



**CARMIGNAC**  
INVESTING IN YOUR INTEREST

# **ESG INTEGRATION POLICY**

## **JULY 2022**

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# 1. OUR APPROACH

As responsible investors, we consider part of our fiduciary duty to manage environmental, social and governance (ESG) risks and opportunities across all asset classes when investing on behalf of our clients. We believe that by integrating ESG analysis into our investment process, we will be able to seek for long-term performance through risk mitigation, identifying growth opportunities and recognising the financial value of intangible assets, while striving to achieve positive outcomes for society and the environment. For Equity and Corporate Bonds, we define our ESG research process through the evaluation of a company's purpose and responsibility. For us, purpose refers to the impact that the company expects from its goods and services; while responsibility refers to how a company manages its ESG risks in achieving its purpose. Our approach to integrate ESG into our investment process for all our equity and fixed income funds can be divided into 4 steps.



**AVOID** – We avoid companies that conflict with our principles and values. Due to their activity, standards or behaviour, we exclude them from our investment universe. We choose to only invest in companies with sustainable business models that exhibit long-term growth perspectives.



**ANALYSE** – We analyse the firm's ESG practices alongside conventional financials. Our proprietary ESG research system helps us to assess the impact of a company's business on the world – and the world's impact on its business – to capture as many risks and opportunities as possible.



**ENGAGE** – We engage with companies on ESG-related issues. This includes exercising our shareholder voting rights, helping instill best practices, clarifying our views or holding senior management accountable when issues arise.



**COMMUNICATE** – We communicate our actions and achievements with our clients. We provide full transparency related to ESG issues primarily through our website, where we publish fund documentation, reports, policies and insights from our experts.

As active managers, we conduct bottom-up analysis across all our investments. We identify the structural levers of sustainable growth and how well a company is positioned to take advantage of the opportunities the sustainable transition offers, in order to focus our investment on delivering positive outcomes for society and the environment. When integrating ESG into this process, our approach is in line with the Principles for Responsible Investment's (PRI) definition<sup>1</sup>: "the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions."

<sup>1</sup> For more information on the Principles for Responsible Investment, visit [www.unpri.org](http://www.unpri.org)

Please refer to Table 1 below for the definition of E, S & G as defined by the PRI, of which we are a signatory since 2012. We have also included the guidance from PRI on what constitutes ESG integration in Table 2. ESG integration can be applied across all asset classes, as it has been proven to work equally well in fixed income and equity markets.

**Table 1<sup>2</sup> : PRI's definition of E, S & G**

<b>ENVIRONMENTAL (E)</b>	Issues relating to the quality and functioning of the natural environment and natural systems. These may include for example: biodiversity loss, greenhouse gas (GHG) emissions, climate change, renewable energy, energy efficiency, air, water or resource depletion or pollution, waste management, stratospheric ozone depletion, changes in land use, ocean acidification and changes to the nitrogen and phosphorus cycles.
<b>SOCIAL (S)</b>	Issues relating to the rights, well-being and interests of people and communities. These may include for example: human rights, labour standards in the supply chain, child, slave and bonded labour, workplace health and safety, freedom of association and freedom of expression, human capital management and employee relations; diversity; relations with local communities, activities in conflict zones, health and access to medicine, HIV/AIDS, consumer protection; and controversial weapons.
<b>GOVERNANCE (G)</b>	Issues relating to the governance of companies and other investee entities. These may include for example: board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues dealing with the relationship between a company's management, its board, its shareholders and its other stakeholders. This category may also include matters of business strategy, encompassing both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented.

**Table 2: ESG Illustration**

What does ESG mean?	What does ESG NOT mean?
<b>Analysing financial information and ESG information</b>	ONLY certain sectors, countries, and companies are prohibited from investing
Identifying material financial factors and ESG factors	Traditional financial factors are ignored (e.g., interest risk is still a significant part of credit analysis)
Assessing the potential impact of material financial factors and ESG factors on economic, country, sector, and company performance	Every ESG issue for every company/issuer must be assessed and valued
<b>Making investment decisions that include considerations of all material factors, including ESG factors.</b>	Every investment decision is affected by ESG issues
	Major changes to your investment process are necessary
	Portfolio returns are sacrificed to perform ESG integration techniques.

