# CARMIGNAC'S SHAREHOLDER ENGAGEMENT POLICY

MARCH 2021

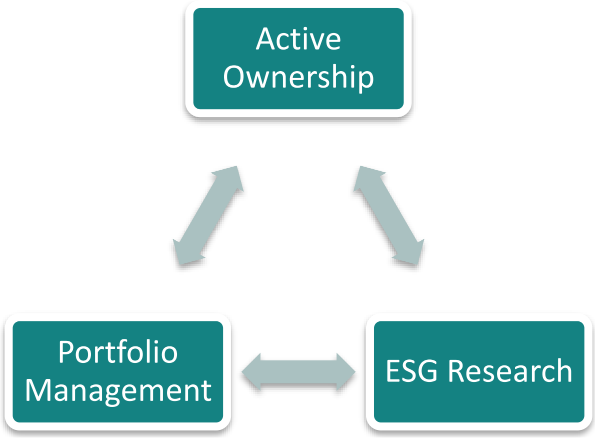
## 1. Integrating ESG engagement and active ownership into the investment process

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 investing responsibly. We strongly believe in a stakeholder management approach and as an active owner, we engage with companies' management, boards, industry experts and other stakeholders. We perform extensive research for every engagement we chose to undertake, focusing on the most material ESG factors which are drivers of company's long-term performance. Carmignac seeks to exercise its voting rights by targeting a 100% voting participation rate.

Company engagement is carried out by the 3 groups within the investment team – research analysts, portfolio managers and ESG analysts. The head of Equity, Head of Fixed Income and the ESG analysts coordinate the Engagement process, whereas the oversight of the Engagement policy is performed by the CIO, Edouard Carmignac and Managing Director, Maxime Carmignac.

Furthermore, at an operational level, a Responsible Investment Governance group, composed of Maxime Carmignac, the Stewardship Director, the senior heads of the portfolio management teams, the Compliance function, the CFO, and other senior heads of relevant departments approve significant decisions of the ESG Operational Committee.

This Governance group meets at least annually or whenever decisions are required. In 2020, during an intense phase of our Responsible Investment roadmap the group met three times. Decisions made would systematically consist of changes to sectors or policies of the exclusions lists, ESG integration system and policies, changes to voting policy and targets, and engagement policy implementation and targets.




## 2. Monitoring Investee companies

Fundamental and proprietary research is the hallmark of Carmignac's investment approach. Investment analysis is undertaken by portfolio managers, financial analysts and the ESG analysts. Carmignac believes that this is the most direct and efficient means to understand risks and best represent our fiduciary duty and uphold 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.
Company meetings with the company management and any relevant stakeholder (such as suppliers, clients, competitors, employees) are held on a one-on-one basis usually to obtain precise and tailored understanding of the company's financial, extra financial criteria and operational management.
Capital investment decisions, shareholder returns, acquisitions and divestments as well as the capital structure like the term structure of borrowing, access to working capital, free cash flow yield are closely monitored. This is enabled through investee companies' public statements, financial information platforms such as Bloomberg, Factset, the companies' annual report and financial statements, as well as, their annual general meetings, capital market days and roadshows.

Sell side, and independent analysis, trade shows and industry conferences can also be participated in or consulted to further understand our investee companies' operations and governance and the industry in which they operate.
Our Voting proxy provider ISS can also provide research in relation to voting decisions and resolutions. The combination of financial analysis, operational performance, stakeholder analysis and Environmental, Social and Corporate governance (ESG) analysis completes the main monitoring necessary to confirm an investment rationale.

Portfolio trading is permitted through the Bloomberg AIM system and investment portfolios can be monitored via the GPM interface which includes ESG ratings and carbon emissions scoring.

