CARMIGNAC'S EXCLUSION POLICY

Updated: 1st October 2020

Carmignac is fully committed to actively managing investments on behalf of its clients. We stand out due to our thorough proprietary analysis and company engagement. 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 activities or norms standards.

Business activity exclusions

A. 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[1] in such companies, as well as those which are involved in the wholesale distribution of tobacco (>5% of firm revenues) or in the supply of cigarette components, such as filters (> 5% of firm revenue).

B. Thermal coal miners

Carmignac acknowledges that reducing thermal coal emissions, as recommended by scientists[2], is one of the most effective ways of transitioning to a cleaner energy system and being consistent with the Paris Agreement[3]. 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.

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[1] 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.
[2] Intergovernmental Panel on Climate Change (IPCC) report on Global warming of 1.5 degrees, https://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf
[3] Paris Agreement, https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

Carmignac recognises the importance of encouraging companies to reduce their dependence on coal mining in order to align their activities with the Paris Agreement. Hence, Carmignac will consider making exceptions to its exclusion rules for the miners making credible commitments to reduce their thermal coal-based revenue to below 10% within a 2-year rolling timeframe. Those exclusions will be duly validated by the RI Governance. Carmignac will commit to engage and monitor companies' transition targets, and if these targets are not met, new exclusions will be established on the contravening companies. Carmignac will not knowingly directly finance companies planning new coal mining projects. Should an investee company through acquisition be involved in new coal projects, Carmignac will disinvest within a defined and precise timeframe.

C. Power Generation

According to the World Coal Association, the biggest user of thermal coal is for power generation, generating up to 30% of global energy-related CO2. Following recommendations by scientists, the IPCC report published in 2014 states that global CO2 can be reduced significantly by transitioning out of coal power generation to a cleaner source of energy. 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 source for power in the future. We believe that even though thermal coal may have a short-term role in energy transition, we do not see coal power plants to be economically viable over the long term. 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. However, we strongly believe that 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 society and the environment. Hence, we have adopted the criteria using gCO2/ kWh, following the threshold recommended by the International Energy Agency (IEA) to keep global temperature rise below 2 degrees, as set out by the Paris Agreement.

	2019	2020	2021	2022	2023	2024	2025
Max. gCO2/kWh	429	408	393	374	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. When gCO2/kWh data is not available, we will exclude power generating companies based on production or revenue levels of >10% originating from coal, >30% from gas or >30% from nuclear power plants. We will also exclude those planning new coal or nuclear power plants.

D. 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[4] in such companies or those which are significantly involved in the wholesale distribution of adult entertainment and pornographic content.

E. Controversial weapons

Carmignac deems anti-personnel mines, cluster munitions, chemical and biological weapons, depleted uranium weapons and nuclear weapons to be 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.

If a company has confirmed that they are planning to divest a business unit or discontinue any business activities which fall within the controversial weapons exclusion list, within a defined precise timeframe, we will not exclude it but will continue to monitor the company to ensure that they proceed with the divestment.

[4] 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.

Business Norms exclusions

Carmignac acts in accordance with the United Nations Global Compact (UNGC) principles 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 SRI* 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. On occasion, there may be additional securities required by clients or local governments which will be added to Carmignac's exclusion list for specific mandates or relevant jurisdictions. The firm level exclusion list will be provided upon request.

*SRI: Socially Responsible Investment

Implementation

Guidelines

1. For company exclusions, all listed company-related investment instruments (e.g. equity, equity 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. The ESG team discusses these with the in-house Investment Research team to further examine these companies according to our ESG principles, in order to establish a provisional exclusion list, which is then submitted to Carmignac's Responsible Investment Governance group for approval.
4. Cases of companies with controversial behaviour are submitted to Carmignac's Responsible Investment Governance group, who decides if the company is excluded or not. 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 regular 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 a company is placed on Carmignac's exclusion list, we will divest any holdings from our Funds within a defined and precise timeframe and notify the company of their exclusion from our investment universe. Carmignac's Compliance team monitors adherence.

Governance of the Policy

Carmignac's Responsible Investment Governance group, composed of several Carmignac Senior Managers, decides on the implementation and modification of the exclusion policy. This governance group decides on the additions and/or deletions and to validate exceptions of the exclusion list. This group meets every six months to review the list and approve any changes, but meetings are convened as required to add or remove companies from the list in the event of a change in circumstances. Carmignac's RI Governance group ratifies the exclusion lists and overall exclusion framework.

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/

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/

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