

# Socially Responsible Investment Guidelines

Carmignac Portfolio Emerging 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.

# Carmignac Portfolio Emerging Patrimoine - Article 8 Fund with the French sustainability label accreditation

The fund has environmental (E) and social (S) characteristics according to Article 8 of EU REGULATION 2019/2088 (SFDR Sustainable Finance Disclosure Regulation)

A label created and supported by the French Ministry of Finance\*

Accredited upon a strict audit run by an independent body

Renders SRI\*\* products more visible for investors in France and across Europe



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Source: <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>

\*\*Socially Responsible Investment

\*Label obtained in Jan 2019. For further information, please visit <https://www.lelabelisr.fr/en/>

# Our 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% of Fund's equity investment universe (MSCI EM NR) is excluded based on ESG criteria
- ▶ 20% of Fund's corporate bond universe (JPM CEMBI Index) is excluded based on ESG criteria



## Integration of ESG criteria and engagement with companies

- ▶ Minimum 90% of equity and corporate bond holdings are analysed for ESG risks and opportunities
- ▶ ESG research system START<sup>1</sup> 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 themes<sup>2</sup>



## Voting Policy engagement

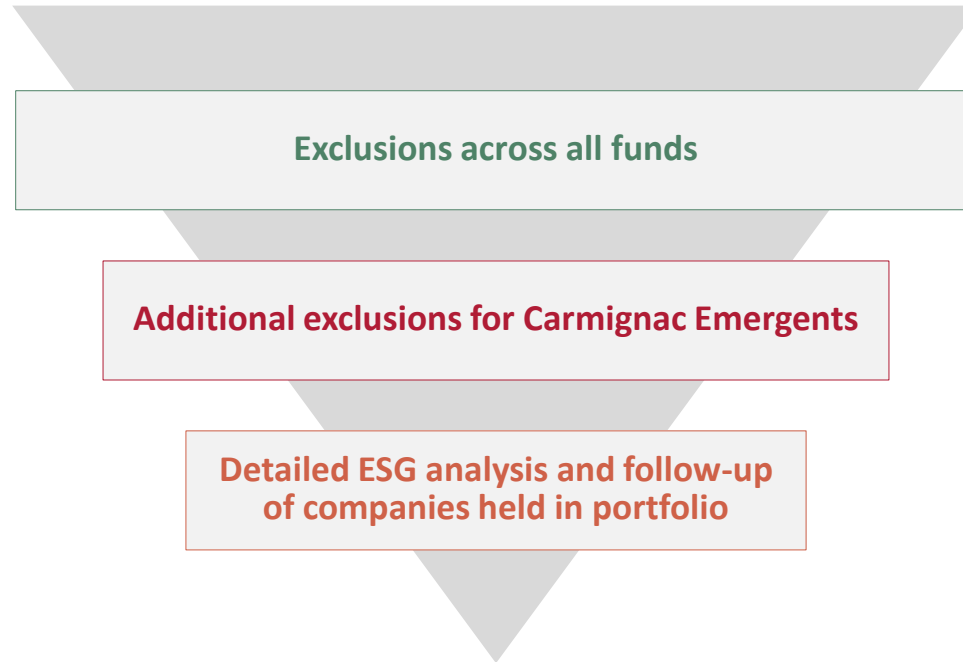
- ▶ An objective of participation rate of 100% or above

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<sup>2</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, <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>, march 2021.

# Exclusion Policy

The Emerging Market Equity 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
- ✘ **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

# Carmignac Portfolio Emerging Patrimoine's Exclusion Policy



## Exclusions

- ✘ **Meat-processing companies** whose revenues derive partially or completely from the processing of cattle, pork, lamb or poultry
- ✘ **Companies in the PETA (People for Ethical Treatment of Animals) exclusion list**
- ✘ **Conventional Weapons including components companies (10% revenue hurdles)\***
- ✘ **Unconventional energy (1) companies deriving more than 1% of total production from unconventional energy sources\***
- ✘ **Conventional oil energy production (2) companies are limited to 3% of the portfolio assets (3) \***
- ✘ **Power generation companies\* must not exceed 408 gCO<sub>2</sub>/kWh carbon intensity or if data is not available cannot exceed:**
  - o **Gas-fired – 30% production or revenue**
  - o **Coal-fired – 10% production or revenue**
  - o **Nuclear-fired – 30% production or revenue**

\* For the equity part of the portfolio

(1) Unconventional energy extraction sources: Tar/oil sands, shale oil, shale gas and Arctic drilling.