Company research, which includes investment rationale, pre and post quarterly financial results assessments, dialogue including emails or letters are compiled into the front office system called RMS Mackey. Within this system a ESG platform, START[1], for research, internal ESG scoring, carbon emissions date, impact, controversy monitoring and external ESG scoring has been developed. 4 extra financial data sources feed into the START interface (TR Refinitiv, S&P Trucost, ISS Ethix, MSCI ESG) providing a very large coverage of 8000 global companies' raw ESG data. ESG assessment and risk are built into the investment's decisions for all asset classes. While the ultimate ESG analysis responsibility is with the portfolio manager and analysts, a Responsible Investment team are responsible for all ESG related processes which includes ESG thematic and corporate research, regulatory requirements and transparency of reporting which enables a close monitoring of company ESG performance and controversies. For further information regarding the Responsible investment philosophy and the ESG proprietary scoring system please consult our ESG integration policy and Responsible Investment webpage. https://www.carmignac.lu/en_GB/responsible-investment/template-hub-policies-reports-4528 and https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742

Lastly, the independent risk management team monitor both regulatory and statutory requirements as well as internal guidelines set to evaluate the change in underlying credit, market, liquidity, sustainability risks of the investee company or corporate issuer.

## 3. Our Dialogue with investee companies

We engage with corporates for 3 reasons. Firstly, as ESG data provided by company reports or external agencies is often backward-looking and infrequently updated with a time lag, a responsible investor should not solely rely on these data. Hence, our engagement activities can help us better understand the forward-looking view of companies' strategies including how they are managing their ESG risks. Secondly, academic research 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. Lastly, we believe that our fiduciary duty covers both financial returns and creating positive value for society and the environment.

[1] 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.[1]

To drive positive impact through our investments, we utilise our engagement ability as an active ownership tool to help companies identify the ESG drivers that are material to improve their corporate's 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 owners of the business and, as such, have more limited leverage to influence issuers. Furthermore, despite engaging with non-corporate issuers such as a sovereign, 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.

## 5 Types of Engagement and their process

Carmignac, takes stewardship responsibilities seriously and devotes significant resources to ensure our clients' assets are protected and enhanced over time. We engage with companies as active stewards of capital in face-to-face dialogues at the executive and board levels and vote at corporate annual general meetings and other shareholder gatherings to perform our fiduciary duty as active owners. Our impactful approach to stewardship uses our scale as a global investment manager to influence and change company and market behaviours. In doing so, we strive to achieve positive societal and environmental impacts, in the belief that it will create more sustainable long-term value.

From January 2021, by adopting this comprehensive engagement policy, Carmignac has committed to a quarterly engagement program targeting specific actions within the possibility of 5 different types of engagements:

1. ESG risk related engagement
2. Thematic engagement
3. Impact engagement
4. Controversial behaviour engagement
5. Proxy voting decision engagement

1. **ESG Risk-related engagement**
    a. The 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 ie D or E rating.
    b. 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 risk and engage to drive material improvement in the companies' ESG profile.

2. **Thematic Engagement**
    a. 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 specialist knowledge of the sector and company. Thematic Engagement can take place over up to three years

3. **Impact Engagement**
    a. We seek to understand and work with companies on their business model progression to identify their intentionality, how they intend to create additionality and lastly measure their outcome to create overall societal and environmental value.
    b. 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**
    a. Enhanced engagement which focuses on companies that severely and structurally breach principles of the United National Global Compact (UNGC) and/or OECD Guidelines for Multinational Enterprises. 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.
    b. If engagement is unsuccessful, the company is considered for exclusion. Enhanced engagement cases are selected quarterly. 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**
    a. This refers to conference calls or in-person meetings conducted before and/or after an AGM. 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 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 resolutions.

Cases for proxy voting engagements are usually identified based on financial exposure, seriousness of the concern and complexity of the item up for vote.

**Engagement Process**

1. **Research & identify financially material ESG themes**
   As part of our extensive research, our analysts monitor financial and financially material ESG performance indicators of companies throughout the life of the investment. Our investment team members have the depth and breadth of knowledge to determine the most relevant financial and extra-financial drivers of long-term value creation.
   Where there is a concern, this will shape engagement and investment decisions. After extensive baseline research, we map each company's exposure to the themes identified.
   With Carmignac's proprietary ESG research system and external research, the investment teams have access to a variety of information that enables them to pinpoint environmental, social and governance risks at both the company and portfolio level, which may then shape subsequent engagement and investment decisions. Carmignac adopts a systematic approach to identifying companies for engagement. We select companies and tailor the extent of engagement based on our responsible investment policies, the size of holdings, materiality of the risks and issues, and feasibility of achieving change through engagement.

