



# **CARMIGNAC'S EXCLUSION POLICY** **MARCH 2023**

Carmignac is fully committed to actively managing investments on behalf of investors. We stand out due to our thorough proprietary analysis and company engagements. It is part of Carmignac's fiduciary duty to offer suitable investments which consider societal and environmental impacts. With this in mind, we believe our investments should be made in companies with sustainable business models and which are exhibiting long-term growth perspectives. As such, we have compiled an exclusion list with companies that do not meet Carmignac's investment standards due to their business activities or breaches of international norms.

## BUSINESS ACTIVITY EXCLUSIONS



**TOBACCO** – Carmignac considers investment in tobacco companies to be unsustainable, given that it is an unhealthy and polluting product. We exclude companies that are involved in the production of tobacco. We also exclude those which have significant ownership<sup>1</sup> in such companies, as well as those which are involved in the wholesale distribution of tobacco or in the supply of cigarette components, such as filters (≥5% of firm revenue).



**THERMAL COAL MINERS** – Carmignac acknowledges that reducing thermal coal emissions, as recommended by scientists<sup>2</sup>, is one of the most effective ways of transitioning to a cleaner energy system and being consistent with the Paris Agreement<sup>3</sup>. Furthermore, Carmignac pledges that, should there be any future coal-related investments permitted within the confines of Carmignac's Exclusion Policy, a total exit from coal-related investee companies will be implemented by 2030. We deem that thermal coal faces an increasing investment risk for the future, as companies are moving away from thermal coal as a fuel source. To avoid the risk of stranded thermal coal mines, we have developed a framework to exclude any company which derives more than 10% of their revenue from thermal coal mining or produces >20 million tons of thermal coal per year. Carmignac will not knowingly directly finance new coal mining projects. Should an investee company through acquisition be involved in new coal projects, Carmignac will seek to disinvest within a defined / precise timeframe.

On an exceptional basis, mining companies which produce over 20 million tons of thermal coal per year, but for which coal does not represent a core business and, in addition, contribute positively to the energy transition through other business activities, can be considered for investment.

<sup>1</sup> Carmignac defines significant ownership as having a majority of the voting rights and the ability to exercise significant influence or control over the relevant company.

<sup>2</sup> Intergovernmental Panel on Climate Change (IPCC) report on Global warming of 1.5 degrees, [https://report.ipcc.ch/sr15/pdf/sr15\\_spm\\_final.pdf](https://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf)

<sup>3</sup> Paris Agreement, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>



**POWER GENERATIONS** – The price for renewable energy has come down significantly as more generation is rolled out in developed countries, especially those in Europe. However, we need to consider that in developing countries, coal can still support improved access to electricity and modernisation, while transitioning to cleaner fuel sources for power in the future. We believe that even though thermal coal may have a short-term role in the energy transition, coal-powered plants may not be economically viable over the long-term. However, an over-simplified approach that discriminates against power generation companies solely on the threshold of coal in their energy mix, while not considering the efforts made by the company to implement more efficient technologies, is not sustainable both for the energy transition to happen. Hence, we have adopted the criteria using gCO<sub>2</sub>/ kWh, following the threshold recommended by the standards within the Belgium Towards Sustainability Label and informed by the International Energy Agency (IEA) to keep global temperature rise below 2 degrees, as set out by the Paris Agreement.

	2022	2023	2024	2025
<b>Max. gCO<sub>2</sub>/kWh</b>	<b>374</b>	354	335	315

Carmignac recognises the importance of encouraging companies to reduce their dependence on coal power generation in order to align their activities with the Paris Agreement. Hence, Carmignac will consider making exceptions to its exclusion rules for the power generators making credible commitments to reduce and exit their thermal coal-based power generation.



**ADULT ENTERTAINMENT AND PORNOGRAPHY** – Carmignac considers investment in adult entertainment and pornography companies to be unsustainable and not to contribute positively to the long-term sustainable development of society. We believe that there is a significant risk that the adult entertainment industry may indirectly fail to comply with human rights principles from labour practices to societal impact.

We exclude companies who receive >2% of their revenues from the production of Adult Entertainment and Pornography, those which have a significant ownership<sup>4</sup> in such companies or those which are significantly involved in the wholesale distribution of adult entertainment and pornographic content.



