

Socially Responsible Investment Guidelines

Carmignac Portfolio EM Debt



Carmignac's Overarching Sustainable Framework*



**UNPRI Signatory
since 2012**



**SRI Objective
in prospectus****



**Investment Team
SRI guidelines**

*All the funds and underlying issuers are not concerned by this statement. For more details, please refer to: https://www.carmignac.com/en_US/responsible-investment/in-practice-4744

**For selected funds.

Carmignac Portfolio EM Debt* at First Glance

OUR OBJECTIVE FOR INVESTORS

GENERATING THE BEST RISK-ADJUSTED RETURNS IN THE EM BOND SPACE
WHILE HAVING A POSITIVE IMPACT ON SOCIETY AND THE ENVIRONMENT

OUR TARGET

CARMIGNAC PORTFOLIO EM DEBT* AIMS TO PROVIDE CAPITAL TO EMERGING
SOVEREIGNS AND CORPORATES THAT WILL DRIVE THEIR SUSTAINABLE DEVELOPMENT

*Carmignac Portfolio EM Debt is the new name of Carmignac Portfolio Unconstrained EM Debt since March 10th, 2021. The Fund's objectives, investment strategy, risk management and fee structure remain unchanged. The fund investment objective is to outperform its reference indicator, calculated with coupons reinvested over a minimum investment period of three years. JP Morgan GBI – Emerging Markets Global Diversified Composite Unhedged EUR Index (JGENVUEG).
Source: Carmignac, 30/10/2020.

Carmignac Portfolio EM Debt*: ESG Criteria is Central in the Decision-Making Process

Carmignac Portfolio EM Debt's investment process



Systematic Signals

Looking at a mix of **systematic signals** which combine asset prices and macro variables, enabling to assess if a fixed income instrument (local debt, external debt, currencies) is rich or cheap relative to the macro fundamentals. Systematic signal examples: spread vs debt as years of revenues, budget deficit, rating, debt-to-GDP, current account, etc.



Hands-on Analysis

On the ground analysis to decide whether a relatively “cheap” asset is worth buying or a “rich” one worth selling by **engaging directly with local authorities** (ie political and central banks leaders, top companies’ management) and the **financial community** (sell side + buy side).



ESG Assessment & Monitoring

Proprietary ESG scoring system for EM countries that focuses primarily on the dynamics with regards to ESG factors. As consideration of ESG issues does not end when the investment decision is made, the management team continuously reviews their investment ESG features through the tracking of key metrics.

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ESG = Environment, Social & Governance.
Source: Carmignac, 10/03/2021.

Fixed income approach to socially responsible investment*



Sovereign bonds

- ✓ Respect norms-based country exclusions
- ✓ Global country sanction list configured in portfolio management system
- ✓ Proprietary qualitative sustainable sovereign rating
- ✓ Seek sovereign bonds of country whose governments are raising the standards of governance
- ✓ Ongoing assessment of countries' governance sustainability
- ✓ **Proprietary EM Sovereign ESG Scoring System** supporting the management team to deliver returns by funding countries which are improving their environmental impact on the planet, their social impact on their population as well as their overall governance



Corporate bonds

- ✓ Filter the investment universe for financial and extra-financial criteria
- ✓ Assess company ESG risks, documented under specific ESG section in our ESG research system START**
- ✓ Respect firm-wide exclusions
- ✓ Engage with companies on E, S, G issues before and during investments and including during controversies

ESG = Environment, Social & Governance

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**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: Carmignac, 10/03/2021.

Measurable ESG Objective: Proprietary Emerging Market Sovereign ESG Scoring System

»» WHAT?

- **Numerical scoring system** that goes from 1 (Bad) to 5 (Good) with 3 as a neutral point.
- Country score composed of the equally weighted average of the three components E, S, and G.

