

# TRANSPARENCY CODE

Carmignac Portfolio Grande Europe adopts a  
Socially Responsible Investment (SRI) approach

December 2020

The information contained in this document is confidential and proprietary material of Carmignac. Please refer to legal disclaimer included in the document.

### Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of **Carmignac**. We have been involved in SRI since 2012 and welcome the Transparency Code.

This is our third statement of commitment and covers the period 31/10/2020- 31/11/2021. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Mark Denham is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. **Carmignac** meets the full recommendations of the European SRI Transparency Code.

**31/11/2020**

Name of the fund(s): - Carmignac Portfolio Grande Europe					
Dominant / preferred SRI strategy	Asset class	Exclusions standards and norms <sup>1</sup>	Fund capital as at 30/11/2020	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input checked="" type="checkbox"/> Engagement & Voting <input checked="" type="checkbox"/> ESG Integration <input checked="" type="checkbox"/> Exclusions <input type="checkbox"/> <b>Impact Investing</b> <input checked="" type="checkbox"/> Norms-Based Screening <input checked="" type="checkbox"/> Leading to exclusions <input type="checkbox"/> Leading to risk management analysis / engagement <input checked="" type="checkbox"/> Sustainability-Themed	<b>Passively managed</b> <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing – ESG/SRI benchmark: specify the index tracking  <b>Actively managed</b> <input checked="" type="checkbox"/> Shares in a euro area country <input checked="" type="checkbox"/> Shares in an EU country <input type="checkbox"/> International shares <input type="checkbox"/> Bonds and other debt securities denominated in euro <input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> Controversial weapons <input type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input checked="" type="checkbox"/> Human rights <input checked="" type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic engineering <input checked="" type="checkbox"/> Other (please specify) Non-conventional and conventional energy <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input checked="" type="checkbox"/> ILO Conventions <input type="checkbox"/> Other (please specify)	Carmignac Portfolio Grande Europe: €645 millions	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Lux flag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input checked="" type="checkbox"/> Other (please specify) Belgian Quality Standards label	<b>Carmignac Portfolio Grande Europe</b>  <a href="https://www.carmignac.co.uk/en_GB/funds/carmignac-portfolio-grande-europe/w-gbp-acc/documents-and-reports">https://www.carmignac.co.uk/en_GB/funds/carmignac-portfolio-grande-europe/w-gbp-acc/documents-and-reports</a>  KIID Prospectus Weekly, quarterly and annual reports Monthly factsheet (including ESG Data) SRI Guidelines SRI Flyer ESG and HR indicators

<sup>1</sup> For Carmignac Portfolio Grande Europe

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## 1. General information about the fund management company

### 1.1. Name of the fund management company that manages the applicant fund(s)

For the sub-funds of the Luxembourg SICAV Carmignac Portfolio, thus Carmignac Portfolio Grande Europe, the management company is:

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 - RC Luxembourg B 67 549

### 1.2. What are the company's track record and principles when it comes to integrating SRI into its processes?

Carmignac, empowered through its independence and transparency since 1989, has maintained a long-held practice of investing responsibly, aware of its corporate duty to its investors and stewardship as a leader in the European fund management industry. Its ethical values in respect to society and environment, can be seen in the company wide scrutiny of tobacco producers and the coal industry.

As Risk Managers, Carmignac seeks to mitigate as many risk factors as it can identify, this very resolutely includes risks associated with poor governance and shareholder underrepresentation, irreverence to social issues such as health and safety, and environmental challenges particularly in respect of fossil fuel reserves.

Since 2012, Carmignac, as a UNPRI signatory (United Nations Principles of Responsible Investment) and a French investment firm (under the French government's directive Grenelle II Law, art 224-238, 2010), has raised the level of its transparency regarding the application of Environment, Social and Governance (ESG) criteria in its investment process. Each UNPRI principle has been implemented across most of its Fund range.

[https://www.carmignac.lu/en\\_GB/responsible-investment/snapshot-4742](https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742)

### 1.3. How does the company formalise its sustainable investment process?

Carmignac formalises its Sustainable investment process through several policies.

- ESG integration policy
- Exclusion Policy
- Voting and Engagement Policies
- Climate and Carbon report Policies

