

Socially Responsible Investment Guidelines

Carmignac Euro-Entrepreneurs



Carmignac's Responsible Investment commitments



Firm

- Our operations are Carbon neutral 2019*
- Office Environmental practices
- UNPRI signatory 2012

3 key engagement themes

- Climate Change
- Human Capital
- Entrepreneurship

Do No Harm

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

100% ESG integration

- All portfolio managers and analysts are responsible for ESG integration

100% voting

- Fulfil our fiduciary duty
- Represent our shareholders rights

RI fund labels

- Rigorous 3rd party audit
- French ISR**
- Belgian Towards Sustainability***

ESG Platform START

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


*(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

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

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

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



Carmignac Euro-Entrepreneurs

Our Internal ESG Guidelines



PORTFOLIO CONSTRUCTION OBJECTIVE

- ▶ The fund employs an environmental and social approach as is defined in the fund's prospectus and is classified as Art 8 under the SFDR EU regulation.
- ▶ 20% universe reduction based on Environmental and Governance internal and external criteria (carbon emissions and MSCI G ratings¹) for best in-universe selection
- ▶ The Fund aims to achieve carbon emissions 30% lower than its reference indicator (MSCI 200 Mid)²



INTEGRATION OF ESG CRITERIA AND ENGAGEMENT WITH COMPANIES

- ▶ Minimum 90% of portfolio holdings are analysed for ESG risks and opportunities
- ▶ ESG research system START³ used to centralise raw ESG Data, proprietary scoring and revenue impact
- ▶ We commit to a strengthened dialogue with companies to improve their approach to ESG issues aligned with our corporate themes⁴



VOTING POLICY ENGAGEMENT

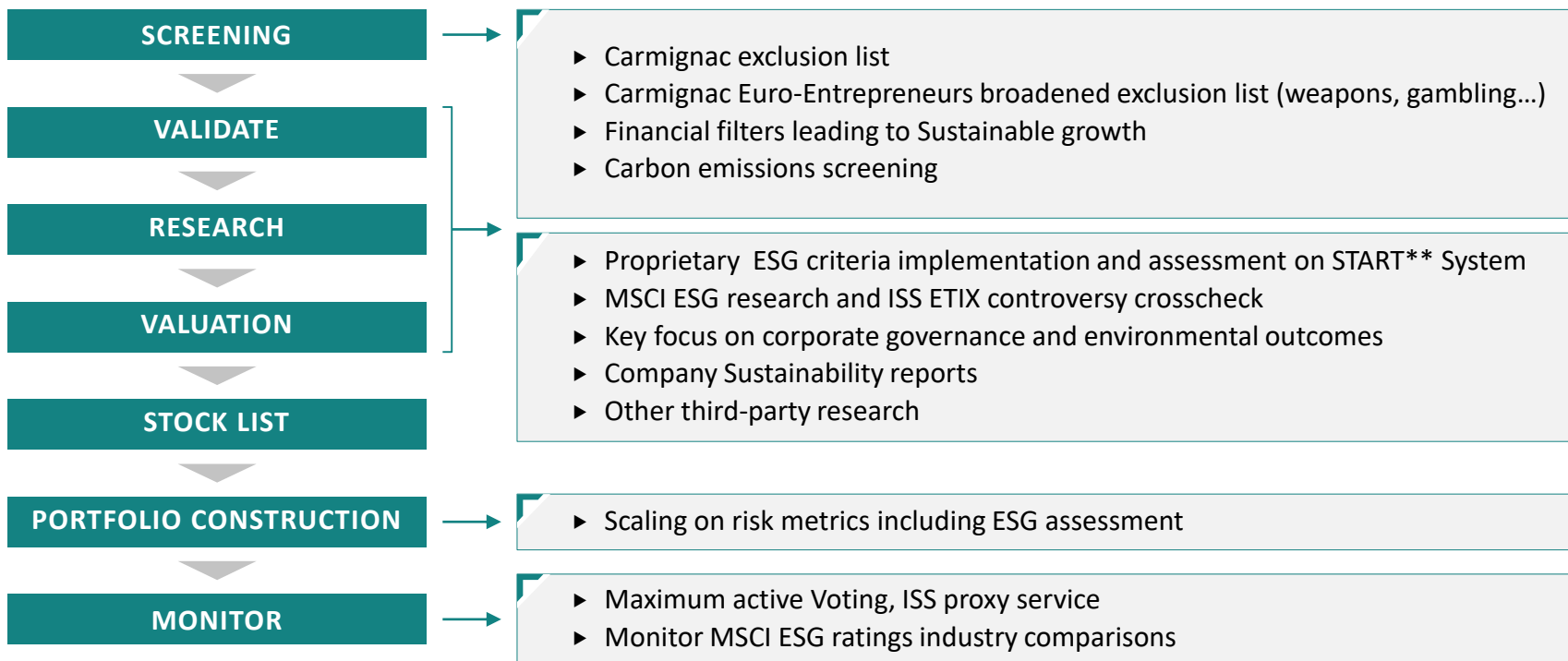
- ▶ An objective of participation rate of 100%