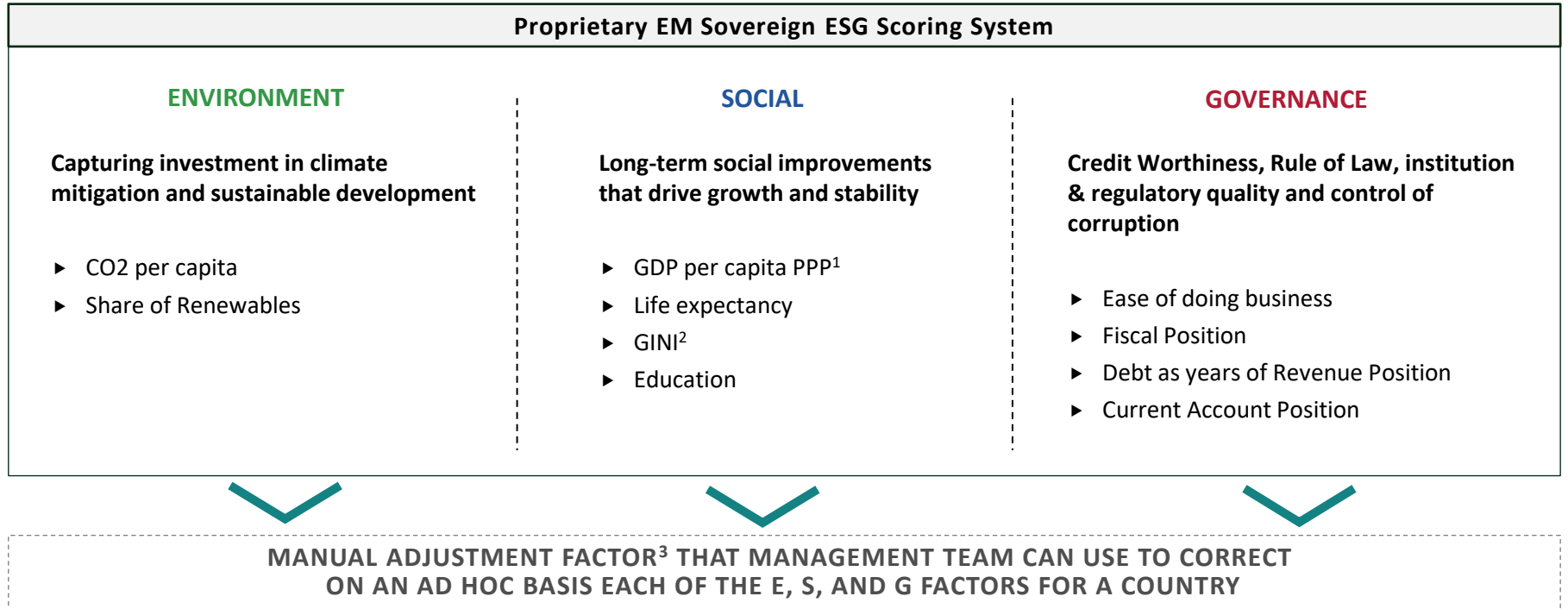
»» WHY?

- Allows to **identify the causes of poor-performance for countries under difficulties and vice-versa.**
- **Methodology that contrasts with industry practice** as competitors tend to assign a high ESG score to the more developed countries
- **Lack-of-quality information in Emerging Market Debt.** Plus, available information tends to focus on static country situations and not on their trajectories

»» HOW?

- **Each of E,S & G components is the average of their sub-components.** If a sub-component has a Static and Dynamic score they are averaged before being included in the component average calculation.
- **Fund score is then aggregated** as the weighted average of the country score and the exposure of the positions.

Measurable ESG Objective: Proprietary Emerging Market Sovereign ESG Scoring System



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, 10/03/2021.

Proprietary Emerging Market Sovereign ESG Scoring System: Example



CHILE

Impact scoring system at Country's level	
CO2 per Capita	3.00
Share of Renewables	4.00
Adjustment*	
ENVIRONMENT	3.50
Life Expectancy	2.00
GDP Per Capita PPP	3.00
GINI Coefficient	3.50
Education	4.00
Adjustment*	
SOCIAL	3.13
Ease of Doing Business	3.00
Fiscal Position	3.00
Debt Position	2.50
Current Account Position	2.50
Adjustment*	
GOVERNANCE	2.75
TOTAL	3.13

Fund score aggregated as the weighted average of the country score



ESG scoring system at CEMD's level			
	% Exposure >3	% Exposure >2.6	Weighted Average Fund Score
Sovereign & Quasi Sovereign Debt	75.88%	100.00%	3.22
Sovereign Debt	87.79%	100.00%	3.31

Sustainable objective portfolio rules :

- **60% of the fund above a score of 3**
- **90% of the fund above to a score of 2.6**
- **Average exposure weighted score above 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. For illustrative purpose, composition of the portfolio may vary at any time. Source: Carmignac, 31/01/2021

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
- ✘ **Power generators** that produce more CO₂/kWh than the defined threshold** or do not publish their CO₂ emissions despite having coal power plants
- ✘ **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 :

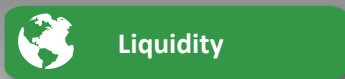
https://www.carmignac.com/en_US/responsible-investment/template-hub-policies-reports-4528

Exclusion lists are updated on a quarterly basis

Corporate Bond Approach to Socially Responsible Investment¹

EMERGING CORPORATE BOND UNIVERSE²

≈ 697 issuers



INVESTABLE UNIVERSE ACCORDING TO FINANCIAL CRITERIA

≈ 318 issuers



SUSTAINABLE EMERGING CORPORATE
BOND UNIVERSE

≈ 254 issuers

Macro
Level

Micro
Level

© Carmignac Portfolio
EM Debt

1. All the funds and underlying issuers are not concerned by this statement. For more details, please refer to: https://www.carmignac.com/en_US/responsible-investment/in-practice-4744 2. Universe: JPM CEMBI Index (USD). Portfolio composition may vary overtime. Data as of 30/09/2020. Source: Carmignac, October 2020. Carmignac Portfolio EM Debt is the new name of Carmignac Portfolio Unconstrained EM Debt since March 10th, 2021. The Fund's objectives, investment strategy, risk management and fee structure remain unchanged.

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