



# **SHAREHOLDER ENGAGEMENT POLICY**

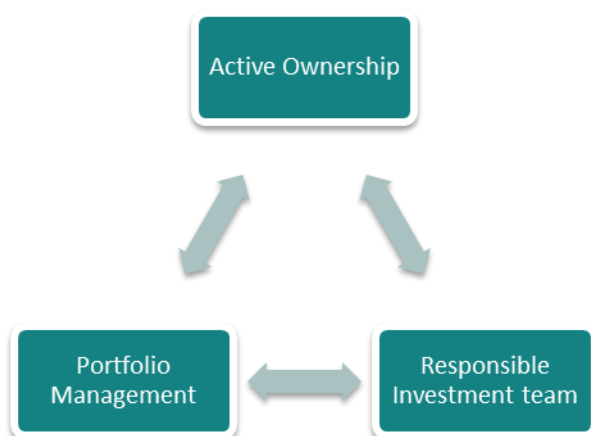
## **NOVEMBER 2022**

## OUR APPROACH TO INTEGRATING ESG ENGAGEMENT AND ACTIVE OWNERSHIP INTO THE MANAGEMENT OF OUR INVESTMENTS

Active ownership is the use of the rights as a shareholder, or influence as a debt holder, of the positions held in our portfolios to affect the activities or behaviour of investee companies or issuers. As an active and responsible investor that manages high conviction portfolios, active ownership is an integral part of Carmignac's overall strategy and forms the foundation of our approach to responsible investing.

We strongly believe in a multi-stakeholder management approach. As an active owner, we engage with companies' representatives including management and boards, but also hold dialogues with industry experts and other key stakeholders. As described further below, we perform extensive research for every engagement we choose to undertake, focusing on the most material Environmental, Social and Governance (ESG) factors which are drivers of a company's long-term performance. Engagement is not only limited to one-on-one dialogue, it also importantly includes other methods such as collaboration with shareholders and other escalation tools. As part of our engagement activity, Carmignac seeks to exercise fully its voting rights by targeting a 100% voting participation rate across its equities as well as bond holdings.

Company engagement is carried out by 3 groups within the investment team: Sector Analysts, Portfolio Managers (PMs) and the ESG Analysts of the Responsible Investment (RI) team.



Each one of them specialises in one of the E, S and G pillars. The Governance Analyst coordinates the engagement strategy, enlisting the other analysts for their area of expertise as support and for collaborating with the Sector Analysts and PMs. This enables joint decisions of engagement rationale, objective and potential outcomes.

The oversight of the Shareholder Engagement Policy and engagement strategy is undertaken at the highest level by the Chief Investment Officer (CIO), Edouard Carmignac, and the Managing Director in

charge of Responsible Investment, Maxime Carmignac. At an operational level, an ESG Governance group reviews and approves significant decisions regarding the ESG procedures and policies, including engagement. It is chaired by Maxime Carmignac and composed of the Stewardship Director, the senior heads of the portfolio management teams, the Global Head of Compliance and the Chief Operating Officer. This group meets at least annually as well as on an ad-hoc basis when decisions are required.

## **MONITORING OUR INVESTEE COMPANIES**

Fundamental and independent research is the hallmark of Carmignac's investment approach. Investment analysis is undertaken by PMs, Sector Analysts and the ESG Analysts. Carmignac believes that this is part of our fiduciary duty as well as the most direct and efficient means to understand systemic risks while upholding our stewardship responsibilities.

Understanding the companies' management quality, growth drivers and potential trends such as disruption and technology make up part of the investment thesis. Companies that seek to distribute dividends irresponsibly without long term growth and holistic view for all stakeholders are avoided. Capital investment decisions, shareholder returns, acquisitions and divestments as well as the capital structure such as the term structure of borrowing, access to working capital, free cash flow yield are also closely monitored.

