

SUSTAINABLE FINANCE DISCLOSURES AT CARMIGNAC: A GUIDE FOR INVESTORS (SFDR EU 2019/2088)

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I. Application to Carmignac

As a responsible investor, Carmignac welcomes the EU Sustainable Finance Action Plan and was present at the European Commission, Brussels, for its launch in March 2018. Since then, much work has been done by policy makers, the European Supervisory Authorities and Financial market participants through consultations so that the Delegated Acts, the most overarching of which is the Sustainable Finance Disclosure Regulation (SFDR), offer a standardised, fair and applicable approach to sustainable investments.

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices¹.

Article 1 – Subject matter

This Regulation lays down harmonised rules for financial market participants and financial advisers on transparency regarding the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products.

Article 2 – Financial market participant

Carmignac, the Management Company, is an independent asset management company. In accordance with Article 2, it is a financial market participant, i.e a management company of an undertaking for collective investment in transferable securities (UCITS management company).

Article 3 – Transparency of sustainability risk policies

Carmignac acknowledges that the investments of the Company are exposed to sustainability risks which represent a potential or actual material risk to maximizing the long-term risk-adjusted returns. As part of its responsibilities, the Management Company has integrated and published policies on sustainability risks (ESG Integration, Exclusion, Climate, Voting and Transparency Code policies which can be found in its [Responsible In Practice page](#). Carmignac also disseminates ex post reports on sustainable themes such as Carbon, Engagement and Voting, that can be found on the [Responsible In Practice page](#).

Article 4 – Transparency of adverse sustainability impacts at entity level

The following statement can be found in the [“Regulatory Information” page](#) on the Carmignac website.

¹ Source: <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>

Adverse impacts

Carmignac does not currently consider adverse impacts of investment decisions on sustainability factors in accordance with article 4 paragraph 1 (b) of the SFDR as the implementation of the regulatory framework remains pending. The management company is knowledgeable of the criteria noted in annex 1 of the draft Regulatory Technical Standards (“RTS”), the level 2 European regulation accompanying the SFDR, published on 4 February 2021. The management company will continue to observe the regulatory development closely and will reconsider this decision after the finalisation of the RTS and its final ratification.

Article 5 – Transparency of remuneration policies in relation to the integration of sustainability risks

The Carmignac remuneration policies for Carmignac Gestion and Carmignac Gestion Luxembourg can be found on our [“Regulatory Information” page](#). The statement in relation to the transparency of remuneration policies to the integration of sustainability risks is pending approval by the Board of Directors on the management company.

Article 6 – Sustainability risks in the investment decision-making process

The following statement can be found within the general section (Chapter 29.1 and 29.2) of the Luxembourg SICAV Carmignac Portfolio and in each Carmignac French FCP (*Fonds Commun de Placement*) for which it qualifies.

Integration of Sustainability risks in the investment decisions

Carmignac acknowledges that the investments of the Company are exposed to sustainability risks which represent a potential or actual material risk to maximizing the long-term risk-adjusted returns. The Management Company has consequently integrated identification and assessment of sustainability risks into its investment decisions and risk management processes through a 3-step process:

- 1) **EXCLUSION** - *Investments in companies that the Management Company considers are not meeting sustainability standards of the Sub-Funds are excluded. The Management Company has established an exclusion policy which provides, among other, for company exclusions and threshold tolerances for activities in areas such as controversial weapons, tobacco, adult entertainment, thermal coal producers and power generating companies. For further information, please refer please refer to our [Exclusion policy](#).*
- 2) **ANALYSIS** – *The Management Company integrates ESG related analysis alongside conventional financial analysis to identify sustainability risks of investee companies within the investment universe with a coverage of above 90% of corporate bond and equity holdings.*

The proprietary ESG research system of Carmignac, START², is used by Management Company to assess sustainability risks. For further information, please refer to our [ESG integration policy](#) and [“Responsible Investment in practice” page](#).

- 3) **ENGAGEMENT** – The Management Company engages with investee companies or issuers on ESG-related issues to raise awareness and understanding on sustainability risks within portfolios. These engagements may involve a specific environmental, social or governance thematic, a sustainable impact, controversial behaviours or proxy voting decisions. For further information, please refer to our [Engagement policy](#) and [“Responsible Investment in practice” page](#).

Potential impacts of sustainability risks on the returns of the Company.

Sustainability risks may cause adverse sustainability impacts in terms of an actual or a potential material negative impact on the value of the investments, the Net Asset Value of the Sub-Funds and ultimately, on the return on investors’ investment. There are multiple manners in which the Management Company can monitor and gauge the financial materiality of sustainability risks on an investee company’s financial return.

- **Environment:** The management company believes that if a company does not consider the environmental impact of its operations, and in the production of its goods and services, that a company could experience natural capital deterioration, environmental fines or declining client demand for its goods and services. Therefore, the carbon footprint, water and waste management, and sourcing and suppliers are monitored where relevant to the company.
- **Social:** The Management company considers social indicators are important to monitor a company’s long-term growth potential and financial stability. Such policies on human capital, product safety controls, and client data protection are some of the important practices that are monitored.
- **Governance:** The Management company considers that weak corporate governance can lead to financial risk therefore board independence, management committee composition and skills, minority shareholder treatment and remuneration are key factors investigated. Also, corporate behaviour of accounting practices, tax and anti-bribery are verified.

² 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. START provides a centralised system whereby Carmignac’s proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete. For more information, please refer to our website

Article 7 – Transparency of adverse sustainability impacts at product level

The following statement can be found within the extra-financial analysis section of the Sub-funds of the Luxembourg SICAV Carmignac Portfolio and in each Carmignac French FCP (*Fonds Commun de Placement*).

