Responsible Investment: Prism shift?

Maxime Carmignac, Managing Director
Sandra Crowl, Stewardship Director

CARMIGNAC
RISK MANAGERS

Carmignac: a family-owned business

A family business is not a business you inherit from your parents. It is a business you borrow from your children.

- **Controlled growth** since its inception in 1989
- Capital **100% owned** by family and employees
- Over **EUR 2Bn in equity capital***
- **Board of directors** with a majority of **external members**
- **Careful management of governance** with 4 committees deciding on long-term strategy

* As of 31/12/2019

Investing responsibly starts at the end

What is that end? : **our clients' needs and aspirations**

"Alice asked the Cheshire Cat, who was sitting in a tree, "What ESG ratings or data product should I buy?"

The cat asked, "Where do you want to go?"

"I don't know," Alice answered.

"Then," said the cat, "it really doesn't matter, does it?"

Source: SRI Connect, Mike Tyrrell 19/05/2020
https://www.linkedin.com/pulse/we-just-cant-close-our-research-phase-yet-mike-tyrrell?trk=read_related_article-card_title

Focus on 3 themes across the firm and the fund

CLIMATE CHANGE MITIGATION

- Measure our **firm carbon footprint** for action
- Promote low carbon portfolios but also invest in **transition to clean energy**

LONG-TERM ENTREPRENEURSHIP

- **Governance and leadership*** are the yin and the yang of successful organisations
- **Entrepreneurship instils purpose**

ENGAGED AT WORK

- **Corporate culture** is one of our best assets
- **Family business** co-owned by employees and family
- Invest in companies who **prioritise their human capital**

Source:Mark Goyder, founder of the think tank tomorrow's company

*https://quotepark.com/quotes/1813875-mark-goyder-governance-and-leadership-are-the-yin-and-the-yang/

Our responsible investment framework

Firm RI – applied to all Carmignac funds

Firm-wide exclusions	• Exclusions applied across all funds • Exclusions are based on ethical, climate or regulatory considerations
ESG integration	• A proprietary ESG research platform of companies globally • ESG analysis and scoring
Stewardship	• Policy to target 100% voting participation from 2020 • Engagement and voting policy for companies in line with our sustainability values

Enhanced ESG Funds – applied to a cross-section of funds

SRI funds

- SRI Exclusion Guidelines and other optional exclusions
- Invest in themes that are positive for Society or Environment*
- Most funds target a low carbon portfolio

Thematic ESG and impact funds

- Environmental, social, or governance-related thematic focus
- Positive screening to select investment universe
- Some funds have an Sustainability objective**, measurement and reporting

*These SRI funds could be classified as satisfying article 8, EU Disclosure Law
These thematic or impact funds could be classified as Article 9 , EU Disclosure Law - **Carmignac Portfolio Green Gold onlyhttps://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R2088&from=EN

Understanding our Fund range structure

		Enhanced ESG policy	
	Classic	**SRI funds**	**Thematic ESG**
	• 14 ESG integrated funds	• 5 SRI Funds	• 2 Thematic funds
ESG analysis	Proprietary ESG research system across equity and fixed income		
Voting	Target 100% voting participation 2020		
Engagement	Active engagement policy directly and through affiliations		
Screening	Corporate policy- negative screening	Extended fund-specific negative and positive screening and universe reduction	Corporate policy + fund-specific screening
Labels	Dependent on product	ISR / Febelfin Quality Standard	Dependent on product
Climate policy	Corporate policy*	Low Carbon approach for most funds	Dependant on strategy
Impact	Reporting dependent on product	ESG measurement and reporting	Impact objective, measurement, and reporting dependent on the fund
EU Fund Category	Basic ESG integration	E and S characteristic (Article 8)**	Sustainability objective ***(Article 9) **

Source:*
*https://www.carmignac.lu/en_GB/about-us/socially-responsible-investment-sri-3450
**EU regulation 2019/2088 27 November 2019 on sustainability-related disclosures in the financial services sector
https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R2088&from=EN
***Carmignac Portfolio Green Gold only

Case Study: How do we apply ESG at Carmignac?

Carmignac Portfolio Grande Europe

WHY THIS STRATEGY?

Europe offers fertile ground for investors in search of **hidden opportunities.** This requires an **actively managed, high conviction, concentrated** long only strategy.