Robust investment analysis is undertaken using the following sources:

- Investee companies' public statements, financial information platforms such as Bloomberg, FactSet, annual reports and financial statements, information related to their annual general meetings, capital market days and roadshows.
- Dialogue with company representatives including management and any relevant stakeholder (such as suppliers, customers, competitors, employees) are usually held on a one-to-one basis usually to obtain precise and tailored understanding of the company's financial, ESG data as well as business practices.
- Sell-side and independent research, trade shows and industry conferences can also be integrated to further understand our investee companies' operations and governance as well as the industry in which they operate.
- Our proxy voting provider Institutional Shareholder Services (ISS) also provides research in relation to General Meetings' resolutions and voting decisions.

The combination of financial analysis, operational performance, stakeholder and ESG analysis enables the necessary monitoring to confirm an investment rationale.

Company research, which includes the investment rationale, pre and post quarterly financial results assessments, one-on-one dialogue, emails and letter exchanged with company representatives,

management or the board are all compiled into the front office system called Verity (formerly MacKey RMS). Within this system, our proprietary ESG platform, START<sup>1</sup> (System for Tracking and Analysis of a Responsible Trajectory), has been developed to gather ESG research, internal ESG scorings, carbon emissions data, impact information, controversy monitoring and external ESG ratings. Four extra-financial data sources feed into the START interface (TR Refinitiv, S&P Trucost, ISS Ethix, MSCI ESG), providing a very large coverage of 8,000 global companies' raw ESG data. ESG assessments and risks are built into the investment's decisions for all asset classes. While the ultimate ESG analysis responsibility sits with the PMs and Analysts, the RI team is responsible for all ESG-related processes. This includes namely ESG thematic and corporate research, compliance with regulatory requirements as well as, transparent and timely reporting. This enables a close monitoring of company ESG performance and controversies.

For further information regarding our responsible investment philosophy and our ESG proprietary scoring system please consult our [ESG Integration Policy](#)<sup>2</sup> and [Responsible Investment webpage](#)<sup>3</sup>.

## OUR ENGAGEMENT WITH INVESTEE COMPANIES

### WHY WE ENGAGE

We engage with our investee companies for the following three reasons:

1. Firstly, as ESG data provided by company reports or external agencies is often backward-looking and infrequently updated with a significant time lag, a responsible investor should not solely rely on this data. Therefore, our engagement activities can help us better understand the forward-looking trajectories of companies, including how they are managing their ESG risks.
2. Secondly, academic research<sup>4</sup> is increasingly showing that effective ESG engagements lead to improved financial performance: we believe that our purposeful engagements will result in long-term value creation for our clients, society and the environment.
3. Lastly, we believe that our fiduciary duty covers both financial returns and creating positive value for society and the environment.

In order to drive positive impact through our investments, we utilise our engagement capabilities as an active ownership tool to help our investee companies identify the ESG drivers that are material to improve their ESG profile.

With regards to our debt holdings of fixed income issuers, while not deterring our dialogue and engagement efforts, the scale and effectiveness of engagement may be more limited as we are not share

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<sup>1</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.

<sup>2</sup> [https://carmidoc.carmignac.com/SRIIP\\_INT\\_en.pdf](https://carmidoc.carmignac.com/SRIIP_INT_en.pdf)

<sup>3</sup> [https://www.carmignac.com/en\\_US/responsible-investment/in-practice-4744](https://www.carmignac.com/en_US/responsible-investment/in-practice-4744)

<sup>4</sup> For example: <https://www.unpri.org/download?ac=4637>

owners of the business and, as such, have more limited leverage to influence issuers. Furthermore, despite engaging with non-corporate issuers such as a sovereigns, it is potentially more challenging than influencing a company. In recognition of this, Carmignac will continue to review the best ways to carry out ESG engagement to maximise impact and use of resources, including partnering and collaborating with other investors and key stakeholders.

## FIVE TYPES OF ENGAGEMENT AND THEIR PROCESS

Since January 2021, Carmignac has committed to align its engagement strategy with the following five types of engagement:

### 1. **ESG risk-related engagement**

- Our proprietary rating and research framework START combines aggregated raw ESG data from companies which allows the analyst to systematically identify poor E, S or G related scores and risks. A good starting point for engagement would be if the score of E, S or G is below average, i.e. D or E rating.
- A company dialogue would be initiated concerning the issues which have contributed to the low score(s) and the objective of the engagement would be to understand the specific ESG risks and to drive material improvements in the companies' ESG profile.

