

# Socially Responsible Investment Guidelines

Carmignac Patrimoine



# Carmignac's Overarching Sustainable Framework<sup>1</sup>



- Our operations are Carbon neutral 2019<sup>2</sup>
- Office Environmental practices
- UNPRI signatory 2012

- Climate Change
- Human Capital
- Entrepreneurship

- Tobacco Free supporter
- Coal exclusions and total coal exit 2030
- Energy investments aligned to Paris Agreement

- All portfolio managers and analysts are responsible for ESG integration

- Fulfil our fiduciary duty
- Represent our shareholders rights

- Rigorous 3<sup>rd</sup> party audit
- French ISR<sup>3</sup>
- Belgian Towards Sustainability<sup>3</sup>

- Multiple source ESG indicators
- Proprietary scoring and analysis
- Smart interface for all PM ESG requirements

<sup>1</sup> All the funds and underlying issuers are not concerned by this statement. For more details, please refer to: [https://www.carmignac.lu/en\\_GB/responsible-investment/in-practice-4744](https://www.carmignac.lu/en_GB/responsible-investment/in-practice-4744)

<sup>2</sup> Scope 1, 2 and Scope 3 (business travel and IT services). For more information please consult [https://www.carmignac.lu/en\\_GB/responsible-investment/snapshot-4742](https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742)

RI Labels: Not all Carmignac funds are concerned with this statement

<sup>3</sup> French Label ISR. For further information, please visit <https://www.llelabelisr.fr/en/>

Belgian Label Towards Sustainability. For further information, please visit: <https://www.towardsustainability.be>

<sup>4</sup> The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. Given the lack of standardisation and reporting of some ESG indicators by public companies, not all relevant indicators can be taken into consideration. START provides a centralised system whereby Carmignac's proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete.

# Our Internal ESG Guidelines



## Portfolio universe definition

For the Equity and Corporate bond portion of portfolio:

- ▶ Universe reduced by a minimum of 20% through
  - Firm-Wide exclusions
  - Excluding poorly ESG-rated companies (using MSCI<sup>1</sup> and START<sup>2</sup> scores)<sup>3</sup>

For the Sovereign bond portion of portfolio:

- ▶ The universe is screened for norms based, EU, UN and OFAC sanction country exclusions



## Integration of ESG criteria

- ▶ Minimum 90% of portfolio holdings (equity and corporate debt) are analysed for ESG risks and opportunities
- ▶ Equities and corporate bonds- ESG research system START<sup>2</sup> used to centralize raw ESG Data, proprietary scoring and revenue impact for issuers
- ▶ Govt debt- Proprietary ESG scoring system used to monitor and score government issuers' debt through environmental, social and governance factors
- ▶ We commit to a strengthened dialogue with companies to improve their approach to ESG issues aligned with our corporate themes<sup>4</sup>



## Engagement

- ▶ We commit to a strengthened dialogue with companies to improve their approach to ESG issues aligned with our corporate themes<sup>3</sup>

## SFDR Category

- ▶ The fund has environmental (E) and governance (G) characteristics. It complies with Article 8 of the EU Regulation No. 2019/2088 under the EU Sustainable Finance Disclosure Regulation (SFDR).

<sup>1</sup>MSCI ESG Ratings is a proprietary methodology from MCSI. To arrive at a final rating (from AAA the best to CCC the worst) the weighted averages of the 37 Key Issue Scores covering 10 different themes (4 for Environment / 4 for Social / 2 for Governance) are aggregated and companies' scores are normalized relatively to their industries. These assessments of company performance are not absolute but are explicitly intended to be relative to the standards and performance of a company's industry peers. Carmignac is conscious that by monitoring 37 Key Issue Score the methodology cannot follow all the sustainable aspects from the development of companies but Carmignac ensures that this is the most appropriate one. Moreover, by defining a rating relatively to industry peers, the rating cannot be taken as the objective / inherent assessment of the Company approach in regards of sustainability. <sup>2</sup> The proprietary ESG system START combines and aggregates market leading data providers ESG indicators START provides a centralised system whereby Carmignac's proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete. <sup>3</sup>B or CCC MSCI -rated companies are excluded, as are companies with less than 1.4/10 MSCI Environment and Social pillar score, unless the proprietary score START is A, B or C. <sup>4</sup>Please refer to our ESG-related themes at [https://www.carmignac.lu/en\\_GB/responsible-investment/our-approach-4743](https://www.carmignac.lu/en_GB/responsible-investment/our-approach-4743).