A QUANTIFICATION OF QUALITY/GROWTH APPROACH

A **process,** that has been **successfully tested** for more than 16 years by Mark Denham, measuring quality/growth **through key metrics**

INNOVATION SLEEVE

Innovation does exist in Europe. For example, the **Biotech** segment is structurally overlooked by investors and may represent 8-9% of the Fund

SOCIALLY RESPONSIBLE TARGETING

SRI is part of our objective to capture companies with **attractive long-term prospects** and is **fully integrated in our process**

Mark Denham
Head of European Equities
28 years' experience

Source & Copyright: Citywire. Mark Denham rating is based on the manager's three year risk-adjusted performance across all funds the manager is managing to 31/07/2020. Citywire – Carmignac is Gold rated in the Equity-Europe Sector by Citywire for their rolling risk adjusted performance, across the sector, over the period 30/06/2013 – 30/06/2020. FE fundinfo Crown Fund Ratings do not constitute investment advice offered by FE fundinfo and should not be used as the sole basis for making any investment decision. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.
https://www.lelabelisr.fr/en/; https://www.towardssustainability.be/; https://www.febelfin.be/fr;
Socially Responsible Investment, https://www.carmignac.co.uk/en_GB/about-us/socially-responsible-investment-sri-3452
Source: Carmignac, 18/08/2020

Implementing SRI in the Investment Process in Line with our Long-Term Growth Focus*

INVESTMENT UNIVERSE

≈ 1600 European stocks

Market Value Assessment

Financial Ratios

Long Term Growth Prospects

INVESTABLE UNIVERSE ACCORDING TO FINANCIAL CRITERIA

≈ 560 stocks

ESG* Ratings

Exclusions

SDGs** Impact

SUSTAINABLE UNIVERSE

≈ 410 STOCKS

Carmignac Portfolio Grande Europe

*All the funds and underlying issuers are not concerned by this statement. For more details, please refer to: https://www.carmignac.co.uk/en_GB/about-us/socially-responsible-investment-sri-3452

**SDGs = United Nations Sustainable Development Goals.

Portfolio composition may vary overtime.

Data as of 30/09/2019. Source: Carmignac 31/03/2020

Carmignac Portfolio Grande Europe exclusion policies

ENERGY EXCLUSION POLICY

- **Coal** producing companies with more than 5% sales directly derived from coal extraction
- **Unconventional energy** (1) companies deriving more than 1% of total production from unconventional energy sources
- **Conventional energy production** (2) companies must have a minimum 40% revenue from **gas and/or renewable energy** (3)
- **Conventional oil energy production** companies are excluded
- **Power generation** companies must not exceed 429 gCO_2/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 EXCLUSION POLICY

- **All controversial weapon** companies
- **Conventional weapons including components** companies (10% revenue hurdles)
- **All tobacco** producers
- **Norms based** exclusion including UN Global Compact violations of human rights, labour rights, environment and corruption
- **Adult entertainment** companies (2% revenue hurdle)
- **Gambling** companies (2% revenue hurdle)

(1) Unconventional energy extraction sources: Tar/oil sands, shale oil, shale gas and Arctic drilling.
(2) Conventional energy extraction sources: oil and gas
(3) Renewable energy: biofuel, wind, solar, wave, geothermal, hydro, tidal.
Exclusion lists are updated on a quarterly basis
Source : Carmignac, November 2019

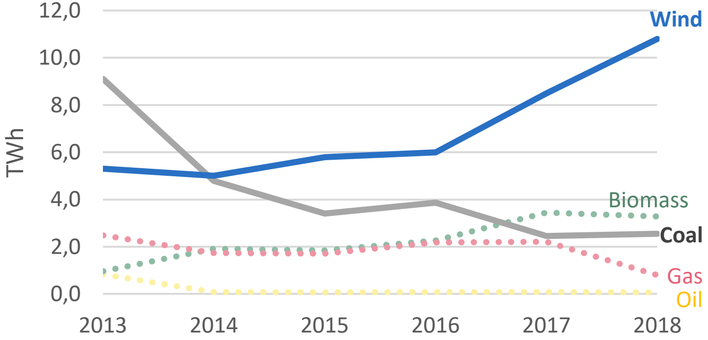
ESG Exclusion Traps

Beware of 'blind' exclusions

Orsted

Orsted produces and sells Coal **TRUE** so Orsted should be excluded from investments **FALSE**