<sup>2</sup> Source: Principles for Responsible Investment website [www.unpri.org](http://www.unpri.org)

## 2. START: CARMIGNAC'S PROPRIETARY ESG RESEARCH SYSTEM<sup>3</sup>

**START** is our proprietary ESG research system that enables us to systematically integrate ESG research into the investment process. The system combines third-party data sources with our in-house analysis to provide a forward-looking view of how a company is managing its stakeholders and therefore its ESG risks and benefitting from opportunities. We strongly believe that a company that looks after its stakeholders (such as those shown in Figure 1) creates sustainable and positive financial, societal and environmental value. ESG risks are critical to understanding a company's business practices as well as forecasting its financial performance. Our ESG research system is built on a framework formed from past academic research and the guidelines of various industry bodies such as the Sustainable Accounting Standards Board (SASB), Global Reporting Initiative (GRI), in order to conduct comprehensive ESG analysis. We also use external company ESG data collated from a selection of leading data providers.



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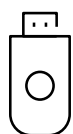
<sup>3</sup> The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. Given the lack of standardization and reporting of some ESG indicators by public companies, not all relevant indicators can be taken into consideration. START provides a centralized system whereby CARMIGNAC's proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete.

## START'S 4-STEP PROCESS:



### 1. GROUP: Companies are allocated to one of CARMIGNAC's proprietary ESG-90 industry groups

- (employees, customers, suppliers, environment, community, board etc.) have differing significance depending on sector, market capitalization and geography
- Once assembled by common 'materiality', companies are grouped with others that have similar material ESG risk profiles



### 2. COLLECT: Large amounts of raw data concerning business practices are collected from a range of specialised data sources

- Data sources including company reported data, past and present controversies
- We utilise the data to compare each company against over 30 identifiable and relevant sustainable metrics ("ESG Indicators") and assess the firm across each of the E, S & G elements (see Table 3 below)
- Positive and negative sentiment is measured by utilising alternative data sources that provide signals on emerging risks

**Table 3: Comparable ESG Indicators**

ENVIRONMENTAL	SOCIAL	GOVERNANCE
<b>Carbon Emissions –Direct &amp; First Tier Indirect (tonnes CO2e)</b>	% Employee Satisfaction	% Audit Committee Independence
Carbon Intensity- Direct & First Tier Indirect (tonnes CO2e/USD mn)	Employee Turnover	Compensation Committee Independence
<b>Flaring of Natural Gas</b>	Female Managers	Nomination Committee Involvement
<b>Total Energy Use/Revenues</b>	Average Employee Training Hours	Board Size
<b>Renewable Energy Use Ratio</b>	Lost Time Due to Injury Rate	Independent Board Members
<b>Energy Use Total</b>	Employee Fatalities	Average Board Tenure
<b>Total Waste / Revenues</b>	Chief Executive Salary Gap	% Board Gender Diversity
<b>Waste Recycled /Total Waste</b>	% Gender Pay Gap	Highest Remuneration Package
<b>Accidental Spills</b>	% Customer Satisfaction	Long Term Objective-Linked Executive Compensation
<b>Water Use / Revenues</b>		Compensation Sustainability Incentives
<b>Water Recycled</b>		
<b>Fresh Water Withdrawal Total</b>		



### 3. RANK: The companies are ranked against their peers and given baseline rating

- Companies are ranked against peers from similar regions, market capitalisation and ESG-90 industry group to ensure the least amount of metric discrepancies and biases
- Based on the above, we provide each of the E, S and G pillars with a score from A-E, before aggregating them to give an overall A-E company score (see Table 4 for A-E rating explanations)

**Table 4: START ratings**

RATING	EXPLANATION
<b>A</b>	Manages their risk effectively that have financial impact and communicates with investors
<b>B</b>	Flaws in management system led & working on improvement following recent financial impact controversies.
<b>C</b>	Aware of future risks but do not have adequate systems to manage impact of future financial material risk.
<b>D</b>	Do not understand & no action taken on recent controversies. Management doesn't understand and not addressing risk
<b>E</b>	Not aware of the risk they are facing and has no management plan in place. Faced with controversies and has no plans



### 4. ANALYSE- In-house expertise is applied to existing analysis

- Company knowledge, gained from firm visits and management meetings, provides insights into how a company's ESG and sustainability policies and practices are supporting long-term strategic goals
- We produce an in-house rating (which overrides the baseline rating) as well as a written comment to detail their analysis and qualify their choice
- We also conduct forward-looking analysis including trend analysis, to assess the direction of the company towards more sustainable practice
- Finally, we consider the impact of the company by understanding how a company's goods and services affect society and the environment. This approach leverages the UN Sustainable Development Goals' framework.