Source: Carmignac, October 2020

# Exclusions Across All Funds



## Exclusions

### Our exclusions policy

Our exclusion list contains companies and sectors that are excluded due to their **activities** or their **business norms**.

This policy applies to **all funds** where Carmignac acts as an investment manager

### Firm-wide hard restrictions

(transactions are prohibited and blocked on trading tools)

- ✘ **Controversial weapon manufacturers** that produce products that do not comply with treaties or legal bans\*
- ✘ **Tobacco producers. Wholesale distributors and suppliers** with revenues over 5% from such products
- ✘ **Thermal coal miners** with over 10% revenues from extraction or 20 million tonnes from extraction
- ✘ **Power generators** that produce more CO<sub>2</sub>/kWh than the defined threshold\*\*
- ✘ **Adult entertainment and pornography** producers and distributors with over 2% revenues from such product
- ✘ **International Global Norms violations** including OECD Business Principle, ILO Principles and UNGC Principles.

\*Companies that do not comply with: 1) The Ottawa Treaty (1997) which prohibits the use, stockpiling, production and transfer of anti-personnel mines; 2) The Convention on Cluster Munitions (2008) which prohibits the use, stockpiling, production and transfer of cluster munitions; 3) The Belgian Loi Mahoux, the ban on uranium weapons; 4) The Chemical Weapons Convention (1997) which prohibits the use, stockpiling, production and transfer of chemical weapons; 5) The Treaty on the Non-Proliferation of Nuclear Weapons (1968), which limits the spread of nuclear weapons to the group of so-called nuclear weapons states (USA, Russia, UK, France and China); 6) Biological Weapons Convention (1975) which prohibits the use, stockpiling, production and transfer of biological weapons

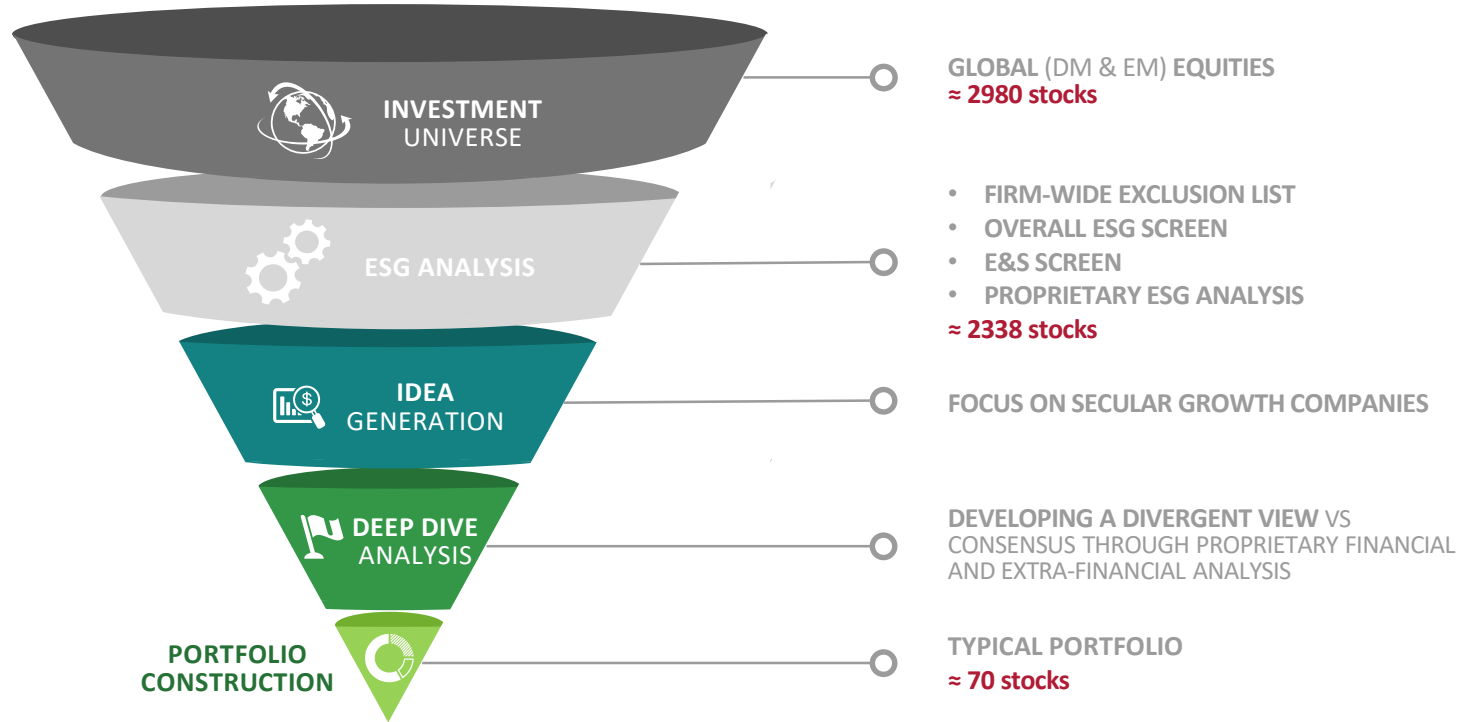
\*\*In line with the 2 ° C scenario suggested by the IEA or new coal/nuclear build or Gas>30%, Coal >10%, Nuclear >30% revenues if CO<sub>2</sub> data not available

