

# Socially Responsible Investment Guidelines

Carmignac Portfolio Patrimoine Europe



# 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.lelabelisr.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 Patrimoine Europe Obtained the Belgian Sustainability Label

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

Label supported by the Belgian Financial Sector Federation Febelfin\*\*

Accredited upon a strict audit run by an independent body

Labels renders SRI\*\*\* products more visible for investors in France and Belgium and across Europe

© Carmignac Portfolio Patrimoine Europe



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

\*\* Feb 2020. For further information, please visit <https://www.towardsustainability.be/>  
<https://www.febelfin.be/fr>

\*\*\*Socially Responsible Investment

# Our Internal ESG Guidelines



## Portfolio construction objective

For the Equity portion of portfolio

- ▶ Minimum 40% of the Fund invested in companies rated A or above by MSCI ESG<sup>1</sup>
- ▶ Maximum 30% of fund invested in companies rated below BB by MSCI ESG
- ▶ No CCC companies<sup>2</sup>

For the Corporate bond portion of portfolio:

- ▶ Universe reduced by more than 20% through extra-financial criteria negative screening (including MSCI CCC rated companies)<sup>3</sup>

The Fund aims to achieve carbon emissions 30% lower than its reference indicator (Stoxx 600)<sup>4</sup>



## Integration of ESG criteria and engagement with companies

- ▶ Minimum 90% of portfolio holdings are analysed for ESG risks and opportunities
- ▶ ESG research system START<sup>5</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>6</sup>



## Voting Policy engagement

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

## SFDR Category

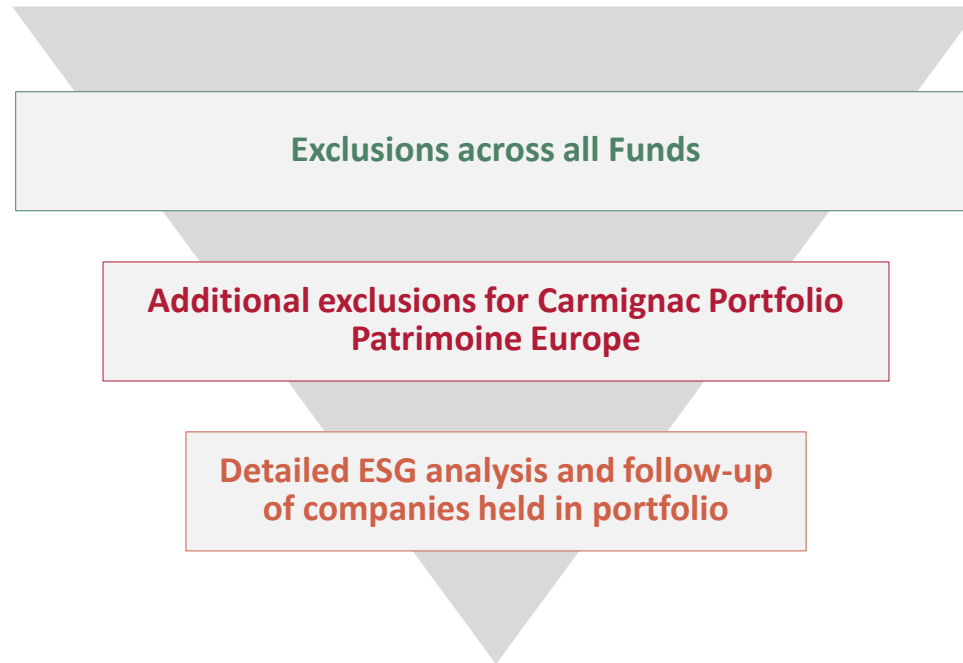
- ▶ The fund has environmental (E) and governance (G) characteristics. It complies with Article 8 of the EU Regulation No. 2019/2088 under the EU Sustainable Finance Disclosure Regulation (SFDR).

<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 limit defined is rebased in % of the portfolio that has a MSCI ESG rating.