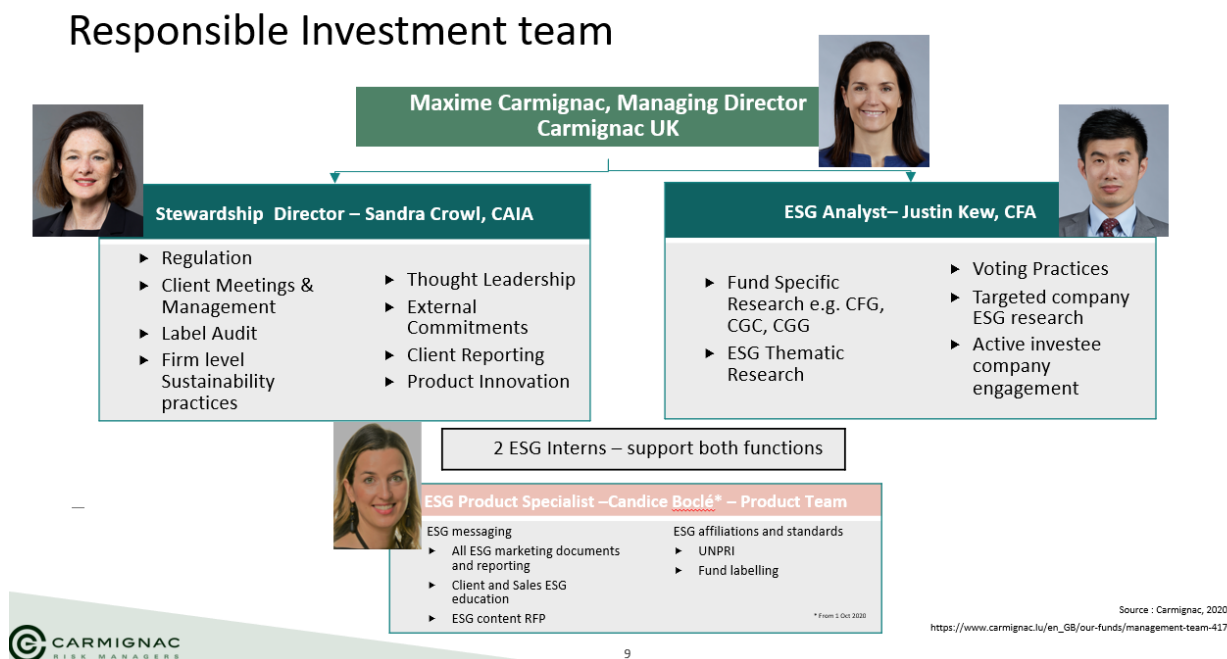
Which can be found at [https://www.carmignac.lu/en\\_GB/responsible-investment/policy](https://www.carmignac.lu/en_GB/responsible-investment/policy)

These policies are implemented across the whole fund range.

## Our Responsible Investment resources

Carmignac has a dedicated Responsible Investment team to support the investment team headed by Sandra Crowl as Stewardship Director. She reports to Maxime Carmignac, Managing Director of Carmignac UK, member of the executive board of Carmignac, who leads the responsible investment philosophy and strategy at the corporate level and fund level innovation and ESG solutions. The role of the Stewardship Director is to oversee the implementation of the responsible investment process and practices, investor communication, fund labeling process, affiliations, industry thought leadership and new product innovation. The ESG analyst is responsible for the ESG framework, fund specific research, ESG thematic and targeted research, active investee company engagements, voting practices and leads industry thought leadership. The Responsible Investment team have 2 full time ESG interns and is also supported by an experienced, dedicated ESG product specialist employed within our Product team.

[https://www.carmignac.lu/en\\_GB/our-funds/management-team-417](https://www.carmignac.lu/en_GB/our-funds/management-team-417)



### 1.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?<sup>2</sup>

#### Mainstream ESG approach

As of 30/11/2020 close to 100 % of our assets under management take into account ESG criteria. In July 2020, Carmignac launched a firm wide proprietary ESG research system called START\* that enables us to systematically integrate ESG research into the investment process.

\*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.

This system aggregates information: carbon emissions data, raw company ESG data, external ratings and impact statistics and a controversies data source. The portfolio managers and analysts proprietary extra financial analysis offer human insight and forward looking approach to the automated ESG scoring system START, the ESG scores of which are calculated according to a proprietary algorithm of reported raw company ESG indicators that are sorted for our predefined peer group (capi, region and 90 sub industry groups) which sits inside our MackeyRMS front office portal. These quantitative assessments are augmented by a written investment rationale composed by the investment team or the ESG analysts in the START system, as well as any granular commentary of ongoing ESG risks. Our ESG research system is built on a framework based on past academic research and the work of various industry bodies such as the Sustainable Accounting Standards Board (SASB), Global Reporting Initiative (GRI), in order to conduct comprehensive ESG analysis. We believe that this integration reduces the potential negative financial impact on companies' valuations, and we hope to capture rising momentum when companies are improving ESG related risks.

Climate emissions are monitored and measured for each equity fund annually. From October 2020, our funds carbon emissions will be measured through the START platform and reported monthly for our SRI and ESG thematic funds. Individual carbon reports can be found in the annual reports of each fund as well as on our specific SRI website. Through our energy related exclusions, seen below, the firm limits exposure to potential stranded assets and transition risk due to climate change.

A negative screening is applied, according to the following parameters. These exclusions are updated quarterly and are hard wired into our portfolio management system. In this manner we exclude sectors, activities or countries that we believe embed ESG risks.

- Controversial weapon manufacturers that produce products that do not comply with treaties or legal bans
- Tobacco producers. Wholesale distributors and suppliers with revenues over 5% from such products
- Thermal coal miners with over 10% revenues or 20 million tonnes from extraction
- Power generators that produce more CO<sub>2</sub>/kWh than the defined thresholds aligned with the Paris Agreement and that can be found in our exclusion policy
- Adult entertainment and pornography producers and distributors with over 2% revenues from such product
- International Global Norms violations including OECD Business Principle, ILO Principles and UNGC Principles.

Treatment of controversies - A controversy does not necessarily trigger a sell of the given position. Environmental accidents are never easy to predict but lessons can be learned, and companies can improve. That is why we believe that an ESG approach solely based on favouring ESG best in class, green sectors, etc., shows a good sign to corporates to behave better, but is not necessarily the only way. We, as investors, should of course reward the good student, but not systematically leave the bad student behind. As shareholders, we can influence and interact with companies, starting simply with participating in all shareholder votes, with a sustainability objective, with more than a short-term performance or dividend payment focus.