Please refer to Carmignac's exclusion policy for further detail  
[https://www.carmignac.lu/en\\_GB/responsible-investment/policy](https://www.carmignac.lu/en_GB/responsible-investment/policy)

Exclusion lists are updated on a quarterly basis

# On the Equity Side

# Carmignac Patrimoine: Equity Investment Process



# ESG Criteria Are Embedded in Our Decision-Making Process And our Financial Analysis\*



**Step 1**  
Setting the  
investment  
universe



All companies eligible to our investment universe must meet both our internal **ESG guidelines and exclusion policy**.



**Step 2**  
Analysis



Our teams carry out detailed financial and ESG assessments of targeted companies in order to **assign them with our own ESG rating**, implemented through **our proprietary ESG system START<sup>1</sup>**. This score will sometimes lead us to invest in a company with an otherwise non-investable MSCI rating; conversely, it will sometimes prevent us from investing in a company with a MSCI rating >B.



**Step 3**  
On-the-ground  
visits



We complete this analysis by **regular on-site visits** of production sites and **one-to-one meetings** with the companies' management in order to understand their strategy as well as their long-term engagements.



**Step 4**  
Monitoring &  
engagement



Consideration of ESG issues does not end when the investment decision is made. The Equity team continuously reviews the investment thesis of companies held in portfolio, including **a review of ESG criteria & engages with firms on ESG issues**

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<sup>1</sup>The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. Given the lack of standardisation and reporting of some ESG indicators by public companies, not all relevant indicators can be taken into consideration. START provides a centralised system whereby Carmignac's proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete.

# On the Fixed Income Side



# Going Beyond ESG Integration



1. Investment Universe: GOBC + HN00 + JCBBCOMP + EB00 + CCEUTOTR. GOBC = ICE BofA Global Corporate Index; HN00 = ICE BofA Global Non-Financial High Yield Index; JCBBCOMP = JP Morgan Corporate Emerging Markets Bond Index; EB00 = ICE BofA Euro Financial; CCEUTOTR = CS Contingent Convertible Euro