**CONTROVERSIAL WEAPONS** - Carmignac deems anti-personnel mines, nuclear weapons, cluster munitions, biological and chemical weapons, depleted uranium, white phosphorus munitions, blinding lasers and non-detectable fragments to be

<sup>4</sup> Carmignac defines significant ownership as having a majority of the voting rights and the ability to exercise significant influence or control over the relevant company.

controversial weapons. We exclude companies which manufacture products that do not comply with the following treaties or legal bans on controversial weapons:

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 Chemical Weapons Convention (1997), which prohibits the use, stockpiling, production and transfer of chemical weapons.
4. The Biological Weapons Convention (1975), which prohibits the use, stockpiling, production and transfer of biological 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. The Belgian Loi Mahoux, which bans uranium weapon investments.
7. The 1980 Convention on certain conventional weapons concerning non detectable fragments, mines incendiary weapons, blinding laser weapons.

## **BUSINESS NORMS EXCLUSIONS**

Carmignac acts in accordance with the United Nations Global Compact (UNGC) principles, the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work, and the Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises to assess companies' norms, including but not limited to human rights abuses, labour laws and standard climate related practices. We evaluate the breaches through proprietary analysis and with the support of external providers to assess their severity. An enhanced engagement process is applied to companies with severe breaches of these principles and guidelines outlined in the Appendix. If this enhanced engagement process, which may take up to three years, does not result in the desired change, Carmignac will exclude the company from its investment universe.

## **SCOPE**

The exclusions above apply to all funds that are open-ended funds where Carmignac acts as investment manager. We will not knowingly hold any securities that we identify to be in violation of the above guidelines. We do not exclude companies whose products or business activities' main purpose is not stated in the above guidelines.

Our Socially Responsible Investment Funds have broadened their commitments through additional negative screening and exclusions. Specific detail on these can be found in the Transparency Code and fund documentation published on our website. firm level exclusion list will be provided upon request.

# IMPLEMENTATION

## A. GUIDELINES

1. For company exclusions, all listed company-related investment instruments (e.g. equity, single issuer name derivatives derivatives and corporate bonds) are in scope.
2. Carmignac's in-house ESG team, supported by external data, tools and research providers, undertakes a series of ESG-themed assessments which identify companies within our investment universe that could qualify for potential exclusion.
3. Any new firm-wide sector exclusion is discussed within the Investment team, which is then submitted to Carmignac's Sustainable Investment Governance group for approval.
4. Cases of companies with controversial behaviour are discussed firstly within the Investment and Sustainable Investment team and if necessary are submitted to Carmignac's Sustainable Investment Governance group, for approval. The decision must be backed up with specific arguments.
5. For discretionary mandates and client-specific investments solutions, Carmignac will initially suggest clients apply the current Carmignac exclusion framework; but Carmignac may finally apply further / different restrictions if requested by client.
6. If company A is partially owned by company B and company B is involved in controversial behaviour, controversial weapons, thermal coal mining or tobacco, Carmignac will not exclude company A.
7. The list of excluded companies does not apply to index derivatives, whose administrators are external parties.
8. Excluded companies will be reviewed on a quarterly basis, using Carmignac's proprietary assessment framework, to check if relevant changes have been made to the company's activities or behaviour. A review of such changes may lead to the exclusion being lifted.
9. Once an invested company is placed on Carmignac's exclusion list, we will divest any holdings from our Funds within a defined and precise timeframe. Carmignac's Compliance team monitors adherence. Any identified breach to the defined timeframe would be dully escalated to the ESG Governance Group.

## B. GOVERNANCE AND MONITORING OF THE POLICY

Carmignac's Sustainable Investment Governance Group, composed of several Carmignac Senior Managers, oversees the adequate implementation and update of the exclusion policy at the firm level. Acting as an escalation body, this governance group decides on the additions and/or deletions and to approve exceptions of the exclusion list should that be necessary.

An operational framework is also in place to manage our exclusion list. Exclusions are monitored by the Investment Management and the Sustainable Investment team as a first level of control through the portfolio management trading system where hard exclusions of sectors and processes mentioned in this exclusion policy are registered and cannot be traded. The Compliance team acts as a second level of control and ensures that the applied exclusion strategy complies with the various constraints (regulatory, statutory and internal), using the software Bloomberg Compliance Manager tool (CMGR).