- This analysis is then incorporated into valuation analysis and informs the remainder of the investment process.

# 3. INCLUSION OF ESG IN ANALYSIS FOR EQUITIES

We believe that to deliver long-term value, a company needs to be just as focused on its business practices as on its financial performance. In our view, business practices are a key lever that drives financial return, in the same way that revenues or costs would. Ultimately, we believe that anything a business does needs to be sustainable, or it may face decline.

Within equities, with START as the basis, all ESG analysis is a coordinated effort between the Portfolio Managers, the Research Analysts and the ESG Analysts.

## STEP 1: FINANCIAL ANALYSIS

Businesses need to focus on the entire value chain of stakeholders which includes shareholders, regulators, employees, clients, suppliers, the environment and local communities. Our proprietary research generally focuses on companies with long-term sustainable growth that may be established through innovation, changing consumer patterns, regulation and disruption, to mention a few. Looking at these mega trends with an ESG lens is paramount to identifying long-term growth. We seek mainly to invest in companies that have resilient balance sheets, are able to deliver sustainable cash flows, and remain market leaders over the long term.

## STEP 2: ESG ANALYSIS

To complete an investment rationale, full ESG assessment is performed and documented in our proprietary ESG research system, START, that brings together quantitative and qualitative research both from third parties and in-house.

The initial step of this proprietary ESG analysis is to consult company reports, third-party reports or through direct company meetings to understand how individual companies are meeting the challenges of ESG related risk. Suppliers, clients and other stakeholders may also be consulted.

We also look at a company's impact and the sustainability of their business model in the context of the long-term transformative ESG trends. This helps us to understand how well the company is positioned to take advantage of new opportunities the transition may present. This forward-looking analysis is a critical step in understanding whether the company's performance is repeatable and sustainable over the long term.



## STEP 3: COMPANY VALUATION

Evaluating all the ESG factors and impact outlook, alongside financial analysis, is part of the fundamental analysis of our Analysts. Our Analysts can make the necessary adjustments to financial analysis to arrive at their final company valuation.



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### **ESG ANALYSIS AT PORTFOLIO LEVEL:**

Aside from the individual company ESG assessment, ESG analysis helps the Portfolio Manager form a view with regard to the risk management of the total



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**ESG ENGAGEMENT:** We see ourselves as part of a wider movement that is helping to shape more responsible corporate behaviour and increase transparency.

We view ESG integration as part of expressing our convictions as long-term responsible investors, avoiding negative issues that can damage portfolio returns but also engagement with management to take the right steps towards enhancing their sustainability profile and practices. We target 100% voting participation and actively engage with senior management to discuss any disagreement on votes before making our final decision.

## **4. ESG INTEGRATION WITHIN A LONG-SHORT STRATEGY**

A responsible investment approach that includes ESG integration is typically considered to be for long-only investment strategies. However, we believe that short selling can help to achieve responsible investment goals through a number of ways. Firstly, shorting stocks that perform poorly against ESG metrics increases positive ESG exposure, whilst mitigating undesired ESG risks. Furthermore, by influencing capital flows, short selling can increase the cost of capital for the shorted issuers, causing an economic impact. Finally, shorting requires Portfolio Managers to conduct substantial in-depth analysis, which may bring to light new ESG considerations that were previously either unknown or overlooked by the wider market. In order to appropriately integrate ESG into our long-short portfolios, we make sure to consider ESG risks and opportunities for the long and short portfolios separately. This gives our investors a clearer understanding of how ESG affects our analysis and subsequent investments.

## **5. INCLUSION OF ESG IN ANALYSIS FOR OUR CORPORATE BOND SELECTION**

Our corporate bond ESG assessment is integrated in the research process, which therefore enables us to include ESG analysis in our estimate of cost of risk. As a result of using START, the risks arising from ESG factors such as low-quality governance, under-representation of shareholders, or environmental risks are included in the analysis alongside financial ones.