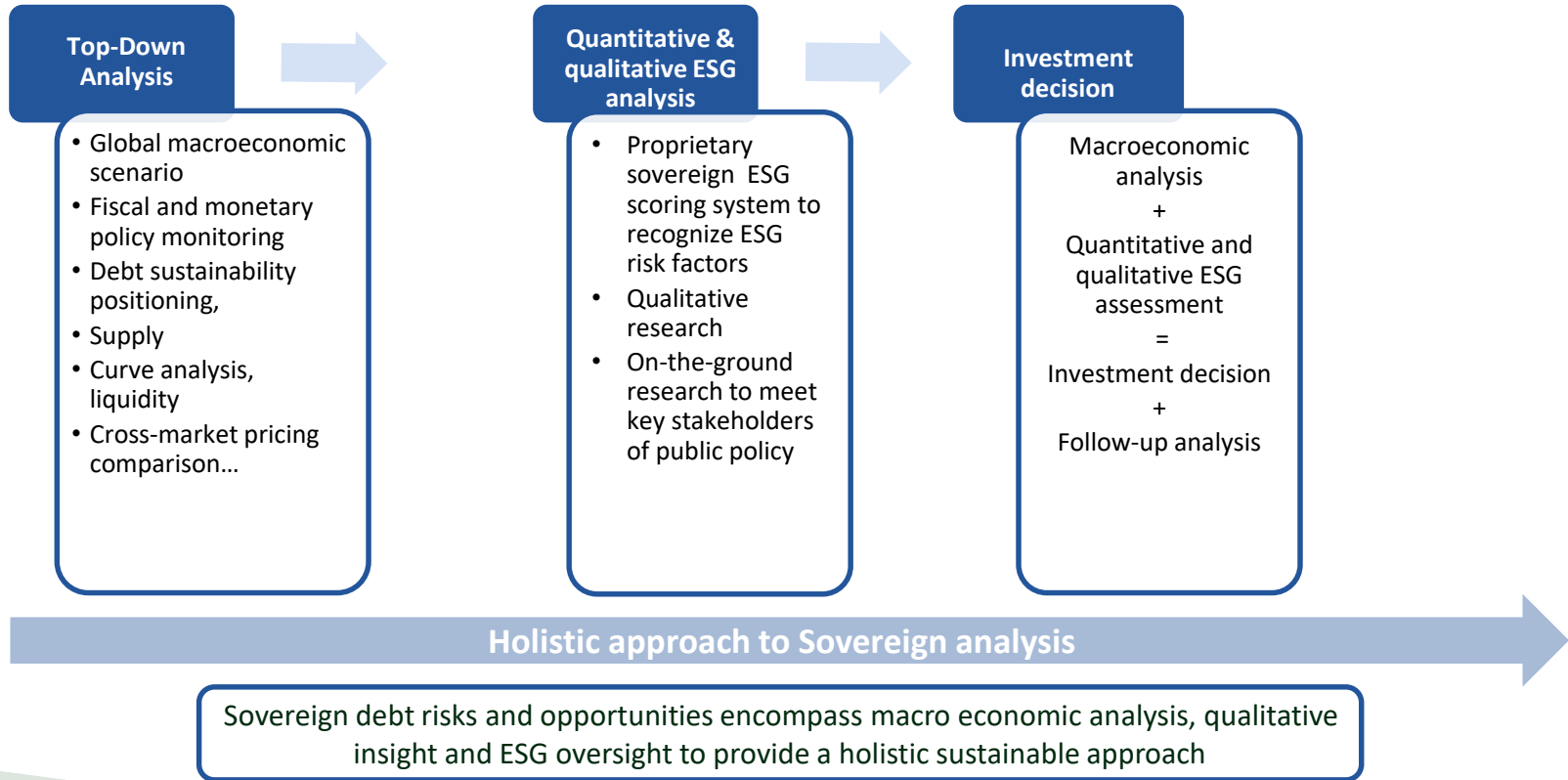
2. Exclusions based on MSCI ratings .