- **Power Generation**: Orsted has decreased Coal Power in favour of Wind



- **Revenue**: Orsted has decreased Coal revenues, compensated by Wind
- **Inventories**: Orsted has reduced Coal stocks and increased Green certificates
- **Acquisitions**
  - **Lincoln Clean Energy (2018)**
    - To develop Onshore Wind power
  - **Deepwater Wind (2018)**
    - To strengthen Offshore Wind power

Take-away

Orsted is an active player in **energy transition** in Europe and should not be penalised for their Coal business which is being **phased out**

Source: Orsted 2018 Annual Report, 2018 Sustainability Report and company website

Transitioning will be the key to 2050 net zero

We believe:

- There is a **short-term need for coal** in the energy transition
- Power **producers must reduce their dependence** on coal
- A simple exclusion is too rigid, instead **we must support a gradual reduction in coal usage**

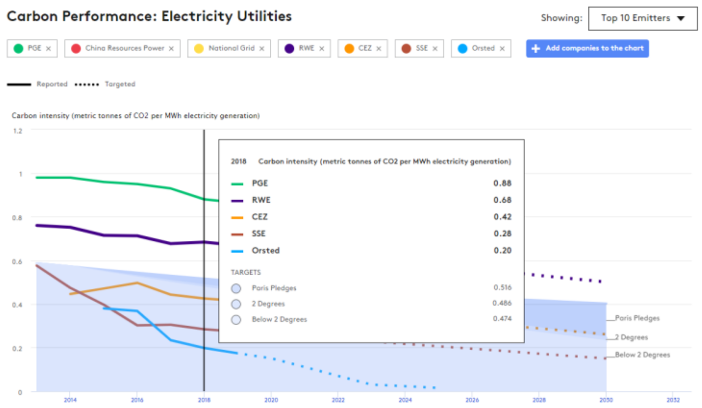
Our new policy under current approval for power generators across all our funds:

- We have **adopted criteria using gCO2/ kWh and recommended thresholds** by International Energy Agency (IEA), verified through several science-based sources
- We will consider making exceptions for power generators that have credible commitments to reduce and exit their coal-based production by 2030

IEA's recommended GT CO2/ kWh thresholds*

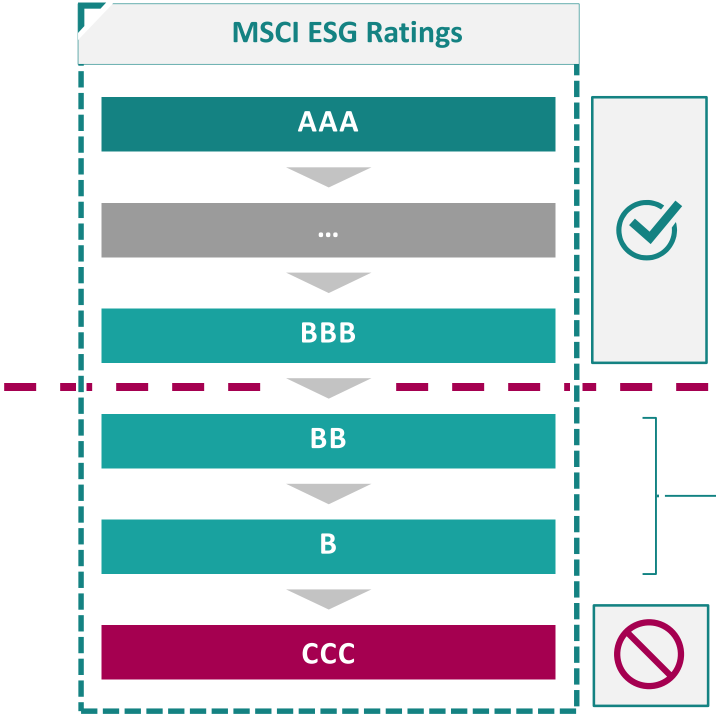
	2019	2020	2021	2022	2023	2024	2025
Max. gCO2/ kWh	429	408	393	374	354	335	315