### **The Research Process**

## STEP 1: FINANCIAL ANALYSIS

As ever, our goal is to maximize returns and net of the cost of risk, through a rigorous selection of issuers. For every investment, we estimate the cost of risk, which we define as the likelihood of a default occurring multiplied by the consequence of that default. In addition to the obvious financial risks, cost of risk so defined, encompasses the risks arising from low-quality governance, under-representation of shareholders and a company's failure to uphold occupational health, safety and similar standards, along with environmental risks. An issuer's net risk premium is thus equal to the difference between its interest earned and cost of risk. Hence, we seek to maximize risk premia, while keeping market and volatility risk under control.

## STEP 2: ESG RISK ANALYSIS

Our credit specialists take environmental, social and governance (ESG) issues into account when analyzing the companies we consider investing in.

As we believe that a company's non-financial performance can have a lasting impact on its credit quality, our investment team uses START to determine ESG ratings for over 3,500 issuers.

We also look at a company's impact and the sustainability of their business model in the context of the long-term transformative ESG trends which could be strong factors that reduce default risks over the cycle. This helps us to understand how well the company is positioned to take advantage of new opportunities the transition may present. This forward-looking analysis is a critical step in understanding whether the company's performance is repeatable and sustainable over the long term. Note that, we are convinced that a more flexible, non-benchmarked approach will generate better results, even as we take non-financial metrics into account. Instead of screening out companies faulted for performing poorly against ESG metrics – many of them stymied by large credit spreads – we interact with them in an effort to understand what's behind their poor practices and try to identify any potential room for improvement.

## STEP 3: COMPANY VALUATIONS

Our analysts evaluate all these factors, whilst also respecting firm-wide exclusions, as part of the fundamental analysis.

Our analysts will make the necessary adjustment to the default risk incorporating ESG risks management and impact outlook, to arrive at their final company valuation.

## STEP 4: ESG ENGAGEMENT

Being owners of corporate debt does not exclude us from company engagement. We see ourselves as part of a wider movement that is helping to shape more responsible corporate behaviour and increase transparency. We view ESG integration as part of expressing our convictions as long-term responsible

investors, avoiding negative issues that can damage portfolio returns but also engaging with management to take the right steps towards enhancing their sustainability profile and practices.

## 6. INCLUSION OF ESG IN ANALYSIS FOR OUR SUPRANATIONAL AND SOVEREIGN BONDS SELECTION – OUR PROPRIETARY MODELS FOR SOVEREIGN ESG

### OBJECTIVE

At Carmignac, we think that it is key to integrate ESG criteria in the monitoring of Sovereign bonds. While external solutions are slowly being developed, we have chosen to build our own proprietary models in order to ensure ESG integration and to provide material information to our investors. Two models have been developed in the last years:

- **A GLOBAL SOVEREIGN ESG RISK MODEL**, which tries to assess Environmental, Social and Governance risks faced by developed and emerging countries
- **AN EM IMPACT MODEL** (that aims to guide impact investment across emerging countries).

### METHODOLOGY

#### A. GLOBAL SOVEREIGN ESG RISK MODEL” SCORING

This first model created by our Fixed Income Investment Team analyses **more than 100 countries** across Developed and Emerging Markets covering our sovereign **and quasi-sovereign** investments, with the only exception being a limited number of countries with not enough reliable data. **18 E, S & G criteria** have been selected according to the PRI (Principles for Responsible Investment) guidelines, market

relevancy, our firm's values and industry standards. The model uses both quantitative and qualitative elements in order to capture both current risks and opportunities, as well as **forward-looking dynamic trends**. The quantitative basis for the model uses both spot levels and historic data, while qualitative analysis, for example from stakeholder engagement or recent news and policies not yet quantitatively captured, may result in a positive or negative adjustment. The objective however is to limit these qualitative adjustments to exceptional situations such as an impactful policy change, in order to maintain the impartiality of the model.