¹MSCI 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.

²CO2 emissions: The Sub-Fund aims to achieve carbon emissions 30% lower than the reference indicator as measured by carbon intensity (tCO2/ mUSD revenue converted to Euros; aggregated at portfolio level (Scope 1 and 2 of GHG Protocol)) ³The 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. ⁴Please refer to our ESG-related themes at https://www.carmignac.lu/en_GB/responsible-investment/our-approach-4743.

Source: Carmignac, October 2020.

ESG is Integrated into the Investment Management Process*



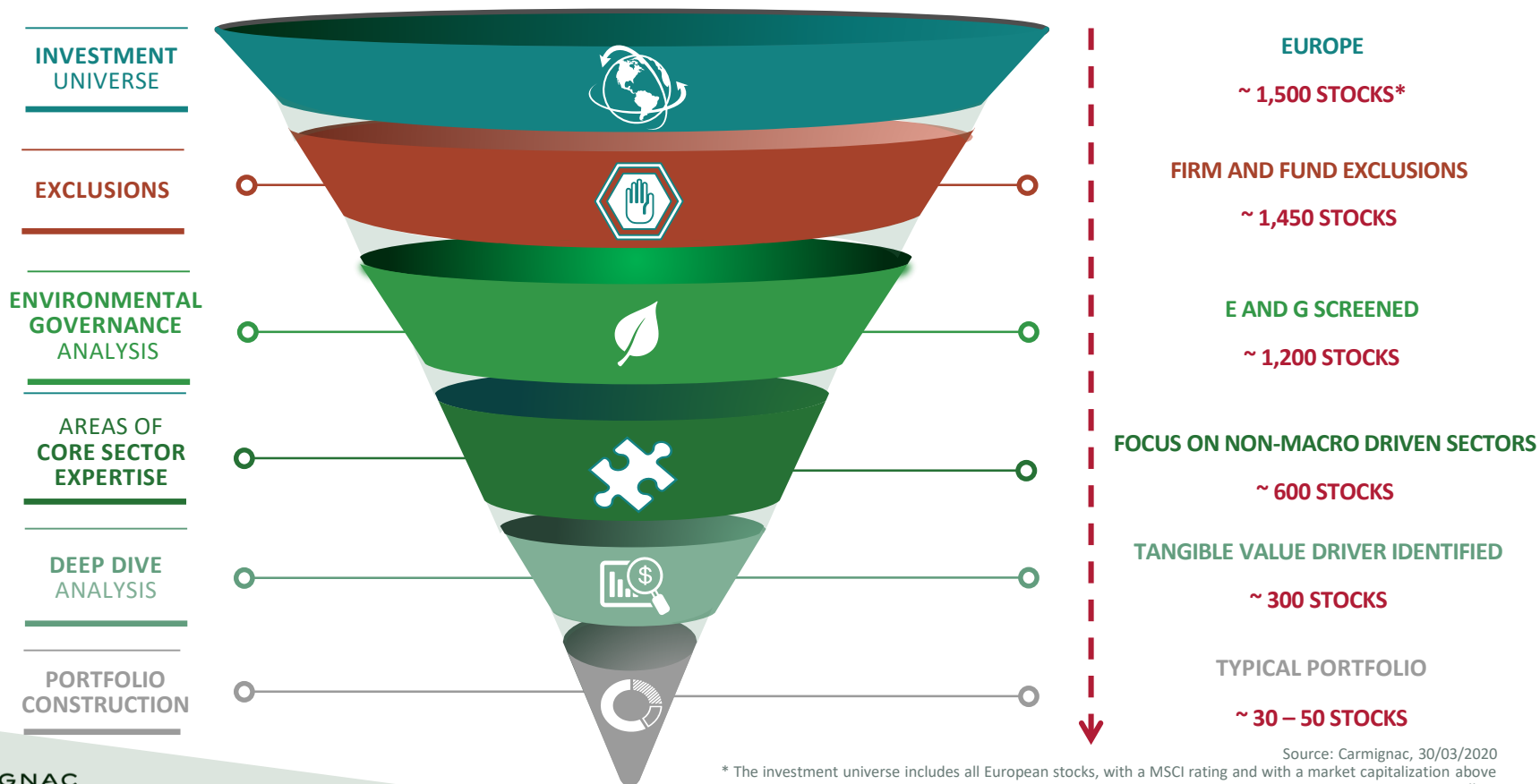
*All the funds and underlying issuers are not concerned by this statement. For more details, please refer to:

https://www.carmignac.lu/en_GB/responsible-investment/in-practice-4744

**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.

Source: October 2020

Investment Idea Generation



* The investment universe includes all European stocks, with a MSCI rating and with a market capitalization above €250 million

Source: Carmignac, 30/03/2020

€250 million

Our Focus on Governance

WHAT TO LOOK FOR AND WHAT TO AVOID?

Transparency; minority shareholders' protection; independent auditors vs crossholdings; opaque structures; nepotism; etc.

OUR TRACK RECORD

- ▶ Emphasis on **long term investment** over short term gains
- ▶ **30 years of investment experience** including emerging market investing has taught us vigilance

OUR PROCESS

- ▶ **External research:** MSCI ESG ratings based screening to identify best-in-class corporate governance
- ▶ **Proprietary governance assessment** based on:
 - 1. Corporate Governance** (Board independence, management committees, skills & experience, minority shareholder treatment, remuneration)
 - 2. Corporate behavior** (accounting practices, bribery & corruption, tax, corporate culture)
- ▶ **Minimum standards Social criteria**

OUR TARGET OUTCOME

- ▶ A range of entrepreneurial companies with attractive fundamentals and **strong Governance**



Our Focus on the Environment

WHAT TO LOOK FOR AND WHAT TO AVOID?

Transparency, carbon emissions targets, energy efficiencies and clean technologies. Avoid fossil fuel involvement and poor waste and natural capital management

OUR TRACK RECORD

- ▶ Carmignac employs a **firmwide approach on environmental concerns**
 - ▶ Monitor carbon emissions for all funds
 - ▶ Align power generation company investments with the Paris accord
 - ▶ Exclude coal extractors and adopt coal exit strategy 2030*

OUR PROCESS

- ▶ Limiting investments in companies owning **fossil fuel reserves**
- ▶ Selecting companies that follow a more ambitious **carbon risk management policy** than their industry peers
- ▶ Investing in companies that offer **clean technology solutions**

OUR TARGET OUTCOME

- ▶ We aim to achieve **carbon emissions 30% lower than our reference indicator****