For issuers, for which MSCI ESG does not issue any rating, the MSCI ESG Rating from the group the issuer belongs to is used. <sup>3</sup>For the corporate bond portfolio, CCC rated companies are excluded unless we believe that the ratings do not reflect the current situation of the company's ESG risks, and there is a material gap between our START rating and the MSCI ESG rating ER00 = ICE BofA Euro Corporate Index; HE00 = ICE BofA Euro High Yield Index <sup>4</sup>CO2 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)). Given the lack of standardisation and reporting of some ESG indicators by public companies, not all relevant indicators can be taken into consideration. <sup>5</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>6</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).

# 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 CO<sub>2</sub>/kWh than the defined threshold\*\* or do not publish their CO<sub>2</sub> 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 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 Patrimoine Europe Exclusion Policies\*



## ENERGY EXCLUSION POLICY

- ✘ **Thermal coal** producing companies with more than 10% sales directly derived from coal extraction
- ✘ **Unconventional energy** <sup>(1)</sup> companies deriving more than 1% of total production from unconventional energy sources
- ✘ **Conventional oil energy production** <sup>(2)</sup> companies are excluded
- ✘ **Power generation** companies must not exceed 408 gCO<sub>2</sub>/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** companies<sup>3</sup>
- ✘ **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) For the equity part of the portfolio . Conventional energy (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.

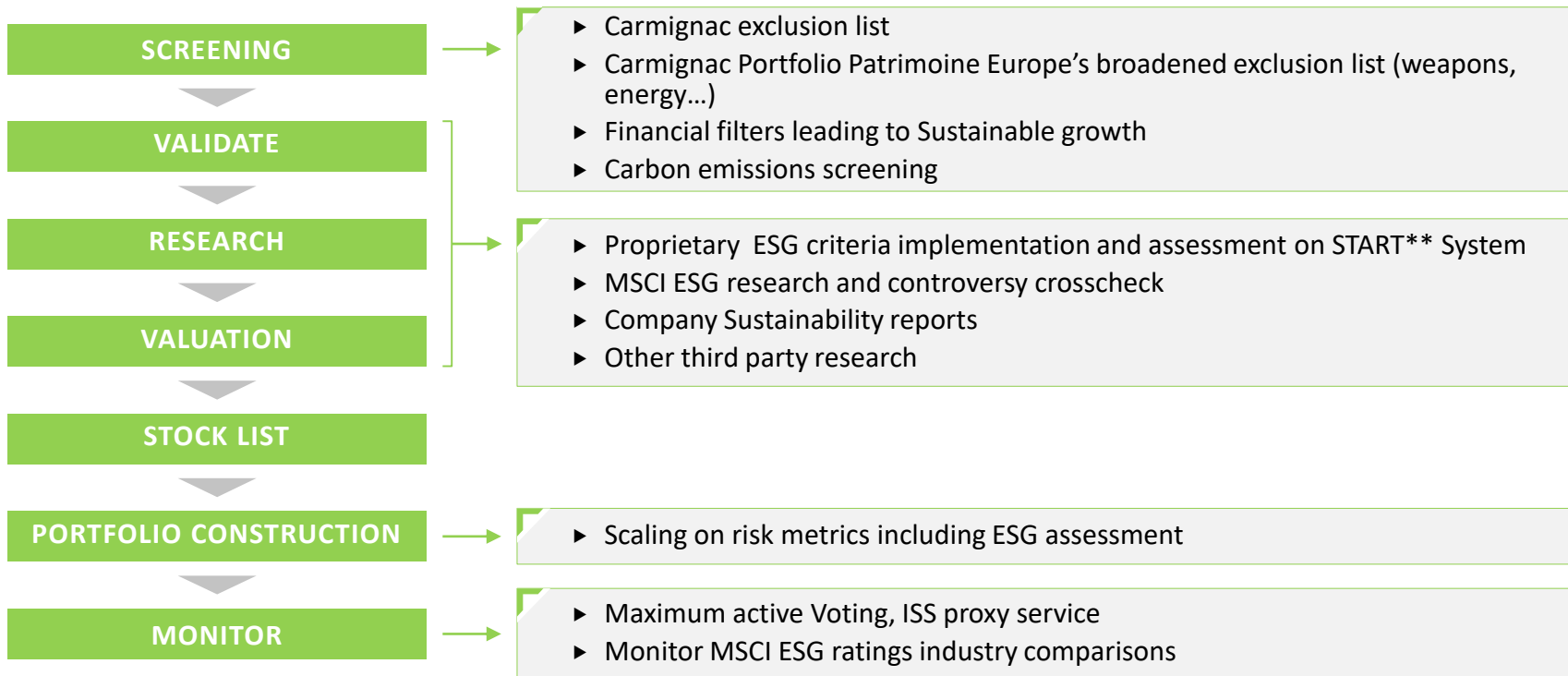
Exclusion lists are updated on a quarterly basis