Transition Pathway Initiative MT CO2/mWh**



Source: *Febelfin, Quality Standard, Feb 2019, IEA, 2017 Energy Technology Perspectives 2017
These thresholds are already implemented in our SRI funds' energy policy that can be found https://www.carmignac.lu/en_GB/about-us/socially-responsible-investment-sri-3450
**Transitionpathwayinitiative
https://transitionpathwayinitiative.org/tpi/sectors/electricity-utilities

ESG assessment - identifying companies with attractive long term growth prospects



Absolute Approach: Positive Impact Assessment

B & BB ratings excluded unless the company can justify positive impact on society according to criteria meeting UN SDGs

Categories*	Areas to consider
Basic needs	Nutrition
	Treating illness
	Preventing illness
	Happiness
Empowerment	Availability of infrastructure
	Affordability of product/service
	Education
	Safety and security
Climate Change	Energy efficiency
	Alternative energy
	Fossil fuel
Natural Capital	Usage of all natural resources
	Waste management
	Efficiency of production/consumption

*MSCI ESG Ratings is a proprietary methodology from MCSI. 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. **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. As of 31/12/2019, 99.8% of the holdings was subject to a rating in the tool MCSI ESG. ***Excluding warrants/ P-Notes and preference shares. SDGs: sustainabledevelopment.un.org, Source: Carmignac

ESG Assessment Matrix Combining Absolute and Relative Criteria

With:

Investable universe
Non-investable universe

% Equity Exposure

Carmignac Portfolio Grande Europe

Absolute assessment
(based on SDGs criteria)

Positive		0%	27%	38%
Neutral			16%	19%
Negative				
	CCC	B/BB/NR	BBB/A	AA/AAA

Relative assessment (based on MSCI ESG rating)

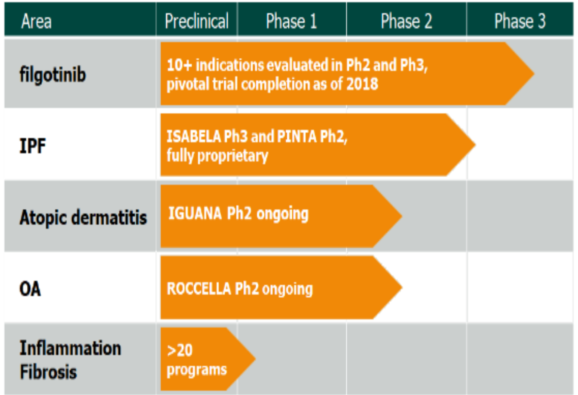
Calculations are made based on MSCI ESG ratings and positive impact assessment on society according to criteria meeting United Nations Sustainable Development Goal. As of 31/12/2019, 0% of our portfolio do not have an MSCI ESG rating due to a lack of coverage. Positions may vary over time *MSCI ESG Ratings is a proprietary methodology from MCSI. 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. **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. As of 31/12/2019, 99.8% of the holdings was subject to a rating in the tool MCSI ESG. ***Excluding warrants/ P-Notes and preference

Source: Rebased data, Carmignac, July 2020

How we evaluate Galapagos' contribution to society

Galápagos

Galapagos Pipeline



MSCI Rating	B

Impact	Score	Rationale	Quantifiable metrics
Basic needs	1	The company develops, makes and sells products that treat illness especially with a focus on unmet need eg in Pulmonary Fibrosis or Osteoarthritis	- # pre-clinical drug candidates generated since '09: 32, 37, 41, 44 (FY16, 17, 18, 19) - # clinical drug candidates generated since '09: 15, 17, 19, 22 (FY16, 17, 18, 19)
Empowerment	0	-	
Climate change	0	-	
Natural capital	0	-	
Total	**1**		

Absolute rating	Positive
Investable?	YES

Source: LHS Sources: LHS: Galapagos company presentation 2019*
RHS Carmignac, 27/08/2019