Portfolio composition may vary overtime. \* The investable universe is reviewed on a quarterly basis

Source: Carmignac, April 2021

# Sovereign Bonds ESG Approach

# ESG integration for Sovereign bonds



# Proprietary Sovereign ESG Scoring System for Sovereign issuers

## OBJECTIVE

- Identify ESG related risks and opportunities and integrate them in investment decisions

## METHODOLOGY

- ESG indicators obtained from public sources such as the World Bank, Oxford University, IMF
- Numerical scoring system that goes from 1 (Bad) to 5 (Good) with 3 as a neutral point for each country.
- Country score composed of the equally weighted average of the three components E, S, and G.
- Each of these components is the average of their sub-components. A Static and Dynamic dimension is included which captures and weights improving (dynamic) ES & G indicators

## INDICATORS

### Environment

#### Long-term social improvements that drive growth and stability

- ▶ CO2 per capita
- ▶ Share of Renewables

### Social

#### Capturing investment in climate mitigation and sustainable development

- ▶ GDP per capita PPP<sup>1</sup>
- ▶ GINI<sup>2</sup>
- ▶ Life expectancy
- ▶ Education

### Governance

#### Credit Worthiness, Rule of Law, institution & regulatory quality and control of corruption

- ▶ Ease of doing business
- ▶ Debt as years of Revenue Position
- ▶ Fiscal and Current account situation



**MANUAL ADJUSTMENT FACTOR<sup>3</sup> THAT MANAGEMENT TEAM CAN USE TO CORRECT ON AN AD HOC BASIS EACH OF THE E, S, AND G FACTORS FOR A COUNTRY**

1. Gross domestic Product per capita purchasing power parity

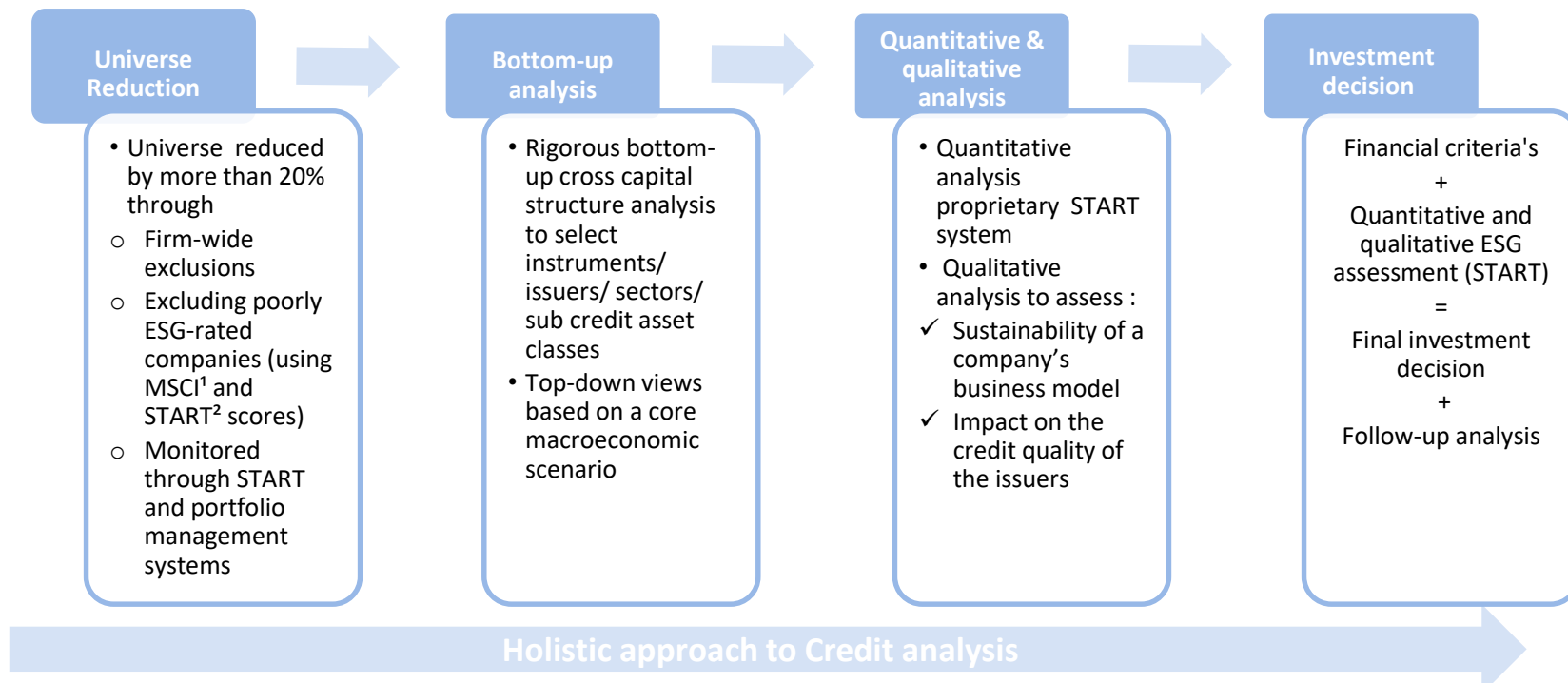
2. GINI: Inequality index developed by Conrado GINI.