Source : Carmignac, October 2020

# On the Equity Side



# ESG is Integrated into the Investment Management Process\*

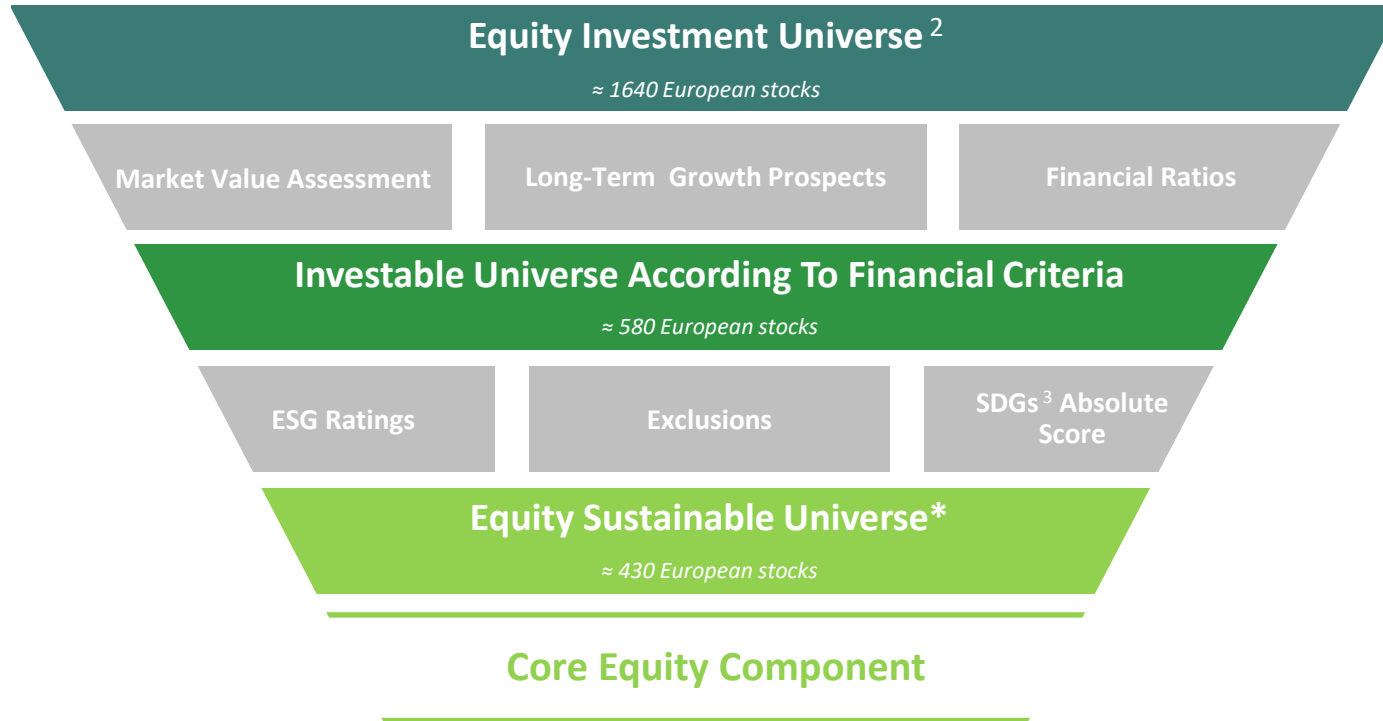


\*All the funds and underlying issuers are not concerned by this statement. For more details, please refer to: [https://www.carmignac.lu/en\\_GB/responsible-investment/in-practice-4744](https://www.carmignac.lu/en_GB/responsible-investment/in-practice-4744)

\*\*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

# An Equity Investment Process in Line with our Long-Term Growth Focus<sup>1</sup>



<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)

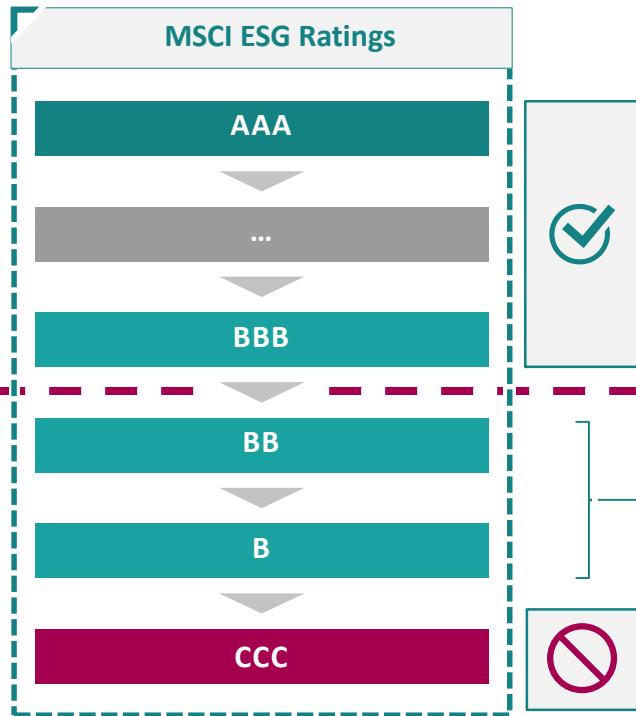
<sup>2</sup> Universe: mainly equities of the European Union but also OECD countries outside of it.

<sup>3</sup>SDGs = United Nations Sustainable Development Goals.

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

Source: Carmignac October 2020

# ESG Assessment - Identifying Companies with Attractive Long Term Growth Prospects



## Absolute Sustainability Assessment

B & BB ratings excluded unless company can justify positive impact on society according to criteria meeting UN SDGs

Categories*	Areas to consider
Basic needs	Nutrition
	Treating illness
	Preventing illness
	Happiness
Empowerment	Availability of infrastructure
	Affordability of product/service
	Education
Climate Change	Safety and security
	Energy efficiency
	Alternative energy
Natural Capital	Fossil fuel
	Usage of all-natural resources
	Waste management
	Efficiency of production/consumption