Carmignac has committed to an active voting policy and engagement policy that has been integrated into the Investment Management Team's internal guidelines. Engagements may occur with the Management of the companies in which we invest and often include engagement on environmental issues and carbon emission transparency.:

1. Prior to investment, as part of the due diligence done to build the investment rationale
2. After controversies or during the investment period
3. At Annual General Meetings where sustainability preferences may be discussed and challenged.

These engagements are registered internally. Important engagements are documented in the funds' annual report. In addition, a summary Engagement Report is published on our website denoting type, region, and sector of Engagement. [https://www.carmignac.lu/en\\_GB/responsible-investment/policy](https://www.carmignac.lu/en_GB/responsible-investment/policy)

### ***Funds with a Socially Responsible approach***

Carmignac also offers a range of funds that adopt a Socially Responsible approach noted in the funds' prospectuses. Negative screening, through Norms based, ethical and climate related exclusions, and positive social and environmental screening, active voting policy and low carbon emissions policies have been adopted within the strategies. There are also an increased range of ESG thematic funds.

The fund information can be found in the following links or through our dedicated Responsible Investment (RI) web page.

[https://www.carmignac.lu/en\\_GB/responsible-investment/template-hub-sri-thematic-funds-4526](https://www.carmignac.lu/en_GB/responsible-investment/template-hub-sri-thematic-funds-4526)

#### SRI Funds

- **Carmignac Portfolio Grande Europe (European Markets – Equities)**  
<https://www.carmignac.fr/en/carmignac-portfolio-grande-europe-a-eur-acc>
- **Carmignac Emergents (Emerging Markets – Equities)**  
<https://www.carmignac.fr/en/carmignac-emergents-a-eur-acc>
- **Carmignac Portfolio Emergents (Emerging Markets – Equities)**  
<https://www.carmignac.fr/en/carmignac-portfolio-emergents-f-eur-acc>
- **Carmignac Portfolio Emerging Patrimoine (Emerging Markets – Mixed)**  
<https://www.carmignac.fr/en/carmignac-portfolio-emerging-patrimoine-a-eur-acc>
- **Carmignac Portfolio Family Grandchildren**  
[https://www.carmignac.lu/en\\_GB/funds/carmignac-portfolio-grandchildren/a-eur-acc/fund-overview-and-characteristics](https://www.carmignac.lu/en_GB/funds/carmignac-portfolio-grandchildren/a-eur-acc/fund-overview-and-characteristics)
- **Carmignac Portfolio Patrimoine Europe**  
[https://www.carmignac.lu/en\\_GB/funds/carmignac-portfolio-patrimoine-europe/a-eur-acc/fund-overview-and-characteristics](https://www.carmignac.lu/en_GB/funds/carmignac-portfolio-patrimoine-europe/a-eur-acc/fund-overview-and-characteristics)



### Thematic Funds

- **Carmignac Portfolio Family Governed**  
[https://www.carmignac.lu/en\\_GB/funds/carmignac-portfolio-family-governed/a-eur-acc/fund-overview-and-characteristics](https://www.carmignac.lu/en_GB/funds/carmignac-portfolio-family-governed/a-eur-acc/fund-overview-and-characteristics)
  
- **Carmignac Portfolio Green Gold**  
[https://www.carmignac.lu/en\\_GB/funds/carmignac-portfolio-green-gold/a-eur-acc/fund-overview-and-characteristics](https://www.carmignac.lu/en_GB/funds/carmignac-portfolio-green-gold/a-eur-acc/fund-overview-and-characteristics)

The European equity fund Carmignac Portfolio Grande Europe is under the scope of this Transparency Code.

The ESG analysis follows the same principals as for the mainstream funds. ESG analysis allows the investment team to mitigate ESG related risks and to engage with companies should risks be identified. For the SRI funds, a further commitment is made to apply ESG ratings minimum requirements of portfolio construction and a broader range of negative screening and exclusions. Each company is analysed for ESG risks, comments of practices are made on outset of investments and are updated usually annually or when controversies occur. A dialogue with the company directly enables any questions regarding ESG related risks to be answered.

In addition to the carbon monitoring described for the mainstream funds this socially responsible fund's objective is to offer a low carbon portfolio monitored through our ESG system START and our carbon data source portal. The fund seeks to acheive a carbon emissions target of 30% below its reference indicator measured in carbon intensity (tCO<sub>2</sub>/ M USD, converted in Euros, Scope 1 and 2, GHG Protocol).

A full description of the ESG integration process and positive screening can be found in Chapter 3.5

### 1.5. Is the company involved in any RI initiatives?

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
<input type="checkbox"/> ECCR – Ecumenical Council for Corporate Responsibility <input checked="" type="checkbox"/> EFAMA RI WG <input type="checkbox"/> European Commission's High-Level Expert Group on Sustainable Finance <input type="checkbox"/> ICCR – Interfaith Center on Corporate Responsibility	<input type="checkbox"/> CDP – Carbon Disclosure Project (please specify carbon, forest, water etc.) <input type="checkbox"/> Climate Bond Initiative <input type="checkbox"/> Green Bond Principles <input type="checkbox"/> IIGCC – Institutional Investors Group on Climate Change	<input type="checkbox"/> Access to Medicine Foundation <input type="checkbox"/> Access to Nutrition Foundation <input type="checkbox"/> Accord on Fire and Building Safety in Bangladesh <input checked="" type="checkbox"/> Other (please specify) <input type="checkbox"/> Modern Slavery Act Statement	<input type="checkbox"/> ICGN – International Corporate Governance Network <input type="checkbox"/> Other (please specify)

