



SFDR Fund  
Classification\*\*

**Article 8**

## SRI Guidelines



**Carmignac Portfolio China New Economy**

January 2022



# Carmignac's Overarching Sustainable Framework



## Firm

- Our operations are Carbon neutral 2019<sup>1</sup>
- Office Environmental practices
- UNPRI signatory 2012

## 3 key engagement themes

- Climate Change
- Empowerment
- Leadership

## Firm-wide exclusions

- 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

## 19 RI fund labels

- Rigorous 3<sup>rd</sup> party audit
- French ISR<sup>2</sup>
- Belgian Towards Sustainability<sup>3</sup>

## ESG Platform START<sup>4</sup>

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

## 90% Article 8 and 9 (SFDR<sup>5</sup>)

- 17% Article 9 funds
- Over 70% Article 8 funds

<sup>1</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)

<sup>2</sup> French Label ISR. For further information, please visit <https://www.llelabelisr.fr/en/>

<sup>3</sup> 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

<sup>5</sup> SFDR: Sustainable Finance Disclosure Regulation (EU) 2019/2088, assets under management as of January 2022, Source: Carmignac

# Carmignac Portfolio China New Economy – Article 8 Fund with the French 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)

Label supported by the French<sup>1</sup> government

Accredited upon a strict audit run by an independent body

Labels renders SRI<sup>2</sup> products more visible for investors in France and across Europe



# Our ESG Guidelines



## Portfolio construction

- ▶ The Fund employs an environmental and social approach as is defined in the Fund's prospectus and is classified as Article 8 under the SFDR EU regulation
- ▶ 20% of Fund's investment universe (MSCI China NR) is excluded based on ESG criteria<sup>1</sup>
- ▶ The Fund aims to contribute to China's carbon neutrality target for 2060 and is committed to reducing its carbon footprint<sup>2</sup> by 5% per annum



## Integration of ESG criteria

- ▶ Minimum 90% of portfolio holdings are analysed for ESG risks and opportunities
- ▶ ESG research system START<sup>3</sup> used to centralise raw ESG Data, proprietary scoring and revenue impact



## Voting & Engagement

- ▶ An objective of participation rate of 100%<sup>3</sup>
- ▶ We commit to a strengthened dialogue with companies to improve their approach to ESG issues aligned with our corporate themes<sup>4</sup>

<sup>1</sup> CCC MSCI-rated companies are excluded (from MSCI China as investable universe), as are companies with less than 1.4 Environmental Score and less than 1.4 social score from MSCI, unless the proprietary score START is A, B or C

<sup>2</sup> CO<sub>2</sub> emissions measured by carbon intensity (tCO<sub>2</sub>/ mUSD revenue converted to Euros; aggregated at portfolio level (Scope 1 and 2 of GHG Protocol)). We will review the portfolio's carbon reduction target at the end of each year, every 5 years from 2025 to 2060<sup>2</sup>

<sup>3</sup> The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. Given the lack of standardization 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

<sup>3</sup> Excluding warrants/ P-Notes and preference shares

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>, January 2022

# An investment process taking into account financial and extra financial criteria



<sup>1</sup> Universe: All Chinese listed companies  
The investment universe is reviewed on a quarterly basis  
The portfolio may change over time  
Carmignac January 2022

# Under-penetration goes hand in hand with sustainable development issues

Focus on companies with attractive long-term growth prospects providing solutions to China's environmental and social challenges

**FINANCING CLEAN ENERGY  
AND SUSTAINABLE MOBILITY**

**OFFER INNOVATIVE  
TECHNOLOGIES**



**FINANCING SUSTAINABLE  
TECHNOLOGIES**

**IMPROVING THE  
STANDARD OF  
LIVING**

**Health, education,  
consumption**

# ESG criteria are embedded in our decision-making process and our financial analysis<sup>1</sup>



**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<sup>2</sup>  
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 **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**

<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> 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

# Sustainability is at the heart of Carmignac Portfolio China New Economy investment process<sup>1</sup>

## OUR COMMITMENT TO INVESTORS

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

#### By selecting the right:

- ▶ **Underpenetrated sectors within Chinese New Economy, with sustainable growth prospects** that stand to benefit from long-term reforms and the economic transition of the Chinese Economy
- ▶ **Capital-light companies** offering attractive and sustainable cash generation capable of self-financing their growth

