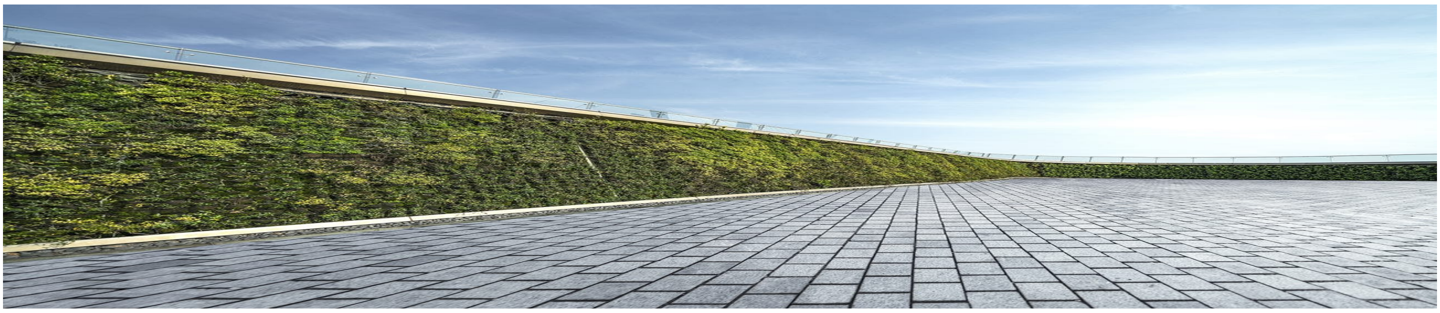
FLASH NOTE

01.08.2022



Q2 2022: a quarter of active stewardship illustrated

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Length
4 minute(s) read

12

engagements held

97%

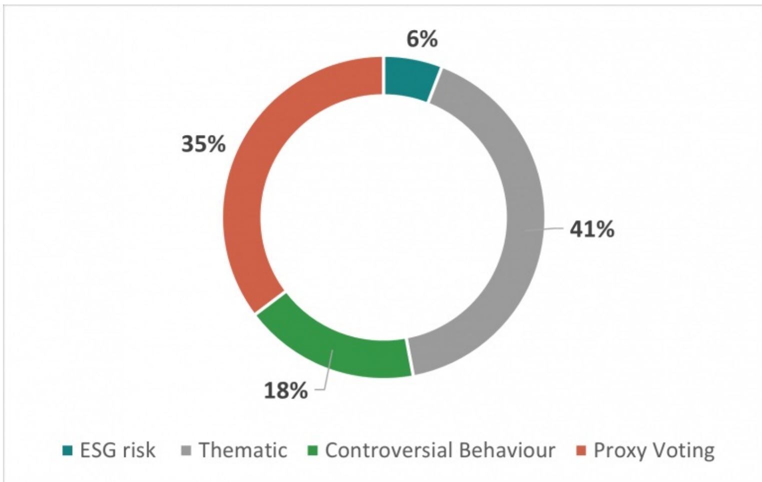
meetings voted

59%

of meetings where Carmignac voted against management at least once

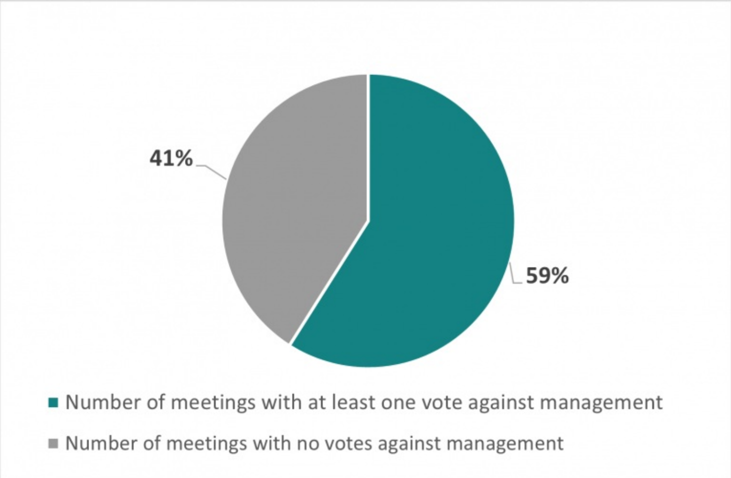
Carmignac held **12** engagements in the second quarter of 2022:

Q2 2022 engagement activity



In Q2 2022, Carmignac voted against the management of our investee companies at least once at **59%** of meetings voted:

Meetings voted for/ against management



Arcos Dorados

Sector: Consumer Discretionary
Region: North America

The company is the largest independent McDonald's franchisee, operating in Latin America and the Caribbean. It is held within a number of Carmignac's fixed income funds[1].

Engagement objective(s)

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In line with our ESG Integration Policy[2], we not only rely on the assessment of third-party ESG ratings for our investment decisions but also form our own house view on the ESG profile of the companies we invest in by using our proprietary ESG research system START.