# On the Fixed Income Side

# A Corporate Debt Investment Process in Line with our Long-Term Growth Focus



1. Investment Universe: ER00 + HE00. ER00 = ICE BofA Euro Corporate Index; HE00 = ICE BofA Euro High Yield Index

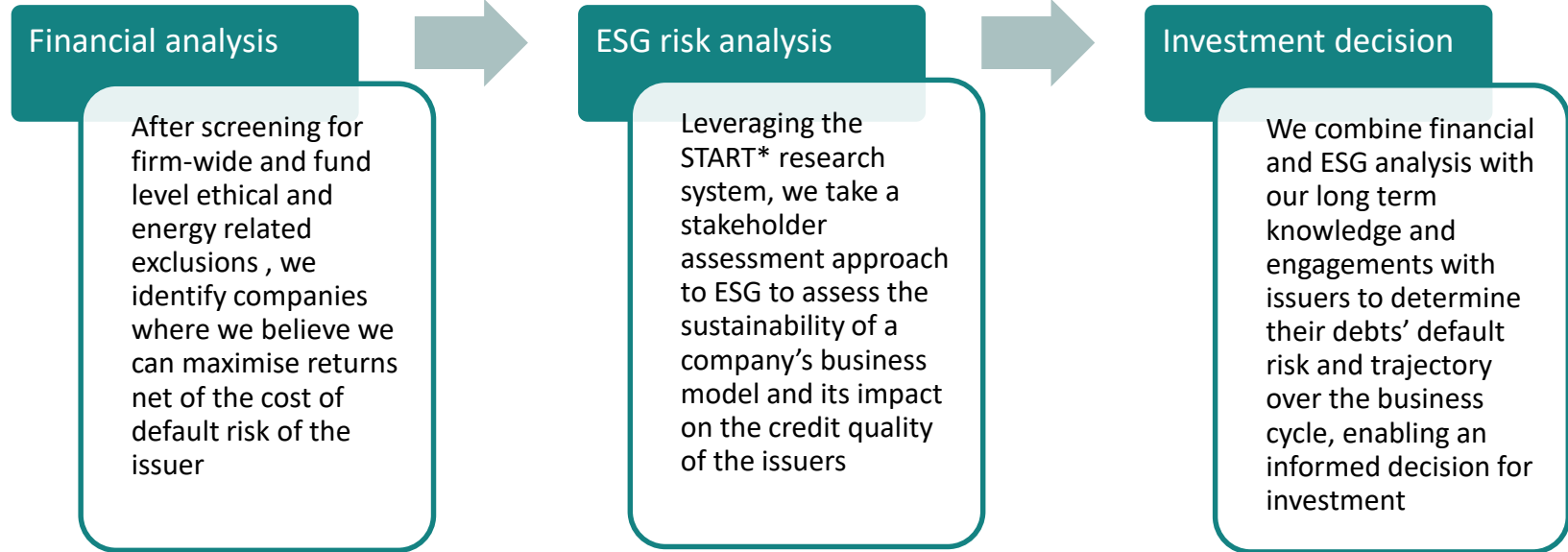
2. Exclusions based on MSCI ratings .

Portfolio composition may vary overtime.