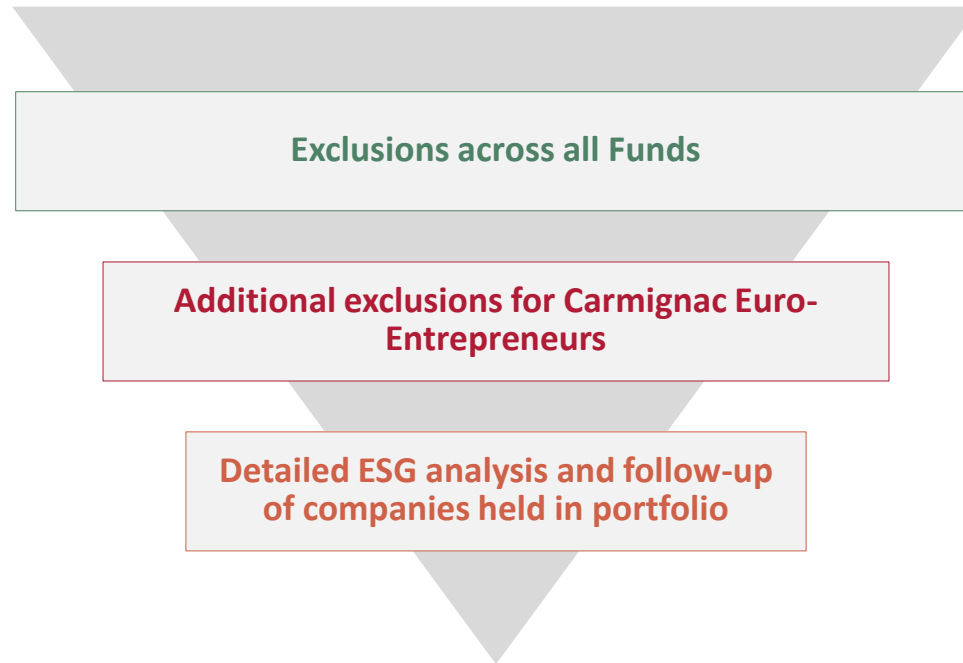
Source: Carmignac, 2020

*For further information regarding our climate policy and energy related exclusions please consult https://www.carmignac.lu/en_GB/responsible-investment/template-hub-policies-reports-4528

**To calculate the portfolio carbon emissions, the companies' carbon intensities (tonnes of CO₂e /USD mn revenues converted to Euros, (Scope 1 and 2 GHG Protocol), S&P Trucost) are weighted according to their portfolio weightings (adjusted for holdings for which carbon emissions are not available), and then summed.

Exclusion Policy

The management team has extended the exclusion list with its own specific convictions



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 CO2/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 CO2 data not available

Please refer to Carmignac's exclusion policy for further detail
https://www.carmignac.lu/en_GB/responsible-investment/policy
Exclusion lists are updated on a quarterly basis

Carmignac Euro Entrepreneurs*



ENERGY EXCLUSION POLICY

- ✘ **Thermal coal** producing companies with more than 10% sales directly derived from coal extraction
- ✘ **Unconventional energy** ⁽¹⁾ companies deriving more than 1% of total production from unconventional energy sources
- ✘ **Conventional oil energy production** ⁽²⁾ companies are excluded
- ✘ **Power generation** companies must not exceed 408 gCO₂/kWh carbon intensity or if data is not available cannot exceed:
 - **Gas-fired** – 30% production or revenue
 - **Coal-fired** – 10% production or revenue
 - **Nuclear-fired** – 30% production or revenue

ETHICAL EXCLUSION POLICY

- ✘ **All Controversial weapon** companies³
- ✘ **Conventional Weapons including components** companies (10% revenue hurdles)
- ✘ **All Tobacco** producers. Wholesale distributors and suppliers 5% revenue threshold
- ✘ **Adult Entertainment** companies (2% revenue hurdle)
- ✘ **Gambling** companies (2% revenue hurdle)
- ✘ **Norms based** exclusion including UN Global Compact violations human rights, labour rights, environment and corruption

*Our Energy and Ethical policies are aligned with the Quality Standards of the Belgian SRI label
(1) Unconventional energy extraction sources: Tar/oil sands, shale oil, shale gas and Arctic drilling.

