidence that at least 50% of revenue, or CapEX, is dedicated to UN SDG-aligned activities, such as power generation from clean energy sources. If a company does not meet our pre-defined thresholds, it is excluded.

## Human Rights and Labor

Portfolio holdings are monitored for violations of global norms, as dictated by the UN Global Compact, as well its complementary standards of the UN Guiding Principles on Business & Human Rights and the OECD Guidelines for Multinational Enterprises. Associated conventions and treaties, such as the International Labour Organisation's Conventions are also monitored. If a company is identified to have committed a material violation of global norms, the company will be excluded from the investment universe, unless AB's research finds evidence to refute the findings of third-party research that has made the identification, subject to compliance with any other investment restrictions