<input checked="" type="checkbox"/> National Asset Manager Association (RI Group) <input checked="" type="checkbox"/> PRI - Principles For Responsible Investment <input type="checkbox"/> SIFs - Sustainable Investment Fora <input checked="" type="checkbox"/> Other <ul style="list-style-type: none"> <li>▪ AFG, France SRI working group</li> <li>▪ IA, UK SRI working group</li> <li>▪ ALFI, Luxembourg SRI Working group</li> </ul>	<input type="checkbox"/> Montreal Carbon pledge <input type="checkbox"/> Paris Pledge for Action <input type="checkbox"/> Portfolio Decarbonization Coalition <input checked="" type="checkbox"/> Other (please specify) Climate Action 100 +	UN Women's Empowerment Initiative Tobacco Finance Free pledge	
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### 1.6. What is the total number of SRI assets under the company's management?

Assets under management implementing ESG criteria: 33.5 billion Euro \*

Assets under management offering a Socially Responsible approach: 2.4 billion Euro \*

\*Source: Carmignac, as of 30/10/2020

## 2. General information about the SRI fund(s) that come under the scope of the Code

### 2.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?

At Carmignac, we believe that ESG incorporation is not only a "green tag", or a "nice to have". Indeed, we believe that an asset manager's number one fiduciary duty to its investors is to mitigate as much risk as it can identify. This very resolutely includes risks associated with poor governance, shareholder underrepresentation, irreverence to social issues such as health and safety, and environmental challenges. ESG implementation can be, and often has been, a driver of long-term performance as it goes hand in hand with sustainability. Asset managers, like us at Carmignac, managing the savings of investors, often their future pension, have to see long term and not short term. As such, companies that decide to favour short term success at the cost of higher ESG risks (or any other higher risk) may encounter difficulties in making profitable investments over the long term.

**For Carmignac Portfolio Grande Europe, the Fund invests in European equities using a fundamentally driven investment approach. The bottom-up analysis, implemented through a financial filter and scoring process, identifies companies with the best long-term growth prospects, as demonstrated by their high, sustainable profitability, ideally combined with internal or external reinvestment. Stock selection is also done through two important complementary filters.**

A negative screening is applied to prevent investment in companies identified as operating in controversial sectors such as tobacco, thermal coal extraction, controversial weapons and unconventional energy. There is a specific exclusion policy on conventional energy and electricity generation. A positive screening is also applied to select companies which have significant and measurable positive contribution to society or the environment.

## **2.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?**

The Portfolio Managers and Analysts are responsible for ESG analysis. In addition, the ESG analyst takes an active role in ESG assessment as well as in the engagements necessary following on from ESG risk identification, controversies or affiliation related collective engagements. During the due diligence directly with Corporations as part of the investment rationale, ESG risk and opportunities are identified and discussed. External ESG data sources are aggregated as discussed on our START platform from the following data providers: Trucost, TR Refinitiv, MSCI and ISS.

## **2.3. What ESG criteria are taken into account by the fund(s)?**

Depending on the geographic region and sector, ESG criteria may vary. The START System incorporates 31 ESG indicators that compose the companies scoring sorted in percentiles within the same peer groups. However here are the most common elements that the Portfolio Managers and Analysts assess in the investment rationale:

- **Environment:** The scope of Carmignac's interest includes the impact of companies on the environment and their ability to propose services and products which adapt to environmental challenges and particularly climate change. Environmental issues the investment team considers and renders transparent could include companies' treatment of carbon emissions, pollution, waste, and water usage.
- **Social:** Carmignac focuses on monitoring the impact of companies with all their stakeholders (suppliers, employees, consumers) across the value chain and the increasing public expectations of social responsibility. Social issues the firm considers could include all types of employment abuses, staff turnover metrics, diversity, work place health and safety, income distribution, and product safety.
- **Governance:** Carmignac focuses on the enhanced value created by companies that encourage governance ethics. Governance issues the firm considers could include any tendency towards uses of bribery and corruption, government's involvement and impact on management, board independence, executive compensation, and anticompetitive practices.

In addition to 30+ ESG indicators of company data that can be monitored on the Carmignac proprietary ESG system START, the Fund under the scope of this Transparency Code track the progress of 5 specific E, S, G and Human Rights indicators for the fund, a set of quantifiable data points established as performance measures. They seek to compare and manage the evolution

of these indicators against the reference index and across companies. They also serve to drive further research and corporate engagement. The ESG & HR reports can be accessed at [https://carmidoc.carmignac.com/ESGI\\_CGE\\_3\\_UK\\_en.pdf?source=website](https://carmidoc.carmignac.com/ESGI_CGE_3_UK_en.pdf?source=website)

#### **2.4. What principles and criteria linked to climate change are taken into account in the fund(s)?<sup>3</sup>**

Carmignac has made climate awareness a formal component of its investment process, joining the efforts undertaken as part of the Cop21 initiatives and adhering to Energy Transition Rule No 173 of the Monetary and Financial Code of the French government (L533-22-1 du Code Monétaire et Financier). Through a diversified investment policy that is not constrained by its benchmarks, our Funds overweight sectors with high carbon emissions, particularly coal industry and utilities. Besides, investing in sustainable technologies is also key priority for our Funds.

Carmignac Portfolio Grande Europe has committed to target 30% minimum lower carbon intensity than its reference benchmark as measured by tCO<sub>2</sub>/ M USD (Scope 1 and 2, GHG Protocol) from October 2020. Secondly, the portfolio manager screens companies that are providing a positive solution to climate change and natural capital (water, land etc resources) as will be described later.