### 2. **Thematic engagement**

- This is a proactive approach centred on material sustainability themes that have the most potential to create value for shareholders, taking into consideration the views and concerns of our clients. We breakdown a selection of themes within the three pillars of 'ESG', depending on what is most material within the company's business sector. The materiality or relevance of the E, S or G issue is determined by our investment team members given their in-depth knowledge of the industry and company. Thematic Engagement can take place over up to three years.

### 3. **Impact engagement**

- We seek to understand and work with companies on their business model trajectory to identify their intentionality, i.e. how they intend to create additionality and how they measure their outcomes to create overall positive societal and environmental value.
- When relevant, we align our impact engagement themes to the United Nations 17 Sustainable Development Goals (SDGs). Impact Engagement can extend to a five-year period.

### 4. **Controversial behaviours engagement**

- Enhanced engagement which focuses on companies that severely and structurally breach principles of the United National Global Compact (UNGC)<sup>5</sup> and/or OECD Guidelines for Multinational Enterprises<sup>6</sup>.

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<sup>5</sup> <https://www.unglobalcompact.org/>

<sup>6</sup> <https://www.oecd.org/corporate/mne/>

Controversial behaviours engagement is aimed at eliminating a company's breach of the UNGC and/ or OECD Guidelines for Multinational Enterprises and installing proper management systems to prevent such a breach from recurring.

- If engagement is unsuccessful, the company is considered for exclusion. Enhanced engagement cases are selected quarterly depending on the need for a follow-up. Engagement focus can differ between various investment exposures. For example, engagements for credit portfolios are likely to focus on downside ESG risks, whereas engagements for equity portfolios are more likely to focus on both ESG risks and opportunities, as well as minority shareholders' rights. We allow for a maximum of three years of engagement with a company in this program.

#### 5. **Proxy voting decisions engagement**

- This refers to conference calls or in-person meetings conducted before and/or after an shareholder or bondholder meeting. The purpose of such engagement is to inform and discuss proxy voting decisions with the company. While many voting decisions are taken based on internal and external research without the need for dialogue with management, in some circumstances it is important to interact with the company representatives including the investor relations and the Board to gain a more detailed understanding of the rationale behind the items included for votes. These conversations can help shed light on Board member candidates, remuneration policies, Board effectiveness and the company's reaction to specific ESG shareholder resolutions.
- Cases for proxy voting engagements are usually identified based on financial exposure, seriousness of the concern and complexity of the item up for a vote.

## **DEFINING OUR ENGAGEMENT STRATEGY**

Our engagement strategy is framed around our overall strategy to act as an active owner across all our asset classes and be proactive in our approach to engagement with our investee companies by pushing them to adopt ambitious ESG goals, in alignment with our investors' long-term interests.

Our engagement plan with investee companies is reviewed quarterly and defined based on the following three topics of focus which are core to Carmignac's approach to ESG, CEL:

- **Climate change:** We believe every company must play its part in climate change mitigation. When relevant, we engage with the companies we invest in to achieve emissions transparency and to transition to climate-friendly policies.
- **Empowerment:** We believe employees are a company's most valuable asset, when cared for. When material, we ask the companies we invest in to focus on efficiently managing their human capital for employee engagement and satisfaction.
- **Leadership:** We believe in long-term value creation from firms that can innovate to constantly provide the best solutions for their clients. When we can influence companies, we try to help them to take an even longer-term view, by leveraging our own legacy as a family-run, entrepreneurial company.

Our engagement strategy is built to take into account the five types of engagement and three themes (CEL) described above. We set out below the main axes of our engagement strategy for your information, framed around a proactive and a reactive approach to engagements. Please note that we focus our resources on a list of priority companies and topics which is determined internally in agreement with our Stewardship Director, Managing Director in charge of responsible investment, Maxime Carmignac, and the investment team.