Adverse impacts

The management company does not currently consider adverse impacts of investment decisions on sustainability factors in accordance with article 7 paragraph 2 of the SFDR as the implementation of the regulatory framework remains pending. The management company is knowledgeable of the criteria noted in annex 1 of the draft Regulatory Technical Standards (“RTS”), the level 2 European regulation accompanying the SFDR, published on 4 February 2021. The management company will continue to observe the regulatory development closely and will reconsider this decision after the finalisation of the RTS and its final ratification.

Article 8 – Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures

The Sub-Funds classified as Article 8 in accordance with the SFDR have environmental and social characteristics. They partially invest in sustainable investments and promote investment into companies which follow good governance practices. The investment universe for purposes of measuring the sustainable performance is the general market index reference indicator of the fund. A carbon emissions approach, should there be one, is also mentioned.

The following description can be found in each prospectus with a briefer explanation in the KIID of all Article 8 category funds:

- Extra-financial characteristics
- Type of approach
- Implementation of an extra-financial analysis in the investment strategy
 - Negative screening for energy and ethical exclusions
 - Positive screening linked to environmental and social contributions
- Examples of extra-financial criteria
- Do no significant harm- Norms-based screening
- Warning of the limits of the approach
- Investment universe on which extra-financial analysis is applied
- Reduction of the investment universe on ESG-related grounds
- CO2 emissions approach
- Principal adverse impacts disclosure

Article 9 – Transparency of sustainable investments in pre-contractual disclosures

The Sub-Funds classified as Article 9 in accordance with the SFDR have sustainable investments as an objective, provided that the investment does not significantly harm and environmental or social objective and promote investments into companies which follow good governance practices. The investment universe for purposes of measuring the sustainable objective performance is different from the reference indicator of the fund. It is specified in its methodology for calculation. A carbon emissions objective, should there be one, is also mentioned.

The following description can be found in each prospectus with a briefer explanation in the KIID of the Article 9 category funds:

- Sustainable objective depending on fund
- Type of approach
- Implementation of an extra-financial analysis in the investment strategy
 - Negative screening
 - Positive screening
- Examples of extra-financial criteria
- Do no significant harm- Norms-based screening
- Warning of the limits of the approach
- Investment universe on which extra-financial analysis is applied
- Reduction of the investment universe on ESG-related grounds
- CO2 emissions approach
- Principal adverse impacts disclosure

Article 10 – Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites

The description of the environmental and social characteristics and or the sustainable objective is published and maintained on the fund website pages, as well as, the Responsible investment section of our website. For more information and electronic link to the fund webpage please consult the Responsible Investment pages of our website:

- [Responsible Investment snapshot](#)
- [Responsible Investment approach](#)
- [Responsible Investment in practice](#)
- [Responsible Investment funds](#)

Article 11 – Transparency of the promotion of environmental or social characteristics and of sustainable investments in periodic reports

The description of the environmental and social characteristics and / or the sustainable objective is published and maintained on the fund website pages, as well as, the Responsible investment website through the publication of the following 4 documents:

- The **“SRI Guidelines” document** explains the ESG related investment process and gives a full description of how the environmental and social characteristics are met, as well as the sustainable investment objectives should they exist are met.
- **The Monthly fund factsheet** incorporates ESG and Carbon intensity³ metrics for the Fund against its reference indicator.
- **A Quarterly Sustainability Report** measures ESG indicators against the Fund’s reference indicator. Secondly, environmental and social impacts are measured by reporting revenues contributing to positive or negative outcomes as seen through each Sustainable Development Goal (UN SDGs)⁴.
- **The Fund’s Annual Report Sustainability Section** describes the ESG assessment of the fund versus its general market reference indicator, the significant engagements with investee companies during the year, and the carbon intensity and total emissions number versus the fund’s reference indicator.

³ Carbon emission figures are based on S&P Trucost data. The analysis is conducted using estimated or declared data measuring Scope 1 and Scope 2 carbon emissions, excluding cash and holdings for which carbon emissions are not available. To determine carbon intensity, the amount of carbon emissions in tonnes of CO₂ is calculated and expressed per million dollars of revenues (converted to Euro). This is a normalized measure of a portfolio’s contribution to climate change that enables comparisons with a reference indicator, between multiple portfolios and over time, regardless of portfolio size.

⁴ For more information, visit sdgs.un.org/goals or <http://www.impact-cubed.com>

II. Our Funds' ESG policies and processes in summary

	ESG INTEGRATED FUNDS	SRI FUNDS	THEMATIC ESG FUNDS
ESG ANALYSIS	Proprietary ESG research system across equity and fixed income		
VOTING	Target 100% voting participation		
ENGAGEMENT	Active engagement policy directly and through affiliations		
SCREENING	Corporate policy and firm-wide negative screening	Corporate policy, extended fund-specific negative screening, positive screening and universe reduction	Corporate policy, fund-specific screening and universe reduction
LABELS ⁵	None	Label ISR / Towards Sustainability	Dependent on fund
CARBON POLICY	Firm-wide policy	Low carbon approach for most funds	Dependent on strategy
REPORTING	Annual reporting	Monthly ESG and carbon report, quarterly Sustainability report	Monthly ESG and carbon report, Sustainability measurements
EU SFDR classification ⁶	Article 6 ESG integration	Article 8 Environmental and Social characteristics	Article 9 ⁷ Sustainable objectives

⁵ To find out more, visit www.llelabelisr.fr/en and www.towardsustainability.be

⁶ EU SFDR 2019/2088, regulation on sustainability related disclosures in the financial services sector

⁷ Carmignac Portfolio Family Governed is classified as an Article 8 fund

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