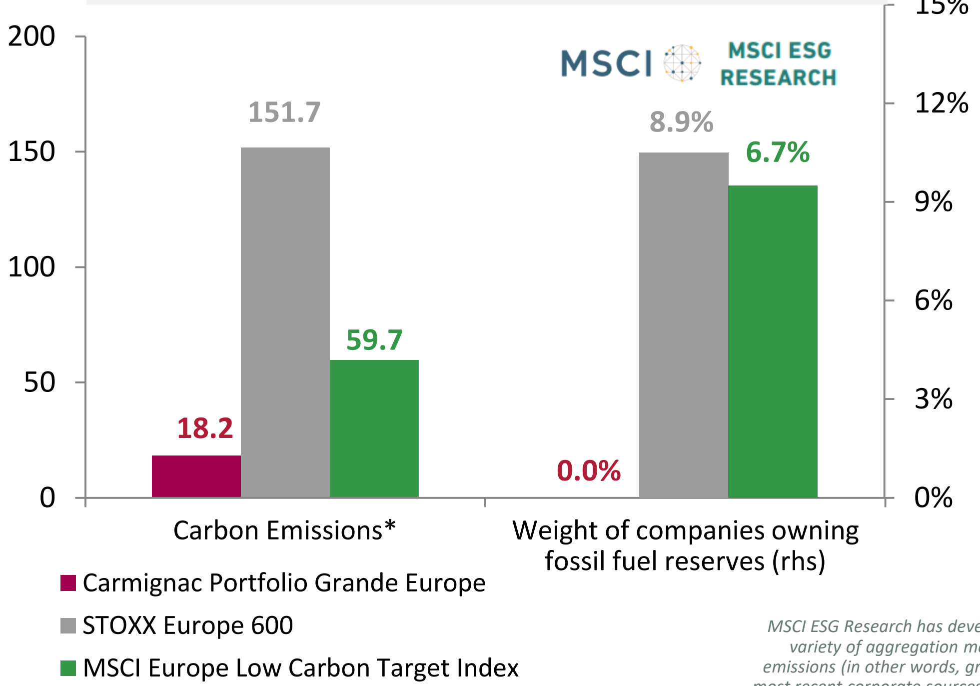
Galapagos’ engagement cross-check

Human capital risks and accounting risks can be inherent in young biomedical companies

Source: Carmignac, ESG Research 02/10/2019, RMSMakckey
https://carmignac.mackeyllc.com/#/company?query=tag:%22GLPG%20NA%22&read_id=706243

The metrics of our low carbon approach

Carmignac Portfolio Grande Europe
Carbon Footprint as of 31/12/2019



Carbon emission investment strategy

- We aim to achieve **emissions substantially lower** than both our **reference indicator** and the **MSCI Europe Low Carbon Target** index.
- Limiting investments in companies owning **fossil fuel reserves**
- Selecting companies that follow a more ambitious **carbon risk management** policy than their industry peers
- Investing in companies that offer **clean technology solutions**

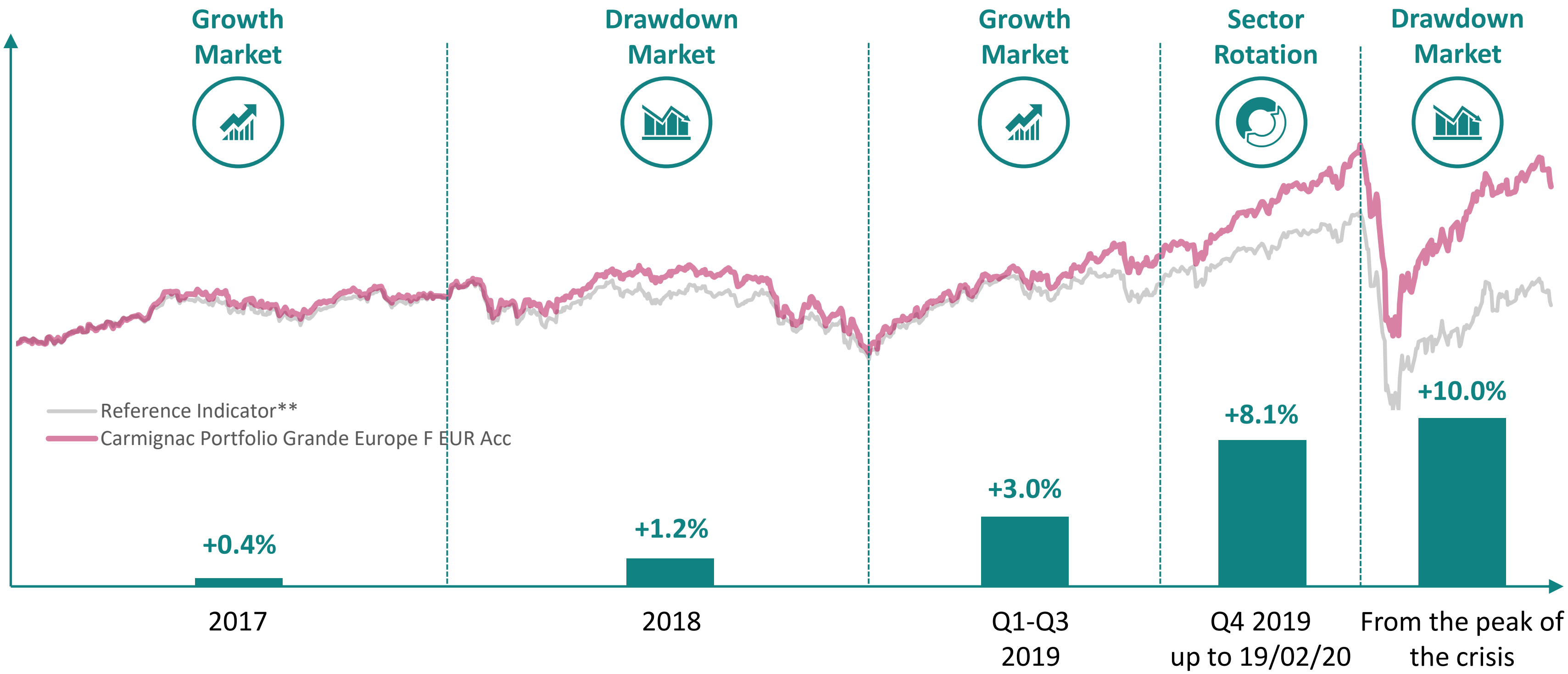
*Tons of CO2 equivalent per million dollars invested