\* The investable universe is reviewed on a quarterly basis

Source: Carmignac October 2020

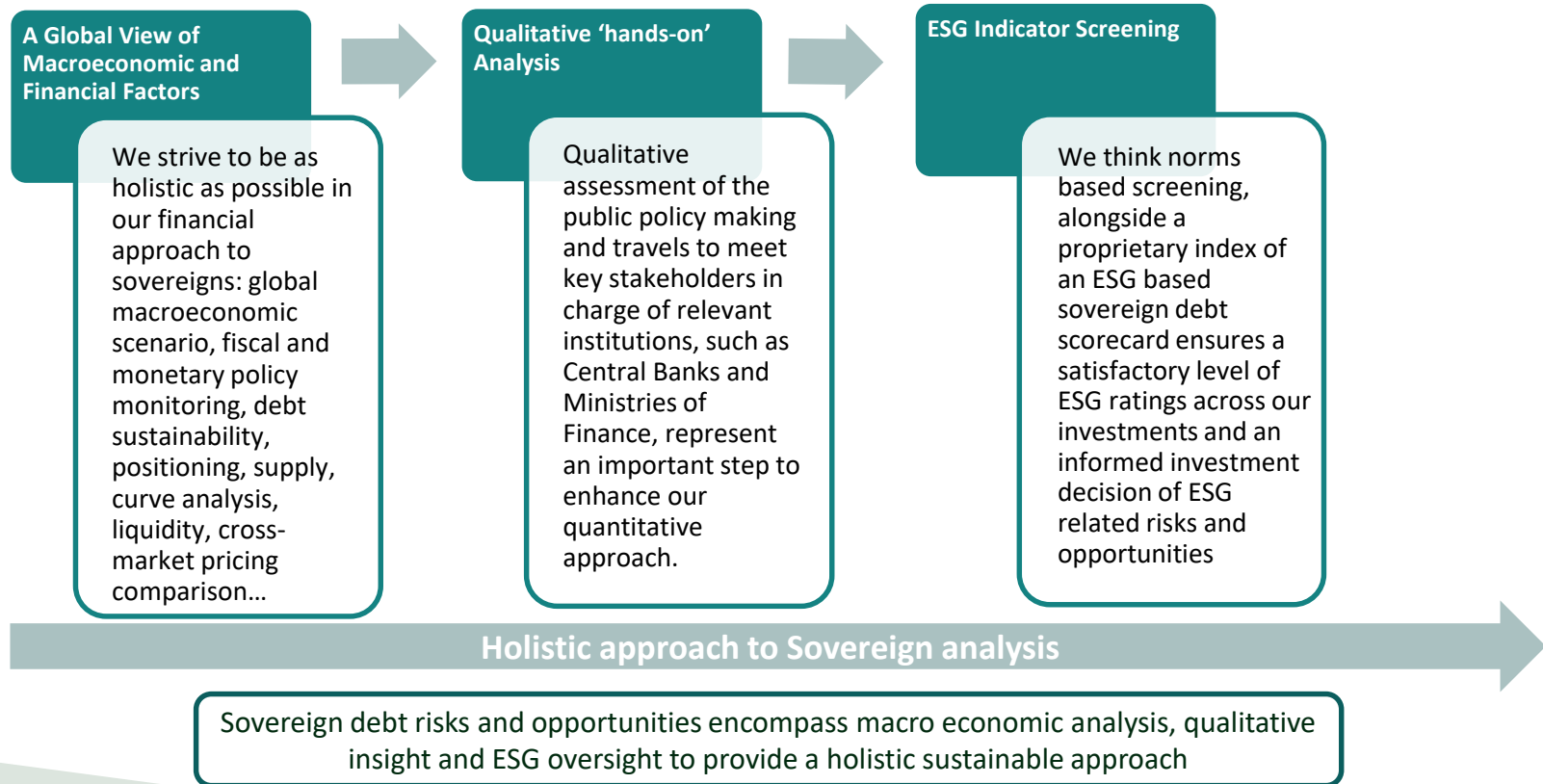
# ESG integration for corporate bonds



*\*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.*

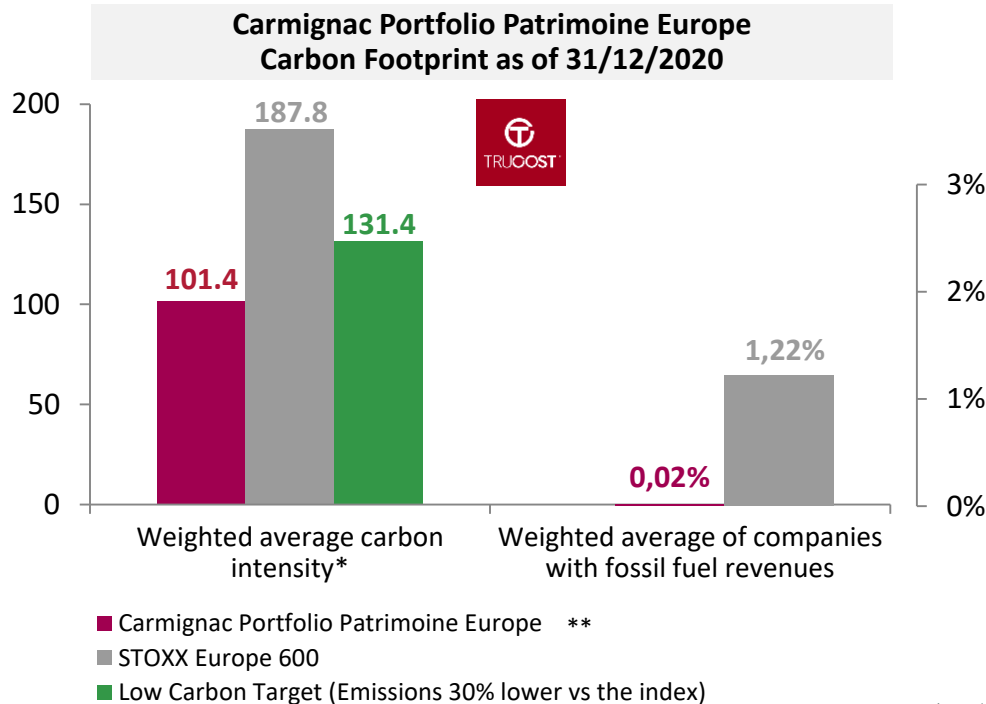
Source: Carmignac

# ESG Integration for sovereign bonds



# A Low Carbon approach

## Carmignac Portfolio Patrimoine Europe



### 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 CO<sub>2</sub>e /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 Trucost methodology, see following page*

*\*\* Includes all equities and corporate bonds. Sovereign and quasi-sovereign bonds are not included in the carbon emissions calculation (Quasi sovereign bonds are those issued by entities which are wholly-owned or 100% guaranteed by a national Source: S&P Trucost, Carmignac, 31/12/2020.*



# 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 CO<sub>2</sub> 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](http://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

## DISCLAIMER

This document may not be reproduced, disseminated or communicated, in whole or in part, without prior authorisation from the management company. The information contained in this document may be partial information, and may be modified without prior notice.

Carmignac Portfolio Patrimoine Europe (the "Fund") is a sub-fund of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. Access to the Fund may be subject to restrictions with regard to certain persons or countries. The Fund is not registered in North America, in South America, in Asia nor is it registered in Japan. The Fund is registered in Singapore as restricted foreign scheme (for professional clients only). The Fund has not been registered under the US Securities Act of 1933. The Fund may not be offered