(2) Conventional energy extraction sources: oil and gas

(3) Conventional energy production companies must have a minimum 40% revenue from Gas and/or Renewable Energy

# On the Equity Side



# An Investment Process Taking into Account Financial and Extra Financial Criteria<sup>1</sup>

Macro Level

Micro Level

EMERGING UNIVERSE<sup>2</sup>

≈ 1365 stocks



**Country Selection**

Strong macro fundamentals



**Sector Selection**

Underpenetration & positive impact screening



**Stock Selection**

Sustainable FCF, self financed growth

INVESTABLE UNIVERSE ACCORDING TO FINANCIAL & EXTRA FINANCIAL CRITERIA

≈ 580 stocks



**Detailed ESG analysis based on trajectory & best efforts approach**



**Add. exclusions based on sectorial & controversy considerations**



**Active voting & engagement**

SUSTAINABLE EMERGING UNIVERSE

≈ 460 STOCKS

**Carmignac Portfolio Emerging Patrimoine**

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<sup>2</sup> Universe: MSCI Emerging Markets Index (USD).

Portfolio composition may vary overtime. \*The investable universe is reviewed on a quarterly basis. Data as of 30/09/2020. Source: Carmignac October 2020

# Sustainability is at the heart of Carmignac P. Emerging Patrimoine's investment process

## OUR COMMITMENT TO INVESTORS

### Generating attractive returns with a low turnover...

#### By selecting the right

- ▶ **Countries with healthy macro-economic fundamentals** and sound balance of payments
- ▶ **Underpenetrated sectors** that stand to benefit from long-term growth themes
- ▶ **Capital-light companies** offering attractive and sustainable cash generation capable of self-financing their growth

### ... while contributing to sustainable development

- ▶ **Systematically taking into account environmental, social and governance criteria (ESG)** when analyzing companies and when making our investment decisions
- ▶ **Positively impacting society** by favoring companies that bring solutions to social and environmental challenges
- ▶ **Identification and exclusion** of controversial sectors

# Favoring companies that bring solutions to social and environmental challenges\*

FINANCING THE FUTURE

OFFERING INNOVATIVE  
TECHNOLOGIES



FINANCING SUSTAINABLE  
TECHNOLOGIES

IMPROVING  
LIVING STANDARDS

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# ESG criteria are embedded in our decision-making process and our portfolio construction



**Step 1**  
Setting the  
investment  
universe



All companies eligible to our investment universe must meet both our country, sector and company criteria as well as our **ESG standards guidelines and exclusion policy**.



**Step 2**  
Analysis



Stock selection is made through a **long-term, sustainable approach**, which includes consultation of external and independent ESG reports and ratings and is implemented through our proprietary ESG system START.\* Our teams carry out detailed financial and ESG assessments of companies held in portfolio.



**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



Consideration of ESG issues does not end when the investment decision is made. The Emerging Market (EM) Equity team continuously reviews the investment thesis of companies held in portfolio, including a **review of ESG criteria and document in START**.

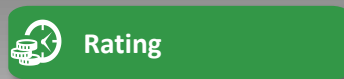
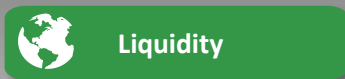
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# On the Fixed Income Side

# Corporate Bond Approach to Socially Responsible Investment<sup>1</sup>

EMERGING CORPORATE BOND UNIVERSE<sup>2</sup>

≈ 700 issuers



INVESTABLE UNIVERSE ACCORDING TO FINANCIAL CRITERIA

≈ 320 issuers



SUSTAINABLE EMERGING CORPORATE  
BOND UNIVERSE\*

≈ 250 issuers

Macro  
Level

Micro  
Level

Carmignac Portfolio  
Emerging Patrimoine

1: 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)

2: Universe: JPM CEMBI Index (USD).

Portfolio composition may vary overtime

\*The investable universe is reviewed on a quarterly basis .  
Data as of 30/09/2020. Source: Carmignac October 2020

# Fixed income approach to socially responsible investment\*



## Sovereign bonds

- ✓ Respect norms-based country exclusions
- ✓ Global country sanction list configured in portfolio management system
- ✓ Proprietary quantitative and qualitative sustainable sovereign rating
- ✓ Seek sovereign bonds of country whose governments are raising ESG standards
- ✓ Ongoing assessment of countries' sustainability policies



## Corporate bonds

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

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