#### **2.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?**

ESG analysis and criteria are directly taken into account in the definition of the Fund's investable universe. The equity investment universe in scope comprises mainly equities of the European Union but also OECD countries outside of it. This represents a list of ~1640 names.

This list of stocks is then reduced by excluding companies with a market value below €1 billion and a financial score inferior to the median score of the universe. The financial score is calculated based on our selection of financial ratios such as cash flow return on investment, operating margins and reinvestment rate. This financial screen aims at identifying companies with the most attractive long-term growth prospects. The investable universe is thereby reduced to a list of approximately 580 names.

The exclusions derived from ESG criteria further reduce the investable universe from approximately 580 stocks after the financial screening to approximately 430 names after screening on ESG criteria. This corresponds to an elimination of over 20% of companies based on ESG factors, reviewed quarterly and compliant with the specifications of the French SRI Label.

In parallel to this financial screen, an ESG assessment is undertaken to help identifying companies with most attractive long-term growth prospects. Indeed, we believe that substantial risks pertaining to ESG undermine the "most attractive long-term prospects" analysis. Hence, we use our START system and MSCI ESG ratings\* to assess companies' ESG risk profiles relative to their sector and systematically exclude CCC rated companies. MSCI rates companies on a AAA-CCC basis (AAA being the best).

<sup>3</sup>Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code): <https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000031793697>

In addition, companies with a BB rating or below will be excluded unless they can justify having a positive impact on society or the environment according to the United Nations sustainable development goals (SDGs). Indeed, we believe that satisfying the specific categories we identified from the SDGs is consistent with "most attractive long-term prospects". Therefore, independent of the relative screen implemented through MSCI ESG rating, we also use an absolute approach in assessing companies impact with regards to SDGs. The specific categories derived from the SDGs that we have chosen to focus on are the following:

Category	Areas to consider	Examples
<b>Basic needs</b>	Nutrition	Sustenance, sustainable nutrition, health and wellness
	Treating illness	Drugs/treatments, information provision
	Preventing illness	Exercise, diagnostics, drugs/treatments, information, responsible advertising
	Happiness	Satisfying non-destructive wants as well as needs, mental wellbeing, human rights
<b>Empowerment</b>	Availability of infrastructure	Buildings, civil infrastructure, telecom, internet
	Affordability of product/service	Food, travel, transportation, finance
	Education	Information provision to customers (ingredients, safety, responsible marketing)
	Safety and security	Security/protection real and cyber, product safety, health and safety
<b>Climate change</b>	Energy efficiency	Measured use of energy and saving energy
	Alternative energy	Activity in non-fossil fuel energy
	Fossil fuel	Minimal/reduced activity in fossil fuel
<b>Natural capital</b>	Usage of all-natural resources	Water, land, natural resources, food security, consumption, animal welfare
	Waste management	Production, usage, waste products, clean up
	Efficiency of production/consumption	Productivity, IT, digitisation, cyber security

*\* MSCI ESG Ratings is a proprietary methodology from MSCI. To arrive at a final rating (from AAA the best to CCC the worst) the weighted averages of the 37 Key Issue Scores covering 10 different themes (4 for Environment / 4 for Social / 2 for Governance) are aggregated and companies' scores are normalized relatively to their industries. These assessments of company performance are not absolute but are explicitly intended to be relative to the standards and performance of a company's industry peers. Carmignac is conscious that by monitoring 37 Key Issue Score the methodology cannot follow all the sustainable aspects from the development of companies but Carmignac ensures that this is the most appropriate one. Moreover, by defining a rating relatively to industry peers, the rating cannot be taken as the objective / inherent assessment of the Company approach in regards of sustainability. <sup>2</sup>The limit defined is rebased in % of the portfolio that has a MSCI ESG rating. For issuers, for which MSCI ESG does not issue any rating, the MSCI ESG Rating from the group the issuer belongs to is used.*

Companies are rated neutral, positive or negative based on this SDGs criteria assessment. Companies with a negative rating are excluded from the investable universe.

Moreover, we exclude from the investable universe the 2 levels of exclusions lists: The first exclusion list is adopted across all our fund range for equities and corporate credit.

Carmignac exclusion list:

- Controversial weapon manufacturers that produce products that do not comply with treaties or legal bans\*
- Tobacco producers. Wholesale distributors and suppliers with revenues over 5% from such products
- Thermal coal miners with over 10% revenues or 20 million tonnes from extraction
- Power generators that produce more CO<sub>2</sub>/kWh than the defined threshold\*\* or do not publish their CO<sub>2</sub> emissions despite having coal power plants
- Adult entertainment and pornography producers and distributors with over 2% revenues from such product
- International Global Norms violations including OECD Business Principle, ILO Principles and UNGC Principles.

Carmignac Portfolio Grande Europe exclusion list:**Energy Exclusions**

- Thermal coal producing companies with more than 10% sales directly derived from coal extraction
- Unconventional energy (1) companies deriving more than 1% of total production from unconventional energy sources
- Conventional oil energy production (2) companies are excluded
- Power generation companies must not exceed 408 gCO<sub>2</sub>/kWh carbon intensity or if data is not available cannot exceed:
  - Gas-fired – 30% production or revenue
  - Coal-fired – 10% production or revenue
  - Nuclear-fired – 30% production or revenue

**Ethical Exclusions**

- All Controversial weapon companies
- Conventional Weapons including components companies (10% revenue hurdles)
- All Tobacco producers. Wholesale distributors and suppliers 5% revenue threshold
- Adult Entertainment companies (2% revenue hurdle)
- Gambling companies (2% revenue hurdle)
- Norms based (3) exclusion including UN Global Compact violations human rights, labour rights, environment and corruption

Our Energy and Ethical policies are aligned with the Quality Standards of the Belgian SRI label

(1) Unconventional energy extraction sources: Tar/oil sands, shale oil, shale gas and Arctic drilling.