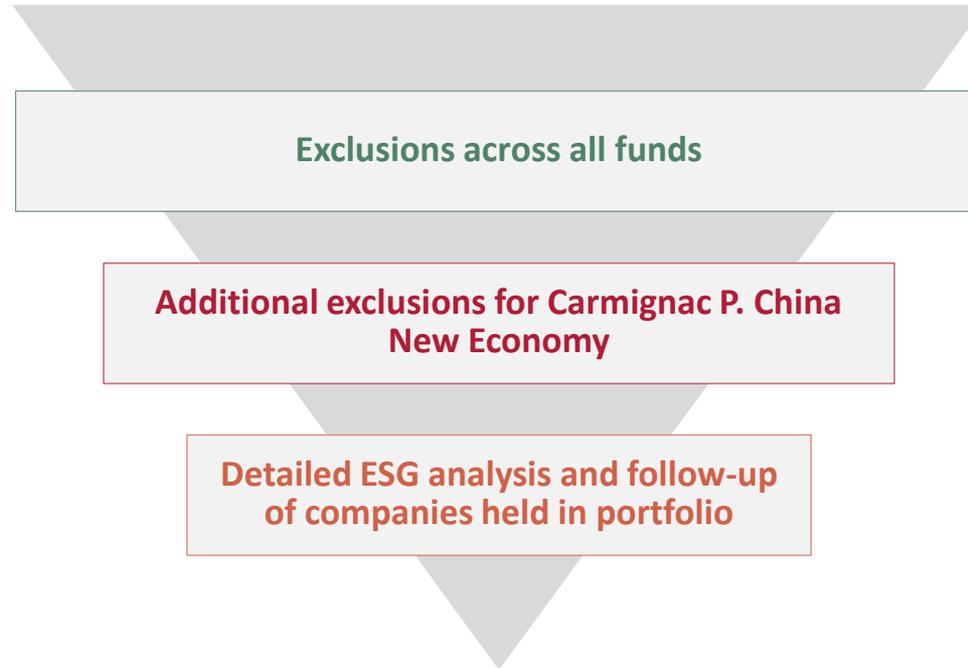
### ... while contributing to sustainable development

- ▶ **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

<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)

# 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<sup>1</sup>
- ✘ **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<sup>2</sup>
- ✘ **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.

<sup>1</sup> 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

<sup>2</sup> 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 China New Economy Exclusion Policies<sup>1</sup>



## ENERGY EXCLUSION POLICY

- ✘ **Thermal Coal** producing companies with more than 10% sales directly derived from coal extraction
- ✘ **Unconventional energy**<sup>2</sup> companies deriving more than 1% of total production from unconventional energy sources
- ✘ **Conventional energy production**<sup>3</sup> companies must have a minimum 40% revenue from **Gas and/or Renewable Energy**<sup>4</sup>
- ✘ **Conventional oil energy production** companies are limited to 3% of the portfolio
- ✘ **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>5</sup>
- ✘ **Conventional Weapons including components** companies (10% revenue hurdles)
- ✘ **All Tobacco** producers. Wholesale distributors and suppliers 5% revenue threshold
- ✘ **Norms based** exclusion including UN Global Compact violations human rights, labour rights, environment and corruption
- ✘ **Adult Entertainment** companies (2% revenue hurdle)
- ✘ **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

<sup>1</sup> Our Energy and Ethical policies are aligned with the Quality Standards of the Belgian SRI label

<sup>2</sup> Unconventional energy extraction sources: Tar/oil sands, shale oil, shale gas and Arctic drilling

<sup>3</sup> Conventional energy extraction sources: oil and gas

<sup>4</sup> Renewable energy: biofuel, wind, solar, wave, geothermal, hydro, tidal

<sup>5</sup> 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, September 2021

# Information on carbon emission target & transparency



## Carbon emission investment strategy

- ▶ The Fund aims to contribute to China's carbon neutrality target for 2060 and is committed to reducing its carbon footprint (measured in tCO<sub>2</sub>/ €mm revenue; aggregated at portfolio level GreenHouse Gas Protocol Scope 1 and 2) by 5% per annum<sup>1</sup>
- ▶ We will review the portfolio's carbon reduction target at the end of each year, every 5 years from 2025 to 2060

<sup>1</sup> CO<sub>2</sub> emissions measured by carbon intensity (tCO<sub>2</sub>/ mUSD revenue converted to Euros; aggregated at portfolio level (Scope 1 and 2 of GHG Protocol))

For more information visit Trucost webpage

[www.spglobal.com/spdji/en/documents/additional-material/faq-trucost.pdf](http://www.spglobal.com/spdji/en/documents/additional-material/faq-trucost.pdf)

For details, please refer to climate policy available on Carmignac Responsible Investment website

[https://www.carmignac.lu/en\\_GB/responsible-investment/snapshot-4742](https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742)

Source: S&P Trucost, Carmignac, January 2022

# 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<sup>1</sup>. 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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