### **Proactive Engagements:**

Carmignac's engagement strategy aims to be proactive in its approach by an increase in the number of thematic engagements via a combination of approaches:

- Bottom-up: in collaboration with the funds' PMs, members of the RI team analyse companies representing our biggest holdings (including a focus on thematic, European Union's Sustainable Finance Disclosure Regulation (SFDR) "Article 9" funds) and engage for these companies to drive improvements, in line with our CEL priorities.
- Top-down: in collaboration with the investment analysts, members of the RI team engage on key ESG themes that represent material risks for our main investments from a CEL perspective.

### **Reactive Engagements:**

Reactive engagements remain necessary and act as a complement to our proactive approach to engagement. In reference to the different types of engagement identified in this document, this applies to dialogues in relation to:

- ESG ratings
- Controversies
- Impact
- Proxy voting

Whilst we have built our strategy to ensure we engage on behalf and across all our asset classes, we generally find reactive engagements more appropriate for our corporate debt holdings than proactive engagements. We find this is due to the different focus inherent to our fixed income holdings which is capital preservation and management of downside risks.

## **HOW WE UNDERTAKE ENGAGEMENT**

Dialogue with investee companies is conducted through in-person meetings, calls, letters or emails, either directly or as part of a collaborative effort. The nature and frequency of the dialogue depends on the location of the company, stage of engagement, severity of the issue and willingness of the company to engage. This is in addition to attending meetings facilitated by intermediaries such as brokers. Most dialogues are conducted with the Board of Directors, corporate secretary, subject specialists or investor relations.

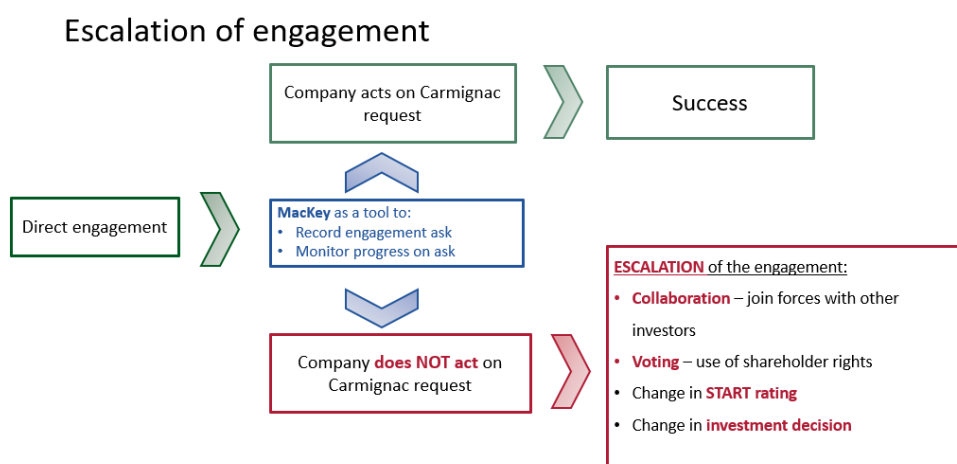
Occasionally the dialogue is with executive teams though only where we believe the concern justifies their time and action. The dialogue is captured in our Engagement Template visible in our front office START system for ease of management, tracking and follow-ups.

## ESCALATION OF ENGAGEMENT

For each company identified for engagement, we define a challenging but realistic threshold of objectives that we expect to be met at the end of the engagement timeframe. These objectives as well as the outcome are documented on our internal front office system called Verity (formerly MackKey RMS) which is accessed by the RI team as well as by the investment teams.

If the expected outcome set has been met, we close the engagement case successfully. We record our engagement outcome on three levels of progress: Positive, Neutral & Negative.

We escalate the intensity of an engagement activity over time depending on the nature of the challenges each company faces and the attitude of the Board towards our dialogue. Generally, our engagement activity becomes more active where we believe engagement will lead to an increase in or prevent/limit a decrease in the value of a company over the long term.



## ACTIVE OWNERSHIP THROUGH THE EXERCISE OF OUR VOTING RIGHTS

As a share and bond holder, exercising our active ownership through proxy voting is an essential part of our engagement with companies and commitment to active ownership. We take our responsibility seriously and this is reflected in our ambitious objective of 100% voting participation for all votes cast on behalf of our clients across shareholder and bondholder meetings.