(2) Conventional energy extraction sources: oil and gas

(3) Companies that do not comply with: 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 Belgian Loi Mahoux, the ban on uranium weapons; 4. The Chemical Weapons Convention (1997) which prohibits the use, stockpiling, production and transfer of chemical 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) Biological Weapons Convention (1975) which prohibits the use, stockpiling, production and transfer of biological weapons I.

Exclusion lists are updated on a quarterly basis

Source Carmignac, October 2020

The Exclusion list called the CMGR watchlist is reviewed quarterly. The equity portfolio manager is responsible for a detailed ESG analysis and can consult the MSCI ESG company research database or other sources as a complement to his proprietary research. The European equity analyst and the ESG Analyst also undertake ESG analysis. For each analysis, an investable status is determined and documented in the Mackey RMS. Next to the ESG analysis, the relative MSCI ESG rating assessment and the Absolute sustainability assessment of the Sustainable Development Goals objectives are noted. The Portfolio Manager or analyst updates the progress the company is making towards the Environmental or Social goals identified by the portfolio manager. For example, 30/09/2020 for the company Schneider:

Company	Schneider
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MSCI rating	AAA
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SRI Contribution	Score	Rationale	Quantifiable Metrics / Measures
Basic needs	1	Schneider's energy management products help provide access to electricity within buildings & also ensure it can be used safely w/o hazards	- Company estimate up to 50% fewer reliability & safety incidents for customers using its products
Empowerment	0		
Climate change	0	Company is also committed to sustainability within its own operations & has led the industry on this	- 2020 goals incl: 80% renewable electricity use & 10% CO2 efficiency in transportation
Natural capital	1	Schneider develops products/solutions/software that provides buildings w/ significant energy efficiency & sustainability benefits and is the market leader in this type of offering	- Estimated energy efficiency improvement for customers = 30% on avg. (can be up to 65%) - 2020 goals incl. 120m metric tons of CO2 avoided by customers through their offers (FY19 = ~90m)
Total	2		
Absolute rating	Positive		
Investable	Y		

## 2.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

MSCI ESG Ratings are our public and portfolio guidelines reference for the portfolio. Where there is no coverage by MSCI, the equity investment team allocate a rating through the START system. Ratings by MSCI are updated annually. The ratings of the portfolio are updated for these ratings as they occur. The overall portfolio is monitored frequently for assessment of average ratings.

For equity strategies, we also monitor on an ongoing basis our assessment of the positive impact of companies with regard to SDGs. Particular comment alongside the ESG assessment and Absolute sustainability assessment is made on the measurable indicators for each company leading to a positive contribution to the specific SDGs the fund targets (basic needs, empowerment, climate change, natural capital)

Engagements occur directly with companies regarding E, S or G issues and are subject to a specific reporting via email or summary in the front office database (Mackey RMS). For companies we invest in, there are regular discussions and follow up of topics during meetings with the companies. When controversies occur, fund managers and equity analysts are responsible for the engagement and follow up with their respective companies.

The ESG Analyst can also assist fund managers to engage with a company on a specific topic or controversy. These are documented and visible to all investment staff in the front office database (Mackey RMS).



### 3. Investment process

#### 3.1. How are the results of the ESG research integrated into portfolio construction?

ESG research has a direct impact in portfolio construction. As discussed in the answer to question 2.5, we use ESG criteria along with the financial criteria in order to identify companies with the most attractive long-term prospects. In addition to further reducing the list of companies in the investable universe, the companies ESG assessment will also influence the weighting of holdings in the portfolio.

Both relative ratings from MSCI ESG and Absolute sustainability assessment on Sustainable Development Goals (SDGs) criteria can have a positive or negative impact on the sizing of equity positions. In addition, a minimum 40% of the Fund is invested in companies rated A or above by MSCI ESG and a maximum 30% of the Fund is invested in companies rated below BB by MSCI ESG. There are no CCC companies in the Fund.

#### 3.2. How are criteria specific to climate change integrated into portfolio construction?<sup>4</sup>

Carmignac Portfolio Grande Europe has proven to have very low level of fossil fuel involvement and specifically targets a carbon intensity of 30% below its reference indicator as measured by tCO<sub>2</sub>/ M USD (Scope 1 and 2, GHG Protocol) from October 2020.

- While the fund has successfully beat this target, in no way does the fund replicate any low carbon index members or sectors given its very non benchmarked nature. In the portfolio, Energy and Materials sector companies usually don't pass our financial criteria assessment which focuses on companies' capacity to high sustainable profitability coupled with reinvestment in their future growth. Secondly, the portfolio management team also applies additional screening in order to minimise exposure to fossil fuels. Coal producers' companies with more than 10% sales directly derived from coal extraction are excluded from the investment universe. Non-conventional oil companies deriving more than 1% of total production are also excluded. All oil based conventional energy companies are also excluded. Power generators that produce more CO<sub>2</sub>/kWh than the defined Paris Alignment threshold as mentioned in 1.4, or do not publish their CO<sub>2</sub> emissions despite having coal power plants, are excluded as well.