3. While the management team is aiming at having a transparent and thus relatively simple index, there are aspects that are not captured. Typically, these would be the impact of recent events not yet reflected in the data or that the data available does not cover fully the situation

Source: Carmignac, 31/03/2021

# Corporate Bonds ESG Approach

# ESG Integration for Corporate Bonds



<sup>1</sup>MSCI ESG Ratings is a proprietary methodology from MCSI. To arrive at a final rating (from AAA the best to CCC the worst) the weighted averages of the 37 Key Issue Scores covering 10 different themes (4 for Environment / 4 for Social / 2 for Governance) are aggregated and companies' scores are normalized relatively to their industries. These assessments of company performance are not absolute but are explicitly intended to be relative to the standards and performance of a company's industry peers. Carmignac is conscious that by monitoring 37 Key Issue Score the methodology cannot follow all the sustainable aspects from the development of companies but Carmignac ensures that this is the most appropriate one. Moreover, by defining a rating relatively to industry peers, the rating cannot be taken as the objective / inherent assessment of the Company approach in regards of sustainability. <sup>2</sup> The proprietary ESG system START combines and aggregates market leading data providers ESG indicators START provides a centralised system whereby Carmignac's proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete. B or CCC MSCI -rated companies are excluded, as are companies with less than 1.4/10 MSCI Environment and Social pillar score, unless the proprietary score START is A, B or C. In the Footnotes of the internal guideline slide. Source: Carmignac

# Proprietary ESG Scoring System START\* for corporate issuers

## OBJECTIVE

- Identify ESG related risks and opportunities and integrate them in investment decisions

## METHODOLOGY

- **Group:** We compare a company vs. its peers to decide on which have similar significant stakeholders. Regrouping by region and size to constitute our own ESG peer groups
- **Collect:** We gather large quantities of raw data from specialised sources such as company reported data and controversies. This data is automatically transferred into START
- **Rank:** Companies are ranked within their ESG peer group based on financially material ESG metrics to provide a baseline quantitative rating of A-E
- **Analysis:** Our analysts use their in-depth company and industry knowledge and quantitative and qualitative analysis to provide unique insights and input

## ESG INDICATORS

### Environment

#### Capturing investment in climate mitigation and sustainable development

- ▶ Carbon Emissions
- ▶ Carbon Intensity
- ▶ Total Energy Use/ Revenues
- ▶ Water Use/ Revenues

### Social

#### Long-term social improvements that drive growth and stability

- ▶ % Employee Satisfaction
- ▶ Employee Turnover
- ▶ Female Managers
- ▶ Employee Fatalities

### Governance

#### Credit Worthiness, Rule of Law, institution & regulatory quality and control of corruption

- ▶ % Audit Committee Independence
- ▶ Independent Board Members
- ▶ Highest Remuneration Package
- ▶ % Board Gender Diversity



QUALITATIVE ADJUSTMENT THAT MANAGEMENT TEAM CAN APPLY TO CORRECT ON AN AD HOC BASIS EACH OF THE E, S, AND G RATINGS FOR AN ISSUER

\*Please refer to the ESG Integration Policy on the Responsible Investment website at [www.carmignac.com](http://www.carmignac.com)  
B or CCC MSCI -rated companies are excluded, as are companies with less than 1.4/10 MSCI Environment and Social pillar score, unless the proprietary score START is A, B or C In the Footnotes of the internal guideline slide. Source: Carmignac, 31/03/2021

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