Ethos Foundation
Place de Cornavin 2
PO Box
CH-1211 Geneva 1
T +41 (0)22 716 15 55
F +41 (0)22 716 15 56
www.ethosfund.ch

Exclusion Criteria

Ethos, in application of its charter, which is based on the concept of sustainable development and encompasses in particular the principles of respect for human beings and the social context within which they live, as well as respect for the natural environment, rules out investment in companies that are active in certain sensitive sectors or that by their conduct get involved in systematic violations of the main international conventions signed by Switzerland or of one of the 10 principles of the UN Global Compact.

1. Principle of product-based exclusion

The product-based exclusions relate to sectors considered to be incompatible with the values of the members of the Ethos Foundation.

As a general rule, companies that generate more than 5% of their turnover in one of the sectors listed below are excluded. However, the exclusion thresholds and criteria may vary from one sector to another and are determined specifically for each of them.

If a company generates less than 5% of its turnover in several sensitive sectors, Ethos reserves the right to exclude the company from its investments.

1.1 Weapons

The mass production of weapons interferes with the principle of respect for human beings and poses the threat of large-scale environmental destruction. Although weapons can be used for legitimate defensive reasons, their end use and final recipients are often difficult to determine. Ethos is convinced that its investments for sustainable development must not contribute to expanding this sector.

In international humanitarian law a distinction is made between conventional and non-conventional weapons. Ethos excludes companies from its investments active in both conventional and non-conventional weapons.

1.1.1. Conventional weapons

Definition:

Conventional weapons refer to the production of weapons and directly related ancillary equipment used by combat and defence forces and the use of which is permitted under international humanitarian law. It includes the manufacture of strategic equipment (aircraft, missile warheads, rockets), of the systems required to launch and guide missiles, and of the defence electronics without which such military equipment cannot be operated.

Exclusion threshold:

Companies active in this sector are excluded regardless of their level of involvement or turnover.

1.1.2. Non-conventional weapons

Definition:

Non-conventional weapons refer to the production of weapons and ancillary equipment which are prohibited by the main international conventions and in the Swiss Federal Act on War Material. Most importantly, these are chemical, biological and nuclear weapons, as well as cluster munition.

The latter category includes:

- Illegal weapons
  These are arms whose production and/or use are prohibited by international accords and conventions and weapons prohibited by the Swiss Federal Act on War Material.
- Weapons which breach fundamental principles of international humanitarian law
  This relates mainly to the distinction between combatants and non-combatants as well as the prohibition of arms which do not distinguish between civilian and military objects or cause unnecessary or superfluous suffering to combatants (principle of proportionality).

Exclusion threshold:

Companies active in this sector are excluded regardless of their level of involvement or turnover.

1.2 Tobacco

Because of the health problems associated with tobacco use, the costs of which are for the most part borne by civil society, Ethos does not wish to invest in and thereby contribute to this sector.

Definition:

The tobacco criterion refers to the production of cigarettes, cigars or pipe tobacco and includes firms whose primary activity is to trade in tobacco and/or to distribute unprocessed tobacco wholesale to cigarette manufacturers or similar activities.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded.

1.3 Gambling

Because of the potentially destructive nature of gambling (organised crime, money laundering, etc.) and its impact on individuals and their families, the Ethos prefers not to invest in this sector.

Definition:

The gambling criterion refers to the operation of casinos and race courses, the production of slot machines, and to companies that lend money on casino premises.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded.

1.4 Adult entertainment

Adult entertainment is contrary to the principle of respect for human dignity and potentially destructive in nature (links with organised crime, discrimination and sexual violence, etc.). Ethos therefore prefers not to invest in this sector.

Definition:

The adult entertainment criterion refers to the production of representations of sexually degrading acts that violate human dignity and to the active distribution of such content via channels such as the media, shops or the internet.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded. If the related turnover cannot be reliably determined, the exclusion applies to those companies whose nuclear energy production capacity exceeds 5% of their total energy production capacity.

1.5 Genetically modified organisms (GMO) in the agro-chemical industry

Ethos has decided to suspend investments in companies active in the development and/or production of GMO. Ethos justifies this decision with the precautionary principle, the hazards to biodiversity and the negative social impacts often tied to these production methods. The decision-making process included a detailed study of GMO and socially responsible investment (December 2001). The complete study can be downloaded in French or German from Ethos's website.