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<sup>4</sup> Reference to Article 173 of the French TECV Act and HLEG recommendations on DISCLOSURE



**Carbon footprint as of 30/09/2020:**

	Carbon intensity*	Fossil Fuels % revenue	Availability of carbon emissions data <sup>4</sup>
<b>Carmignac Portfolio Grande Europe</b>	<b>39.41</b>	<b>0.13%</b>	<b>91.10%</b>
Reference indicator**	222.07	1.39%	98.70%
Low Carbon Target (Emissions 30% lower vs the index)	155.45	0.97%	99.60%

\*To calculate the portfolio carbon emissions, the companies' carbon intensities (tonnes of CO<sub>2</sub>e /USD mn revenues converted to Euros, (Scope 1 and 2 GHG Protocol), S&P Trucost) are weighted according to their portfolio weightings (adjusted for holdings for which carbon emissions are not available), and then summed.  
 Source: S&P Trucost, Carmignac, October 2020.

\*\*Stoxx 600 (reinvested net dividendss, Carmignac, 30/09/2020.

### 3.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?<sup>5</sup>

MSCI ESG Ratings are our reference for company ratings for portfolio construction guidelines. Where there is no coverage by MSCI, the investment team allocate a rating using the START system. Ratings by MSCI are updated annually. The ratings of the portfolio are updated for these ratings as they occur. The overall portfolio is monitored frequently for assessment of average ratings.

### 3.4. Has the ESG evaluation or investment process changed in the last 12 months?

There is now a second proprietary rating system START that allows a comparative to MSCI ratings, with a broad coverage and aggregated data set and what we believe to be a superior peer group comparing: Capitalisations, Region - EM or DM, and 90 industry groups with 31 ESG indicators if there is coverage.

### 3.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

In Carmignac Portfolio Grande Europe, equity investments are also screened in view of the company's capacity to positively contribute to society. These positive contributions are assessed against criteria adapted from the SDGs specific to each company as described in the answer to question 2.5 Basic Needs and Empowerment. While investment opportunities vary and the component of companies having an impact on society is not subject to a specific quantitative target, these criteria will remain an important investment goal and is noted in each investment rationale and updated annually

### 3.6. Does (do) the fund(s) engage in securities lending activities?

The fund does not engage in Securities Lending

<sup>5</sup> Reference to Article 173 of the French TECV Act and the TCFD recommendations (delivering on investor and stakeholder demands for climate-related information)

### 3.7. Does (do) the fund(s) use derivative instruments?

The fund only uses equity derivatives for efficient portfolio management. The derivatives are subject to UCITS leverage limits and internal risk controls. Short selling of single stocks is not practiced in the funds.

### 3.8. Does (do) the fund(s) invest in mutual funds?

The Socially Responsible funds do not normally invest in other mutual funds other than the Carmignac Court Term money market fund for liquidity purposes.

## 4. ESG controls

### 4.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?<sup>6</sup>

There are 2 levels of control:

- **First level control:** The Responsible Investment team ensures the daily support to the Investment team and includes such responsibilities as oversight on appropriate screening and documentation for controversies, external ESG research provider accountability, active voting and engagement framework adherence, maintenance and control of controversial sector exclusion lists, ESG consultant services assessment, investor and statutory communication.
- **Second level control:** As the ESG thematic is fully integrated into the Annual Compliance Monitoring Program, the Compliance and Internal Control Department operates a second level of control and perform yearly reviews on the ESG activity to ensure our statutory, regulatory and commitments as UNPRI signatories are met. Moreover, the Compliance department takes an active role in ensuring company exclusions are adhered to. Excluded companies, sectors, and countries are predefined in our order management system to prevent transactions which compose part of our filtering process. Thanks to the compliance module in Bloomberg (CMGR), lists are set at a pre-trade level in Bloomberg AIM, the trading tool and any transaction is automatically blocked.  
The exclusions list exhaustiveness is reviewed quarterly by the Stewardship manager, Sustainability manager and the Compliance department. Ad-hoc reviews are also done at the discretion of the Sustainability team.

## 5. Impact measures and ESG reporting

### 5.1. How is the ESG quality of the fund(s) assessed?

Carmignac assess the ESG ratings of its SRI funds on a monthly basis. The ratings of the portfolio drawn from MSCI ESG ratings are compared against the Fund's benchmark. The distribution of weightings, the top holdings ratings and the holdings active weights are also given.

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<sup>6</sup> Reference to Article 173 of the French TECV Act

This report in English is posted on the Funds' webpages in English sites, but will soon be automated and aggregated into the financial factsheet, in all languages.

Frequent reviews are made by the ESG analyst of the portfolio ratings compared to the proprietary START and MSCI ESG ratings. This enables discussion and discrepancies to be discussed.

From October 2020 the yearly carbon reports will become monthly, showing t CO<sub>2</sub>/M USD revenue against the benchmark. Fossil fuel % revenues will be displayed in the SRI Guidelines – weighted for each holding – alongside the tCO<sub>2</sub>/ M USD revenues vs the benchmark and the 70% benchmark level to highlight that the 30% target has been met.

To calculate the portfolio carbon emissions, the companies' carbon intensities (tonnes of CO<sub>2</sub>e /USD mn revenues converted to Euros, (Scope 1 and 2 GHG Protocol), S&P Trucost) are weighted according to their portfolio weightings (adjusted for holdings for which carbon emissions are not available), and then summed.