Proxy voting is an important component of Carmignac's stewardship strategy as it is an essential tool that we can use to influence our investee companies. Having an active and conviction-based approach to investment does not prevent us from voting against the management of a company when we think it is appropriate to do so.



We use our voting rights as an opportunity to encourage our investee companies to make improvements aligned with ESG best practices which are in the long-term interests of the company, their stakeholders and ultimately our clients.

Carmignac may vote against the management of a company where:




- The investee company does not align with our ESG best practice expectations set out in our Voting Policy; or
- In line with the escalation process described above, we want to put additional pressure on the company to complement an engagement or because an engagement has not been successful.

For more information regarding our approach to voting including our processes, please consult our [Voting Policy](#)<sup>7</sup> available on our website.

## COLLABORATIVE ENGAGEMENT WITH OTHER SHAREHOLDERS

Carmignac sees value in both direct and collaborative engagement, and it is the combination of both which leads to the most influential and effective stewardship. Carmignac may collaborate with other shareholders and bondholders when this may be beneficial for the engagement to influence the actions and governance of investee companies. We seek collaboration where interests are aligned, and the objectives are based on material issues. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert.

### OUR AFFILIATIONS

Affiliation name/ Logo	Objective	Carmignac's role	Website Link
<b>ESG-specific affiliations</b>			
Climate Action 100+ (CA 100+) 	An investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.	Signatory and collaborator.	<a href="https://www.climateaction100.org/">https://www.climateaction100.org/</a>
Tobacco Free Portfolios 	Their mission is to inform, prioritise and advance tobacco-free finance.	Supporter.	<a href="https://tobaccofreeportfolios.org/">https://tobaccofreeportfolios.org/</a>
ShareAction Decarbonisation Initiative 	It aims to bring together investors to accelerate corporate action on climate change in key battleground sectors.	Member.	<a href="https://shareaction.org/investor-initiatives/investor-decarbonisation-initiative">https://shareaction.org/investor-initiatives/investor-decarbonisation-initiative</a>

<sup>7</sup> [https://carmidoc.carmignac.com/SRIVP\\_INT\\_en.pdf](https://carmidoc.carmignac.com/SRIVP_INT_en.pdf)

Affiliation name/ Logo	Objective	Carmignac's role	Website Link
<b>ESG-specific affiliations</b>			
Workforce Disclosure Initiative 	It aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide.	Investor signatory.	<a href="https://shareaction.org/investor-initiatives/workforce-disclosure-initiative">https://shareaction.org/investor-initiatives/workforce-disclosure-initiative</a>
Institutional Investor Group on Climate Change 	It aims to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future.	Member.	<a href="https://www.iigcc.org/">https://www.iigcc.org/</a>
<b>ESG frameworks</b>			
PRI 	The PRI is supported by, but not part of, the United Nations. It encourages investors to use responsible investment to enhance returns and better manage risks. It also engages with global policymakers but is not associated with any government.	Signatory.	<a href="https://www.unpri.org/">https://www.unpri.org/</a>
Task Force on Climate-related Financial Disclosures (TCFD) 	The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.	Supporter.	<a href="https://www.fsb-tcfd.org/">https://www.fsb-tcfd.org/</a>
<b>Asset management related affiliations</b>			
European Fund and Asset Management Association (EFAMA) 	It is a trade association which represents the European investment management industry.	Member.	<a href="https://www.efama.org/">https://www.efama.org/</a>
The Investment Association (IA) 	It represents UK investment managers.	Member.	<a href="https://www.theia.org/">https://www.theia.org/</a>
Association Française de la Gestion Financière (AFG) 	It represents the asset management industry in France.	Member.	<a href="https://www.afg.asso.fr/">https://www.afg.asso.fr/</a>
Association of the Luxembourg Fund Industry (alfi) 	It represents the Luxembourg asset management and investment fund community.	Member.	<a href="https://www.alfi.lu/">https://www.alfi.lu/</a>

## COMMUNICATION WITH OTHER STAKEHOLDERS

Our stewardship activities may include discussions with relevant stakeholders of investee companies, such as industry bodies, policymakers, regulators, customer groups, employee groups and civil society organisations. All our activities are supplemented by our belief in transparency, and our public reporting may also be of value to relevant stakeholders.