#### TO SUMMARISE:

- Countries are ranked between 1 (bad) & 5 (good), with dispersion across the full range of scores. For any criteria, countries' ESG rankings are based both on 1) spot data and 2) recent evolution/trends
- These two rankings are then converted into an overall rating between 1 (bottom) & 5 (top)
- The dynamic rating is overweighed for emerging countries (75%) and underweighted for developed countries (25%) in order to reward recent ESG-positive trends and to mitigate structural under-investment of developing countries in ESG projects
- For any E, S & G pillar, criteria rankings are then averaged to get a pillar scoring.
- This score is then adjusted either positively or negatively, where appropriate, as a result of forward-looking qualitative analysis
- The overall ESG score is composed of the equally weighted average of the three components E, S, and G
- **Below a score of 2.5/5, we will exclude the country**

## B. "EM IMPACT MODEL" SCORING

The Impact model focuses on impact investment in Emerging Markets. It covers some 70 developing countries for all sovereign and quasi-sovereign instruments (for 100% state-owned companies). Because it is not global and focused on specific regions, the model uses 11 ESG criteria selected according to the UNPRI guidelines and material for developing markets. Furthermore, the model, maintained by our Fixed Income Investment Team, can incorporate qualitative adjustments if the analyst thinks that the data does not capture accurately the latest evolution or situation of a country. This is particularly important in emerging markets where the data quality and timeliness can be an issue. To find out if a qualitative adjustment is necessary, there is an ongoing monitoring resulting from recent events or controversies.

Because the purpose of the model is to guide impact investments, there is a **strong focus on the trajectory** that the country is taking. Therefore, the model puts a lot of emphasis on the dynamic aspects.

Also, to make sure that all countries' positive trajectory can be reflected in their score's absolute values, as long as they are progressing on ESG, they are ranked based on thresholds for each criterion rather than by the relative ranking approach used in the Global Model.

#### TO SUMMARISE:

- Countries are ranked between 1 (bad) & 5 (good).
- For most criteria, we use Static and Dynamic data, with some criteria using only one (for example: Life Expectancy only being assessed on the Dynamic score)
- For any E, S & G pillar, criteria rankings are then averaged to get a pillar scoring.
- This score is then adjusted either positively or negatively, where appropriate, from the qualitative analysis
- The overall ESG score composed of the equally weighted average of the three components E, S, and G
- The fund's score is then aggregated as the weighted average of the country score and the exposure of the positions with a sub-portfolio consisting of EM Sovereign and Quasi-Sovereign Bonds
- Scores are updated on a semi-annual basis.

## MAIN DIFFERENCES BETWEEN THE TWO MODEL


- ✓ The extensiveness of the criteria used, with the Global Model having the most ESG criteria.
- ✓ The weight of Static and Dynamic data in both models is different, with the Impact model putting the most emphasis on the Dynamic score. The Impact Model uses thresholds while the Global model uses rankings to score the countries.

## ESG CRITERIA AND SOURCES

Our E, S and G factors at a glance, with sources and weights:

#	Criteria	Sources	“Global model” weights	“EM Impact model” weights
<b>ENVIRONMENTAL</b>				
1	CO <sub>2</sub> emissions per capita	Our World In Data – Oxford University	20%	33%
2	Share of Renewables in total installed capacity	BNEF (Bloomberg New Energy Finance)	20%	33% (with a malus for high or increasing coal usage)
3	Share of Coal in total installed capacity	BNEF (Bloomberg New Energy Finance)	20%	-
4	Ambient PM2.5 (fine particules)	Institute for Health Metrics and Evaluation	20%	33%
5	Ratification of Paris Accords	United Nations Framework Convention on Climate Change	Malus of 0.2 if not ratified	-
6	Environmentally controlled solid waste treatment	World bank report "What a waste 2.0". Data from United Nations Statistics, OECD, and regional and national reports	20%/3	-
7	Health years lost due to unsafe sanitation	Institute for Health Metrics and Evaluation	20%/3	-
8	Health years lost due to unsafe water	Institute for Health Metrics and Evaluation	20%/3	-
<b>SOCIAL</b>				
9	Life expectancy at birth of both sexes	World Bank	20%	25%
10	GINI – income coefficient	World Bank	20%	25%
11	Education (PISA & Literacy rate)	PISA (Reading, Maths, Science) – OECD Literacy Rate – World Bank	20%	25%
12	GDP Per Capita PPP	IMF	20%	-
13	HDI	United Nations - Development Programme	20%	25%