S&P Trucost methodology: Trucost uses company disclosed emissions where available. In the instance it is not available, they use their proprietary EEIO model. The model uses the revenue breakdown of the company by industry sector to estimate the carbon emissions. For further information, please visit: [www.spglobal.com/spdji/en/documents/additional-material/faq-trucost.pdf](http://www.spglobal.com/spdji/en/documents/additional-material/faq-trucost.pdf). Although S&P Trucost does report Scope 3 emissions where available, such emissions are commonly considered to be poorly defined and inconsistently calculated by companies. As a result, we have chosen not to include them in our portfolio emission calculations.

## **5.2. What ESG indicators are used by the fund(s)?**

In addition to 30+ ESG indicators of company data that can be monitored on the Carmignac proprietary ESG system START, the Carmignac Portfolio Grande Europe fund tracks the progress of 5 specific E, S, G and Human Rights indicators for the fund, a set of quantifiable data points established as performance measures. They seek to compare and manage the evolution of these indicators against the reference index and across companies. They also serve to drive further research and corporate engagement.

The ESG & HR report can be accessed at [https://www.carmignac.co.uk/en\\_GB/funds/carmignac-portfolio-grande-europe/w-gbp-acc/documents-and-reports](https://www.carmignac.co.uk/en_GB/funds/carmignac-portfolio-grande-europe/w-gbp-acc/documents-and-reports)

## **5.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?**

Carmignac's mainstream ESG approach and the 7 SRI Funds are identified on Carmignac's SRI web page: [https://www.carmignac.lu/en\\_GB/responsible-investment/snapshot-4742](https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742)

Moreover, on each of these 8 Funds' web page, you will find 3 documents related to SRI:

- The "SRI Guidelines" which detail the Funds' SRI approach (from the investment universe screening to the monitoring of the portfolio)

- The “SRI Flyer” which provides an overview of the Funds’ SRI approach
- The Monthly ESG summary factsheet

These documents are oriented for retail investors. The annual reports of the Fund contains a full commentary on ESG issues and its ESG assessment.

- The results of the Funds (see 5.1.) studied for emissions are also thoroughly discussed in the respective Funds’ annual reports and in our SRI webpage:  
[https://www.carmignac.lu/en\\_GB/responsible-investment/snapshot-4742](https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742)
- Carbon emissions per Million USD invested, total carbon emissions and carbon intensity are detailed. In the annual report of 2020, the Fund carbon emission reference will be Carbon intensity to allow comparison across asset classes together with fossil fuel revenues

Carmignac’ s mainstream ESG approach, its specific Socially Responsible Funds and its low carbon approach to Carmignac Portfolio Grande Europe are identified on the Carmignac Socially Responsible website. [https://www.carmignac.lu/en\\_GB/our-fund](https://www.carmignac.lu/en_GB/our-fund)

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**GLOSSARY**


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ESG integration	Assess E, S and G risks and document them as part of investment rationale, engage with companies on ESG topics
Norms based screening	Respect globally recognised exclusions from EU or UN sanction lists and includes OECD Business Principles, ILO Principles and UNGC Principles.
Exclusions	Key hard exclusions are: controversial weapons, tobacco, coal (10% revenue limit), power generating companies not in line with the Paris Agreement
Active voting policy	High level of voting participation (target 100%)
Carbon emissions analytics	Monthly carbon emissions data vs benchmark
ESG analytics	Full assessment on E, S and G factors, scoring vs benchmark
SRI approach in prospectus	Fund adopts a Socially Responsible approach and implements ESG extra financial criteria in security selection
SRI label	Recognised SRI label certification and yearly audit by an appointed independent auditor
Low carbon approach	Carbon emissions targetted 30% below the fund's benchmark , fund avoids investments in fossil fuels, thermal coal
Extended exclusions	Additional exclusion lists such as for example conventional weapons, unconventional energy gambling, or animal cruelty
Best in universe	Best ESG practice irrespective of sector
Best efforts	Companies with improving ESG policies
Best in class	Best ESG practice within each sector
Green bond	Participate in sovereign or corporate Green bond issues
Positive impact	Investments made into companies with the intention to generate a measurable social and environmental impact alongside a financial return
Thematic approach	Funds with environment or social sustainability themes (renewable energy, promoting healthcare to underprivileged...). Often Positive Impact funds

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**5.4. Please list all public media and documents used to inform investors about the SRI approach to the fund and include URLs. This should include a link to the detailed, no more than 6 months old, list of holdings of the fund(s).**

- Fund's web page: [https://www.carmignac.com/en\\_US/funds/carmignac-portfolio-grande-europe/a-eur-acc/fund-overview-and-characteristics](https://www.carmignac.com/en_US/funds/carmignac-portfolio-grande-europe/a-eur-acc/fund-overview-and-characteristics)
- Web page dedicated to Responsible Investment : [https://www.carmignac.lu/en\\_GB/responsible-investment/snapshot-4742](https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742)
- Prospectus available on the Funds' web pages
- Semi-annual and annual reports available on the Funds' web pages
- KIID available on the Funds' web pages
- ESG and Human Rights indicator document available on the Funds' web pages
- Detailed positions composing the Funds available in the quarterly reports
- Documents available on the Fund's web page and on the SRI dedicated web page:
  - o ESG summary monthly factsheet
  - o SRI Flyer
  - o SRI Guidelines

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