## MANAGEMENT OF CONFLICTS OF INTEREST

Carmignac has implemented a Conflicts of Interest Management Policy which governs the Carmignac business. The aim is to ensure the primacy of investors' interests are put first. Whilst we provide below a summary of our policy, please refer to our public document on our [website](#)<sup>8</sup>.

### IDENTIFICATION OF CONFLICTS OF INTEREST

Identifying conflicts requires careful and continuing consideration and a review across different products, various stakeholders, and parties. These interactions are not static; any material change in Carmignac's activities may lead to new potential conflicts.

The Compliance function has implemented a robust compliance framework that oversees the identification, management and maintenance of the policy, on both actual and any perceived conflicts which is essential to our fund management activities. On a periodic basis, the policy is reviewed in consultation with the business lines to ensure it adequately reflects the types of conflicts that may arise in the course of Carmignac carrying out its services.

### EXAMPLES OF INSTANCES THAT GIVE RISE OR MAY GIVE RISE TO CONFLICTS

- Corporate offices held by employees of the management company on a personal basis or as part of their professional activities;
- The method by which employees are remunerated in connection with the distribution of financial products;
- Benefits or gifts that employees of the management company may receive in connection with their professional activity.

## OUR COMMITMENT TO TRANSPARENCY

Carmignac is committed to the transparency of its stewardship activities. In line with the requirements of the European Union's Shareholder Rights Directive II (SRD II), Carmignac provides its investors and the public access to the following information on our website:

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<sup>8</sup> [https://www.carmignac.com/en\\_US/article-page/regulatory-information-1788](https://www.carmignac.com/en_US/article-page/regulatory-information-1788)

- An annual [Stewardship Report](#)<sup>9</sup> containing an explanation of how Carmignac has implemented its Shareholder Engagement Policy. This includes information on how we have engaged individually and collaboratively with other investors, engagement statistics and case studies to illustrate our approach. It also importantly sets out how Carmignac escalates its engagements including through the use of our voting rights.
- Two annual vote disclosure reports<sup>10</sup> for all votes cast for our funds registered within our two legal entities: [Carmignac Gestion](#) and [Carmignac Gestion Luxembourg](#). These two separate reports contain the detail of the shareholder meetings to which our two legal entities participated in, including the vote instructions cast at resolution level.
- Our annual United Nations-sponsored Principles for Responsible Investment reporting<sup>11</sup>
- A periodic [newsletter](#)<sup>12</sup> which includes key engagement statistics as well as voting statistics and case studies.

#### At fund-level:

- For all our funds that have a French “Label ISR”, Carmignac publishes the yearly vote records for the fund as well as the number of engagements carried out by Carmignac with investee companies comprised in the fund. Please refer to the individual fund pages on our website for more details<sup>13</sup>.

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<sup>9</sup> [https://www.carmignac.com/en\\_US/responsible-investment/template-hub-policies-reports-4528](https://www.carmignac.com/en_US/responsible-investment/template-hub-policies-reports-4528)

<sup>10</sup> [https://carmidoc.carmignac.com/SRIVPRCG\\_INT\\_en.pdf](https://carmidoc.carmignac.com/SRIVPRCG_INT_en.pdf); [https://carmidoc.carmignac.com/SRIVPRCL\\_INT\\_en.pdf](https://carmidoc.carmignac.com/SRIVPRCL_INT_en.pdf)

<sup>11</sup> Our latest available report is publicly available on their website: <https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports>

<sup>12</sup> [https://carmidoc.carmignac.com/SRIQVER\\_INT\\_en.pdf](https://carmidoc.carmignac.com/SRIQVER_INT_en.pdf)

<sup>13</sup> [https://www.carmignac.com/en\\_US/our-funds](https://www.carmignac.com/en_US/our-funds)