Definition:

The GMO criterion refers to agrochemical activities. It covers companies that actively promote GMO by developing and producing genetically modified organisms, transgenic seeds and in some cases related products. The exclusion does not apply to the medical field.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded. If the related turnover cannot be reliably determined, the exclusion applies to those companies whose coal-based energy production capacity exceeds 5% of their total energy production capacity.

1.6 Nuclear energy

Nuclear energy presents risks both in terms of the hazards related to the widespread dissemination of radioactive elements in the event of an accident and of the unresolved problem of nuclear waste passed on to future generations. Ethos does not want to promote this sector with its investments, as it presents major risks and has effects that may be a burden for several generations to come.

Definition:

The nuclear energy sector comprises the activities of producing nuclear energy, constructing nuclear reactors, storing and reprocessing radioactive waste, and supplying nuclear fuel or uranium.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded. If the share of turnover cannot be determined in a reliable manner, the exclusion applies to those companies whose nuclear power generation capacity exceeds 5% of their total power generation capacity.

1.7 Coal

The combustion of fossil fuels is one of the most significant anthropogenic sources of greenhouse gas (GHG) emissions causing climate change. The ratification of the Paris Agreement of 2015, which aims to limit warming to well below 2° Celsius compared to pre-industrial levels, means that a large part of fossil fuel reserves will not be exploitable.

The extraction of coal and its use for electricity generation is one of the largest sources of greenhouse gas emissions, thus significantly contributing to global warming. Given the measures necessary to mitigate global warming, Ethos is convinced that coal is becoming an unacceptable environmental and financial risk.

Definition:

The term coal refers to the extraction of coal for energy production and the production of electricity from coal.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded. If the share of turnover cannot be determined in a reliable manner, the exclusion applies to those companies whose coal-based power generation capacity exceeds 5% of their total power generation capacity.

1.8 Unconventional fossil fuels

Similar to coal, the combustion of oil and gas is one of the main sources of GHG emissions. It should therefore be significantly reduced in order to limit temperature rises to well below 2° Celsius. Ethos primarily excludes companies active in the extraction and use of unconventional fossil fuels. These activities present economic risks (stranded assets) and have a far greater environmental impact than conventional fossil fuels.

Initially, the exclusion will apply to companies active in the extraction and use of the following unconventional fossil fuels: oil from oil sands, shale oil and gas and oil and gas from the Arctic. Given their crucial role in the development of these activities, Ethos also excludes the companies involved in the transport of such energy sources through oil and gas pipelines.

1.8.1 Oil sands

The extraction of oil from oil sands releases large quantities of greenhouse gases, leads to the destruction of ecosystems and causes considerable air, water and soil pollution. Despite the requirements specified in some legislation and the commitments made by several companies, the rehabilitation and restoration of the extraction sites has only been carried out for a very small part of the affected areas.

Definition:

The oil sands criterion refers to the extraction of oil sands and the processing of oil sands into oil.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded.

1.8.2 Shale gas and oil

The process of shale gas and oil extraction requires large amounts of energy and water as well as the use of chemicals, which cause significant GHG emissions. The hydraulic fracturing (fracking) needed to extract shale gas and oil leads to groundwater contamination, soil degradation, high levels of air pollution and water scarcity in the affected areas. Fracking can also increase the risk of earthquakes. In addition, a considerable amount of gas is released into the atmosphere during the extraction process. These shale gases consist mainly of methane, whose impact on global warming is approximately 25 times greater than that of CO_2.

Definition:

The criterion shale gas and oil refers to the extraction of crude oil and gas from shale rock by hydraulic fracturing.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded.

1.8.3 Arctic oil and gas

Drilling for oil and gas in the Arctic involves considerable operational and financial risks due to the extreme conditions in this region. An unintended oil spill would endanger unique ecosystems and affect the ecological balance worldwide. In addition, the weather conditions would make it very difficult to organize relief efforts and restore extraction sites.

Definition:

The Arctic oil and gas criterion refers to the extraction and exploitation of oil and gas in the Arctic.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded.