2. **Define SMART Engagement Objectives**
   Carmignac has established an outcome-based philosophy that underpins our approach to engagement and stewardship. We use these protocols to identify engagement issues, to escalate them and to measure an engagement's effectiveness. We then determine SMART (Specific, Measurable, Achievable, Relevant, Time-Bound) engagement objectives that have the most potential to create value for companies, and therefore for our clients. Before initiating an engagement, we also define the extensiveness of our engagement:
   a) Basic – Information verification, information gathering only – no further engagement needed
   b) Moderate – Minor actions required for example reporting, disclosure and verification through public documentation, established milestones and follow-up required
   c) Intense – tends to be companies engaging in controversial behaviour, no longer meeting our responsible investment policy expectations or companies that require the implementation of clear transition pathways which we will be verifying at regularly intervals with milestones

3. **Dialogue with companies**
   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 like 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 anew Engagement template visible in our front office START system for ease of management and further reporting.

4. **Escalation**

   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. If the expected outcome set has been met, we close the engagement case successfully. We record our engagement outcome on 3 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.

5. **Reporting**

   Transparency to our clients and society is a key priority of Carmignac. We share our engagement outcomes and progress publicly including our voting records and rationale. The outcomes of our thematic engagements are updated annually on our website and in our annual reports as well as being reflected in the UNPRI reporting. Lastly particular case studies will be communicated throughout the year on an adhoc basis. This helps our clients understand the activities that Carmignac has taken on their behalf as part of our fiduciary duty.

## 4. Active ownership through exercising our Voting rights

As stated, exercising our active ownership through proxy voting is an essential part of our engagement with companies. We have put in place policies and procedures such that our voting practice reflects our objective of maximizing long term returns for our investors and which reflects our own values and practices around Environmental, Social and Governance themes. We have a target of 100% voting participation in all Annual General Meetings for the listed equities held within our Funds. We also do this for segregated portfolios where we have authority to do so.

Since 2015, we have employed ISS proxy voting service to aid in managing the voting process and to provide voting related research and recommendations.

Whilst this research helps to improve Carmignac's understanding of the issues surrounding a company's proxy proposals, Carmignac's investment team is ultimately responsible for deciding and casting votes.

All votes that may be against a sustainability policy for which our starting best practice is guided by the ISS Sustainability policy, are documented with full transparency to the investment team, and investee company. Where the company is held across many portfolios, a consensus is established on the voting decisions, with the portfolio manager who has done the original lead investment analysis as the key driver to decision-making. In the circumstance where views differ, the Head of the equity team would take the final decision. In order not to miss any possible voting participation in countries due to the lack of a power of attorney (POA), we have put in place a network of POA, helped by our custodian.

A yearly voting report is published including the number of votable meetings, meetings voted, number of votes against management, withheld or abstained and votes against Carmignac policy. It is available on the Responsible Investment website here:
https://www.carmignac.lu/en_GB/responsible-investment/template-hub-policies-reports-4528

## 5. 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 bond holders 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.

## 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.

## 6. 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 client's interests which are put first.

Additionally, through engagement and voting we believe the management of conflicts is important in building long-term relationships with companies for which Carmignac invests in.

**1) 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:

- the circulation of confidential or privileged information within the management company;
- 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;

**2) Mitigation and management of conflicts**

Carmignac has implemented a number of practical processes to avoid potential conflicts and reduce the risk of an actual conflict arising.  Employees receive staff training to identify and manage conflicts of interest, in addition an annual review is undertaken reviewing existing controls and new conflicts. Under the framework, the Compliance function is responsible for escalation to the Group's Board providing an independent oversight, when it is deemed appropriate and ensuring decisions are taken and reflect the best interests of our clients.

A full summary of our conflicts of interest policy is available on our website and a full policy will be made available on request.

https://www.carmignac.co.uk/en_GB/article-page/regulatory-information-1788

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