## APPENDIX

### UN GLOBAL COMPACT PRINCIPLES

- **Human Rights:** Businesses should

**Principle 1:** support and respect the protection of internationally proclaimed human rights; and

**Principle 2:** make sure that they are not complicit in human rights abuses.

- **Labour Standards:** Businesses should

**Principle 3:** uphold the freedom of association and the effective recognition of the right to collective bargaining;

**Principle 4:** the elimination of all forms of forced and compulsory labour;

**Principle 5:** the effective abolition of child labour; and

**Principle 6:** the elimination of discrimination in respect of employment and occupation.

- **Environment:** Businesses should

**Principle 7:** support a precautionary approach to environmental challenges;

**Principle 8:** undertake initiatives to promote greater environmental responsibility; and

**Principle 9:** encourage the development and diffusion of environmentally friendly technologies

- **Anti-Corruption:** Businesses should

**Principle 10:** work against all forms of corruption, including extortion and bribery.

Source: [www.unglobalcompact.org.uk/the-ten-principles/](http://www.unglobalcompact.org.uk/the-ten-principles/)

# OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

Enterprises should take fully into account established policies in the countries in which they operate and consider the views of other stakeholders. In this regard, enterprises should:

- 1.** Contribute to economic, environmental and social progress with a view to achieving sustainable development.
- 2.** Respect the internationally recognised human rights of those affected by their activities.
- 3.** Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice.
- 4.** Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.
- 5.** Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to human rights, environmental, health, safety, labour, taxation, financial incentives, or other issues.
- 6.** Support and uphold good corporate governance principles and develop and apply good corporate governance practices, including throughout enterprise groups.
- 7.** Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
- 8.** Promote awareness of and compliance by workers employed by multinational enterprises with respect to company policies through appropriate dissemination of these policies, including through training programmes.
- 9.** Refrain from discriminatory or disciplinary action against workers who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise's policies.
- 10.** Carry out risk-based due diligence, for example by incorporating it into their enterprise risk management systems, to identify, prevent and mitigate actual and potential adverse impacts as described in paragraphs 11 and 12, and account for how these impacts are addressed. The nature and extent of due diligence depend on the circumstances of a particular situation.
- 11.** Avoid causing or contributing to adverse impacts on matters covered by the Guidelines, through their own activities, and address such impacts when they occur.
- 12.** Seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship. This is not intended to shift responsibility from the entity causing an adverse impact to the enterprise with which it has a business relationship.

13. In addition to addressing adverse impacts in relation to matters covered by the Guidelines, encourage, where practicable, business partners, including suppliers and sub-contractors, to apply principles of responsible business conduct compatible with the Guidelines.
14. Engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making for projects or other activities that may significantly impact local communities.
15. Abstain from any improper involvement in local political activities

Source: <http://mneguidelines.oecd.org/>

## ILO DECLARATION ON FUNDAMENTAL PRINCIPLES AND RIGHTS AT WORK

Adopted in 1998, the Declaration commits Member States to respect and promote principles and rights in four categories, whether or not they have ratified the relevant Conventions.

These categories are: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.

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- **In Switzerland**, the Fund's respective prospectuses, KIDs and annual reports are available at [www.carmignac.ch](http://www.carmignac.ch), or through our representative in Switzerland, CACEIS (Switzerland) S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.
- **In the United Kingdom**, the Funds' respective prospectuses, KIDs and annual reports are available at [www.carmignac.co.uk](http://www.carmignac.co.uk), or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This material was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd and is being distributed in the UK by Carmignac Gestion Luxembourg.

**CARMIGNAC GESTION** 24, place Vendôme - F-75001 Paris - Tél : (+33) 01 42 86 53 35. Investment management company approved by the AMF Public limited company with share capital of € 13,500,000 - RCS Paris B 349 501 676. **CARMIGNAC GESTION Luxembourg** - City Link - 7, rue de la Chapelle - L-1325 Luxembourg - Tel : (+352) 46 70 60 1 Subsidiary of Carmignac Gestion - Investment fund management company approved by the CSSF Public limited company with share capital of € 23,000,000 - RCS Luxembourg B 67 549