1.8.4 Transport of unconventional fossil fuels in oil and gas pipelines

Service providers for the transport of unconventional fossil fuels in oil and gas pipelines contribute directly and actively to the development of these energy sources. In addition, the construction of oil and gas pipelines often violates the rights of indigenous people. Furthermore, their construction and use gives rise to considerable concerns about the environmental and health risks in the event of a possible accident.

Definition:

This criterion refers to developers and operators of oil and gas pipelines for unconventional fossil fuels.

Exclusion threshold:

Companies that generate more than 5% of their turnover in this sector are excluded.

2. Principle of conduct-based exclusion

Exclusions tied to the conduct of a company are implemented when companies are implicated in major controversies in terms of corporate governance or environmental and social responsibility. In particular, systematic breaches of international conventions signed by Switzerland or the ten principles of the UN Global Compact lead to the exclusion of a company.

Listed companies are often multinational enterprises with a presence in multiple countries, either through own operations or through their supply chains. In light of the impacts that these companies have on the economy, humans and the environment, it is important that they commit to respecting not only local laws but also the most important universally recognised norms such as the Universal Declaration of Human Rights, the ILO Conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact and the Rio Declaration on Environment and Development.

2.1 Business ethics

Business ethics is a necessary condition for the development of a stable and prosperous social and economic environment. Ethos believes that integrity should be a priority for the boards and executive managements of listed companies. The adoption of high standards in business conduct contributes to long-term growth and the convergence of economic, social and environmental objectives. Severe and repeated violations of business ethics principles can lead to the exclusion of a company.

Exclusion criteria:

Non-compliance with laws, corruption, distortions of free competition, misleading or false communication with the different stakeholders, money laundering, tax evasion or fraud, aggressive tax optimisation, fraud, abusive lobbying or corporate complicity.

References (not exhaustive):

OECD Guiding Principles for Multinational Enterprises, UK Bribery Act, UN Convention against Corruption, UN Global Compact.

2.2 Corporate Governance

Satisfactory corporate governance is fundamental for the appropriate functioning and continued existence of companies, in particular of listed companies where shareholders are often far removed from decision-making. This requires robust checks and balances to ensure the proper functioning of companies and financial markets. Non-compliance with certain fundamental principles of good corporate governance constitutes a major risk for shareholders and can thus lead to the exclusion of a company.

Exclusion criteria:

Multiple aspects of good corporate governance are not respected, in particular the poor protection of minority shareholders.

References (not exhaustive):

Corporate Governance Principles of the Ethos Foundation.

2.3 Social

Companies, in particular listed multinational enterprises which are active in a global environment, need to commit to socially responsible conduct. They need to respect national and international law, internationally recognized standards of best practice as well as human and labour rights. The respect for human rights must occur wherever the company operates directly but also in its supply chain, in particular when the company's sourcing represents a large part of the supplier's revenues. Human rights breaches in a company or in its supply chain can lead to the exclusion of a company.

Exclusion criteria:

Human rights breaches, discrimination, forced labour, child labour, impeding the freedom of association and the right to collective bargaining, poor and hazardous working conditions, and harm to World Heritage Sites.

References (not exhaustive):

UN Guiding Principles on Business and Human Rights, Universal Declaration of Human Rights, Conventions of the International Labour Organization, UN Global Compact, World Bank Group - Environmental, Health, and Safety (EHS) Guidelines.

2.4 Environment

Every company directly impacts the environment by using resources and producing waste, but also indirectly throughout the life cycle of its products from their development until their dismantling. Lack of respect for the precautionary principle in the production process or related to the use of the manufactured product can lead to exclusion of a company. In addition, companies which significantly contribute to global warming without taking meaningful action to mitigate their impact can also be excluded.

Exclusion criteria:

Major environmental damage, violation of the precautionary principle, hazardous industrial production methods, non-conventional mining or oil production methods, contributing to global warming, safety of infrastructure, impacts on ecosystems and biodiversity.

References (not exhaustive):

Rio Declaration on Environment and Development, UN Global Compact.

Exclusion Criteria approved by Ethos in December 2007, amended in September 2016 and March 2020.