or sold, directly or indirectly, for the benefit or on behalf of a "U.S. person", according to the definition of the US Regulation S and/or FATCA. The Fund presents a risk of loss of capital. The risks, fees and ongoing charges are described in the KIID (Key Investor Information Document). The Fund's prospectus, KIIDs and annual reports are available at [www.carmignac.com](http://www.carmignac.com), or upon request to the Management Company. The KIID must be made available to the subscriber prior to subscription. Past performance is not necessarily indicative of future performance. **In the United Kingdom**, the Funds' respective prospectuses, KIIDs and annual reports are available at [www.carmignac.co.uk](http://www.carmignac.co.uk), or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This material was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013). **In Switzerland**, the Fund's respective prospectuses, KIIDs and annual reports are available at [www.carmignac.ch](http://www.carmignac.ch), or through our representative in Switzerland, CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. The KIID must be made available to the subscriber prior to subscription. Copyright: the information contained herein is proprietary to its content providers as indicated on each page. Non contractual document, completion achieved on **08/03/2021**.

**CARMIGNAC GESTION** – 24, place Vendôme - F - 75001 Paris - Tel: (+33) 01 42 86 53 35

Public limited company with share capital of €15,000,000 – RCS Paris B 349 501 676

**CARMIGNAC GESTION LUXEMBOURG** – City Link - 7, rue de la Chapelle - L-1325 Luxembourg - Tel: (+352) 46 70 60 1

Subsidiary of Carmignac Gestion. UCITS management company (CSSF authorisation of 10/06/2013).

Limited company (SA) with capital of €23,000,000 – Registration no.: RC Luxembourg B67549