

SGKH EXCLUSIONS RATIONALE

Exclusion	Definition	Rationale
Adult Entertainment	Companies with ≥5% revenue from adult entertainment.	Companies involved in adult entertainment face associated social risks, i.e. human trafficking.
Controversial Weapons	Companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, non-detectable fragments and Nuclear Weapons (outside NPT).	Controversial weapons have an indiscriminate impact on civilians and their effects can last beyond the end of a conflict.
Gambling	Companies with ≥5% revenue from gambling.	Gambling activities can negatively impact individuals.
Unconventional oil and gas	Companies with ≥10% revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, coal bed methane as well as Arctic onshore/offshore.	Methods of extraction such as developing oil sands, directional drilling and hydraulic fracturing (fracking) has adverse environmental impacts by affecting air quality, water quality, biodiversity and population and human health. Extraction methods can also lead to increased risks of earthquakes and water contamination.
Thermal Coal	Companies with ≥10% revenue from Thermal Coal extraction or ≥30% of power generation from thermal coal, or coal developers.	Contribution to global climate change through the emissions of Greenhouse Gases in the value chain is a key environmental impact of the Thermal Coal sector.
Palm oil	Companies with any involvement with non-sustainable palm oil producers and distributors.	Associated activities negatively affect biodiversity-sensitive areas and could also negatively contribute to deforestation.
Tobacco	All tobacco producers or companies with ≥50% revenue from tobacco supply and distribution.	Risks to public health, as well as human rights abuses and the substantial economic cost associated with tobacco.
UN's Global Compact Principles	UN Global Compact is a call to companies to align their strategies and operations with ten universal principles related to human rights, labour, environment and anti-corruption, and take actions that advance societal goals and the implementation of the Sustainable Development Goals.	Companies in breach of the UNGC Principles have disregarded fundamental rights and may have inflicted wide-scale harm as a result of their company activities or management.
Red Flag MSCI ESG Controversies	A Red Flag indicates that a company is directly involved in one or more Very Severe Ongoing controversies.	An MSCI red flag indicates that a company has failed to manage their ESG risk which negatively impacts stakeholders (i.e. workers, communities, the environment, shareholders, or society at large).
MSCI ESG Rating of CCC	Any company with a MSCI CCC rating .	A CCC rating indicates poor ESG Risk Management and is a laggard within the industry.



MSCI is a company which has 40+ years of experience analysing data from thousands of sources. MSCI ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks.

ESG Rating	CCC	B	BB	BBB	A	AA	AAA
ESG Score	0-1.4	1.4-2.9	2.9-4.3	4.3-5.7	5.7-7.1	7.1-8.6	8.6-10
	Laggards				Leaders		