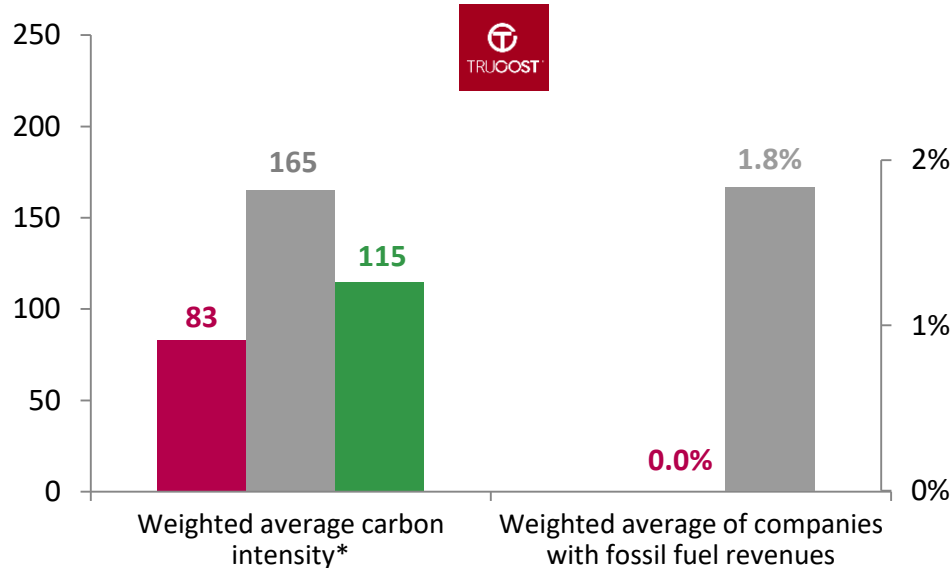
(2) Conventional energy extraction sources: oil and gas

(3) 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.

Exclusion lists are updated on a quarterly basis
Source : Carmignac, October 2020

A Low Carbon Strategy

Carmignac Euro Entrepreneurs Footprint as of 31/12/2020



- Carmignac Euro Entrepreneurs
- Stoxx 200 Mid
- Low Carbon Target (Emissions 30% lower vs the index)

Carbon emission investment strategy

- ▶ We aim to achieve carbon **emissions 30% lower** than our **reference indicator**
- ▶ Limiting investments in companies owning **fossil fuel reserves**
- ▶ Selecting companies that follow a more ambitious **carbon risk management** policy than their industry peers
- ▶ Investing in companies that offer **clean technology solutions**

*To calculate the portfolio carbon emissions, the companies' carbon intensities (tonnes of CO2e /USD mn revenues converted to Euros, (Scope 1 and 2 GHG Protocol), S&P Trucost) are weighted according to their portfolio weightings (adjusted for holdings for which carbon emissions are not available), and then summed.
To know more about S&P Trucost methodology, see following page.

Source: S&P Trucost, Carmignac, December 2020.

Carbon calculations methodology

- ▶ Carbon emission figures are based on S&P Trucost data. The analysis is conducted using estimated or declared data measuring Scope 1 and Scope 2 carbon emissions, excluding cash and holdings for which carbon emissions are not available.
- ▶ To determine carbon intensity, the amount of carbon emissions in tonnes of CO2 is calculated and expressed per million dollar of revenues (converted to Euro). This is a normalized measure of a portfolio's contribution to climate change that enables comparisons with a reference indicator*, between multiple portfolios and over time, regardless of portfolio size.
- ▶ Fossil fuel % revenue is derived weighted average of % revenues excluding cash of each holding within the portfolio
- ▶ S&P Trucost methodology: Trucost uses company disclosed emissions where available. In the instance it is not available, they use their proprietary EEIO model. The model uses the revenue breakdown of the company by industry sector to estimate the carbon emissions. For further information, please visit: www.spglobal.com/spdji/en/documents/additional-material/faq-trucost.pdf. Although S&P Trucost does report Scope 3 emissions where available, such emissions are commonly considered to be poorly defined and inconsistently calculated by companies. As a result, we have chosen not to include them in our portfolio emission calculations.

Definitions:

- ▶ Scope 1: Greenhouse gas emissions generated from burning fossil fuels and production processes which are owned or controlled by the company.
- ▶ Scope 2: Greenhouse gas emissions from consumption of purchased electricity, heat or steam by the company
- ▶ Scope 3: Other indirect Greenhouse gas emissions, such as from the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in Scope 2, outsourced activities, waste disposal, etc

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