GOVERNANCE				
14	Ease of Doing Business	World Bank	20%	25%
15	Fiscal Position (deficit as % GDP)	IMF	20%	25%
16	Debt as Years of Revenue	Gross Debt to GDP and Revenue to GDP – IMF	20%	25%
17	Current Account Position	Current Account to GDP – IMF	20%	25%
18	Economic freedom	The Heritage Foundation	20%	-

 (Included in both models)

## 7. OTHER KEY ESG CONSIDERATIONS

**Carmignac Group wishes to further specify when integrating ESG into their investment process the policies and practices relative to their responsible investment ambitions such as mitigating climate change impacts, social and country-level controversies.**

### Biodiversity

As is stated in the TNFD (Taskforce on Nature-related Financial Disclosures), Biodiversity is an essential characteristic of nature that is critical to maintaining the quality, resilience and quantity of ecosystem assets and the provision of services that business and society rely upon. A first step as an asset manager to help foster positive outcomes for biodiversity is to identify investments that are creating negative externalities on ecosystems. Areas of particular concern are diverse but can be grouped around agriculture, land use and quality, ocean pollution and its ability as carbon sinks, impact on health and disease transmission from animals, impacts from infrastructure and non-renewable energy as is noted by the Fondation pour la Recherche sur la Biodiversité. With such a large diversity in impacts, many potential investments can lead to negative biodiversity externalities which are not necessarily easily measurable, and most companies are not measuring yet their own biodiversity footprint. From June 2022, as part of our commitment to the French Loi Energie-Climat article 29, Carmignac will be monitoring biodiversity risks through physical risk mapping of regions in the listed companies or debt issuers' operations which is part of the Principal Adverse Impact monitoring. Secondly water and waste metrics as defined below are followed closely in view of their potential negative impacts on biodiversity. More complete reporting on land use and land regeneration by companies in the future will also be added to our estimation of how a company is mitigating its impact on biodiversity. For the most part, direct reporting by companies is rare so estimations are used by our third-party data provider Impact Cubed.

### Water use



Global warming has already proven its impact in regions where water scarcity has been exacerbated by decade long droughts and where new territories are now being declared as drought sensitive zones. Drought is no longer having direct effects on survival in emerging market zones only but indirectly also in developed markets. Carmignac is mindful of our operations' use of water particularly in functions with high intensity such as cooling systems, and the water usage is measured as part of our yearly carbon emissions calculation. At a fund level, from 2022, we will be monitoring regional zones for physical climate risk which will help detect companies whose operations are particularly vulnerable to drought areas and where water intensity has a high correlation with their business activity. We monitor several water-related metrics of investee companies where it is reported through our proprietary ESG scoring system START, which includes freshwater withdrawal, water use to revenues and water recycled.

From June 2022, for the Carmignac funds classified as Article 8 and 9, we measure the Principal Adverse Impacts as is stated in annex 1 of the RTS of the SFRD 2019/2088 including water usage and recycling by the average amount of water consumed and reclaimed by the investee companies (in cubic meters) per million EUR of revenue of investee companies. In addition, tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average, are also measured but are estimated indicators. While it is inevitable in some industries to have a high-water intensity, namely the beverage or mining industries, due to their manufacturing or extraction process, we use company dialogue should we consider their policies to mitigate negative impacts inadequate. In addition, companies with particular innovation in water efficiency related technologies can be positively selected in the funds with sustainable development goals as core objectives.

### **Pollution & waste**

Prevention of pollution and hazardous waste is not only paramount for the biodiversity of our plants and animals necessary for the sustainable operations of our life cycles, but also for mankind to prevent disease and degradation of natural capital such as our lands, rivers and oceans. Carmignac has measured its carbon emissions of its operations since 2019 which entails measuring the waste created through our financial services activity throughout out 7 offices in Europe. Each office has employed recycling such as no further supply of plastic water bottles, waste sorting and disposal techniques. At a fund level, we monitor the investee companies waste recycled to total waste, and total waste intensity through our proprietary ESG scoring system START. From June 2022, for the Carmignac funds classified as Article 8 and 9, we measure the Principal Adverse Impacts as is stated in annex 1 of the RTS of the SFRD 2019/2088, we also monitor aggregated impact of tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average. Particular industries such as mining due to their extraction techniques, textiles particularly in Emerging markets are scrutinized for their anti-pollution policies during company dialogue and engagement. In addition, companies with particular innovation in recyclable plastics and other materials can be positively selected in the funds with sustainable development goals as objectives.