This company's ESG rating by the third-party provider we use to inform investment decisions, MSCI, was low. In line with our ESG Integration Policy and as part of our process around the proprietary assessment of our investee companies' ESG profile and performance, the Responsible Investment team and the Fixed Income Investment team worked in collaboration to determine an engagement plan with the company aimed at flagging the identified issues to them (detail provided below) and set out our expectations around these issues.

Engagement method

In May, we held a videoconference call with the company's investor relations team and Head of Environmental, Social and Governance (ESG) issues.

Engagement summary

We focused our engagement on the following topics:

- Risks associated with a franchise relationship with McDonald's
- Risks related to heightened labour risks due to high incidence of work stoppages/ strikes in Latin America
- Efforts to accommodate dietary needs
- Board independence
- Transparency around executive remuneration
- Succession planning for the executive chair and controlling shareholder

Outcome and next steps

Following our dialogue with the company, we note that the company's governance structure will continue to be of high risk due to its dual share class structure, pressures from the franchisee model and the influence and related transactions of the executive chair and controlling shareholder.

The company has focused on the Environmental and Social pillars to differentiate themselves. Regarding the governance of environmental and social issues, we noted the following in particular:

- They have in place a seven-person sustainability team that reports to the executive chair/ controlling owner
- They follow well-respected and established GRI / SASB reporting standards and have increasing elements audited by a third party.

In terms of environmental performance, the company has recently issued a sustainability-linked bond based on carbon emission KPIs including scope 3.

On the social side, the company is the number one employer of youths 16-24 years old in the region and also spoke about the company-specific (i.e. not in other McDonald's franchises) 'Open Doors' kitchen tours with an aim to change perspective around food quality. Of particular interest was understanding the franchiser/ franchisee model with McDonald's and the associated business model and ESG risks.

This call helped inform our ESG Analyst's assessment of the company's ESG profile in our proprietary ESG assessment tool, START . We adjusted our START rating as a result of this call with the company, upgrading the Environmental and Social pillars to a 'B' rating, while downgrading the Governance pillar to a 'D'. These simultaneous upgrade and downgrade by one notch each did not lead to a change in the overall START rating of the company which remained a C and is therefore investable. We will continue to monitor the company's practices and engage with them on the ESG risks identified above.

Amazon

Sector: Consumer Discretionary
Region: North America

The company is held on behalf of a number of Carmignac's equity funds[4].

Engagement objective

Following our engagement with the company in March 2021, and as the company continues to be under significant scrutiny regarding the management of the environmental and social externalities their activities create, we requested an engagement meeting.

Engagement method

In April 2022, we held this meeting in person with the company's investor relations representatives.

Engagement summary

We focused our engagement on the following topics:

- The role of the company's founder within the company
- The governance structure in place for the management of environmental, social and ethical issues
- The company's working practices and relationship with unions
- Their approach to tax issues
- Their environmental performance – we asked for more transparency around the company's circular economy disclosures including how they are dealing with customer returns, the carbon footprint of these returns and also on the company's initiatives around donations.

Outcome and next steps

Among the topics we engaged on (detailed above), we fed back to the company that they need to improve the overall transparency on the various environmental and social initiatives they are taking to improve practice and perception issues. In line with this feedback, we subsequently cast a vote "for" on a number of shareholder resolutions at the company's AGM held on 25th May 2022. This includes the following resolutions which we believe would contribute to help the company get a better insight into their own practices and increase transparency to stakeholders:

- Resolution 6 - commission third party report assessing company's human rights due diligence
- Resolution 13 - report on protecting the rights of freedom of association and collective bargaining
- Resolution 16 - commission a third-party audit on working conditions

Our support for these resolutions is also aimed at signalling to the company the importance of these issues for Carmignac as an investor and to encourage them to take further action. None of the 7 resolutions we supported obtained sufficient shareholder approval to pass. After consultation with the investment analyst, this engagement did not trigger a change in our proprietary START rating . However, we continue to monitor and engage on the company's Environmental, Social and Governance (ESG) practices.

To find out more on our responsible investment policy, please visit our Responsible Investment section:

Responsible Investment

[1] As at the date of the engagement reported below (May 2022) and the date of publication of this case study (August 2022)

[2] https://carmidoc.carmignac.com/SRIIP_INT_en.pdf

[3] 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. For more information, please refer to our website.

[4] As at the date of the engagement (March 2021) and the date of the publication of this case study (August 2022).

[5] We cast a vote "for" on the following resolutions:

- Resolution 6 - Commission Third Party Report Assessing Company's Human Rights Due Diligence Process
- Resolution 8 – Report on Efforts to Reduce Plastic Use
- Resolution 12 – Publish a Tax Transparency Report
- Resolution 13 – Report on Protecting the Rights of Freedom of Association and Collective Bargaining
- Resolution 16 – Commission a Third-Party Audit on Working Conditions
- Resolution 17 – Report on Median Gender/Racial Pay Gap
- Resolution 19 - Commission Third Party Study and Report on Risks Associated with Use of Rekognition

[6] For more information, please refer to our ESG Integration Policy