### **Gender & diversity**

For the companies we invest in, we encourage efforts in this area through targeted engagements and voting. We can use our shareholders right to sanction Boards where we feel sufficient thresholds aren't being met in comparison to their local markets and peers. We are also part of the Workforce Disclosure Initiative, designed to gather key data from companies worldwide on the issues most crucial to decent work and human rights in the workplace, including diversity in terms of ethnicity, sexual orientation, gender, age, social background, religion, and beliefs, among others.

## **Responsible tax practices**

Taxation is a complex topic and no longer just a question of compliance. It is increasingly regarded as a socially responsible activity that companies need to adjust to in the different jurisdictions where they operate. Looking at tax reporting through an ESG lens is part our methodology.

We recognize companies in our investment universe which adhere to the OECD Guidelines for multinational enterprises on taxation and push for disclosure where necessary. In addition, as signatory of the PRI, we would expect from the companies we invest in to:

- Publish a global tax policy that outlines the company's approach to responsible tax;
- Report on tax governance and risk management processes; and
- Report on a country-by-country basis (CBCR)

This is a consideration we increasingly integrate into our engagements with corporates and in our votes in support for more transparency via for example support for shareholder resolutions.

## **Controversial countries**

Carmignac is mindful of the need to monitor governments policies on Human Rights and International Labour organizations' conventions amongst others.

A specific process and tracking process has been put in place for the funds which are accredited with the Belgian Towards Sustainability label and which invest in sovereign bonds. Countries are excluded that do not satisfy the following requirements:

States that have not ratified or have not implemented in equivalent national legislation:

- the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
- at least half of the 18 core International Human Rights Treaties

States which are not party to:

- the Paris Agreement
- the UN Convention on Biological Diversity
- the Nuclear Non-Proliferation Treaty
- States with particularly high military budgets (>4% GDP)
- States considered 'Jurisdictions with strategic AML/CFT deficiencies' by the FATF
- States with less than 40/100 on the Transparency International Corruption Perception Index
- States qualified as 'Not free' by the Freedom House 'Freedom in the World'-survey

### Tracking process procedure

We identify the countries that do not satisfy the requirements using data from publicly available official websites. In order to maintain up-to-date data and reduce human error, we have implemented an automated scraping process that analyses the data and determines if a country respects the requirements, which is run on a weekly basis. The source file containing the table of all countries and their compliance is stored on a shared directory and available in real time to all users with access to the database. When a modification is observed in the list of compliant countries, a notification is sent to the Responsible Investment and Fixed Income Investment teams.

### **Death penalty**

Within our funds, we consider qualitatively if a company is based in a country that enforces the death penalty, although this does not implicitly constitute a trigger to investment restriction.

### **Forward contracts on agricultural commodities**

As an investment manager, of UCITS funds derivatives on commodities are not eligible for investment.

## **8. GOVERNANCE AND CONTROLS**

An operational framework is in place to manage and monitor sustainability risks. This framework allows us to monitor the overall compliance with ESG limits laid down in our prospectuses and controlling that the investment strategy is consistent with the SFDR regulation SFDR and SRI labels' specifications.

Through the above-mentioned ESG methodologies are communicated and handled by the Responsible Investment team, sector exclusions, universe reductions and coverage thresholds for ESG analysis are achieved. ESG rules and guidelines are monitored by the Investment Management and the Responsible Investment team as a first level of control through the START (within Mackey RMS) and the Global Portfolio Monitor (GPM) day to day research and portfolio management tools.

The Risk Management team acts as a second level of control and ensures that the applied strategy complies with the various constraints (regulatory, statutory and internal), using the software Bloomberg Compliance Manager tool (CMGR). This tool configuration defined by Risk Management, allows a close monitoring of sustainability risks in the investment process by setting appropriate limits that reflect consistency between fund's commitment and the implemented strategy.

Most of controls are done post-trade on a weekly or monthly basis, the target being pre-trade control on a daily basis. The overall framework is periodically reviewed by the Compliance and Internal Control department in the conduct of the Compliance Monitoring Program.

Finally, Carmignac confirms that when an issuer is identified as no longer eligible to relevant portfolio according to the applicable extra-financial investment policy and ESG principles, the targeted timeframe for divestment is stated as 3 months.

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