MSCI ESG Research has developed a proprietary methodology in order to issue Carbon Portfolio Analytics, which is based on are based on a variety of aggregation methodologies of the underlying covered holdings from the portfolio in-scope. MSCI ESG Research collects carbon emissions (in other words, greenhouse gas emissions) data for the companies in our coverage universe. Data is collected once per year from most recent corporate sources, including Annual Reports, Corporate Social Responsibility Reports or websites. In addition, MSCI ESG Research uses the carbon emissions data reported through CDP (formerly the Carbon Disclosure Project) or government databases when reported data is not available through direct corporate disclosure. When companies do not disclose data, MSCI ESG Research refers proprietary methodologies to estimate Scope 1, Scope 2, Upstream Scope 3, and Downstream Scope 3 carbon emissions. By incorporating estimation in the methodologies used, Carmignac acknowledges that metrics determined could be assessed as relative rather than objective. Nevertheless, Carmignac confirms that the use of MSCI ESG Research permits to identify and follow the carbon emission of portfolios in comparison to relevant reference indicator or low carbon benchmark defined.

Source: MSCI Carbon Portfolio Analytics, Carmignac, 31/12/2019.

A successful approach in different market conditions*

Excess return of Carmignac Portfolio Grande Europe F EUR ACC vs ref indicator



*To note: Mark Denham took over the fund on the 17/11/2016. Data rebased as of 30/12/2016 **Stoxx Europe 600 (NR, EUR) The performance of the Fund shown above is net of all annual fees applicable on fund level. To achieve the assumed investment amount of EUR 100, an investor that was charged the maximum sales charge of 4 would have had to pay a total of EUR 104,00. Safe custody fees, if any, payable by such investor would further reduce investment returns. Past performance is not a guarantee for future results.Source: Carmignac, 31/07/2020.

Recommended minimum investment horizon: 5 years

Lower risk / Higher risk
Potentially lower return / Potentially higher return

1	2	3	4	5	6*	7

Carmignac Portfolio Grande Europe

Performance by Calendar Year

	2015	2016	2017	2018	2019	2020 (YTD)
Carmignac Portfolio Grande Europe F EUR Acc	-0.76%	+5.08%	+11.00%	-9.61%	+35.49%	+0.37%
Reference Indicator*	+9.60%	+1.73%	+10.58%	-10.77%	+26.82%	-12.96%

Annualized	3 years	5 years	10 years
Carmignac Portfolio Grande Europe F EUR Acc	+7.91%	+5.02%	n.a.
Reference Indicator*	+0.70%	+0.58%	n.a.

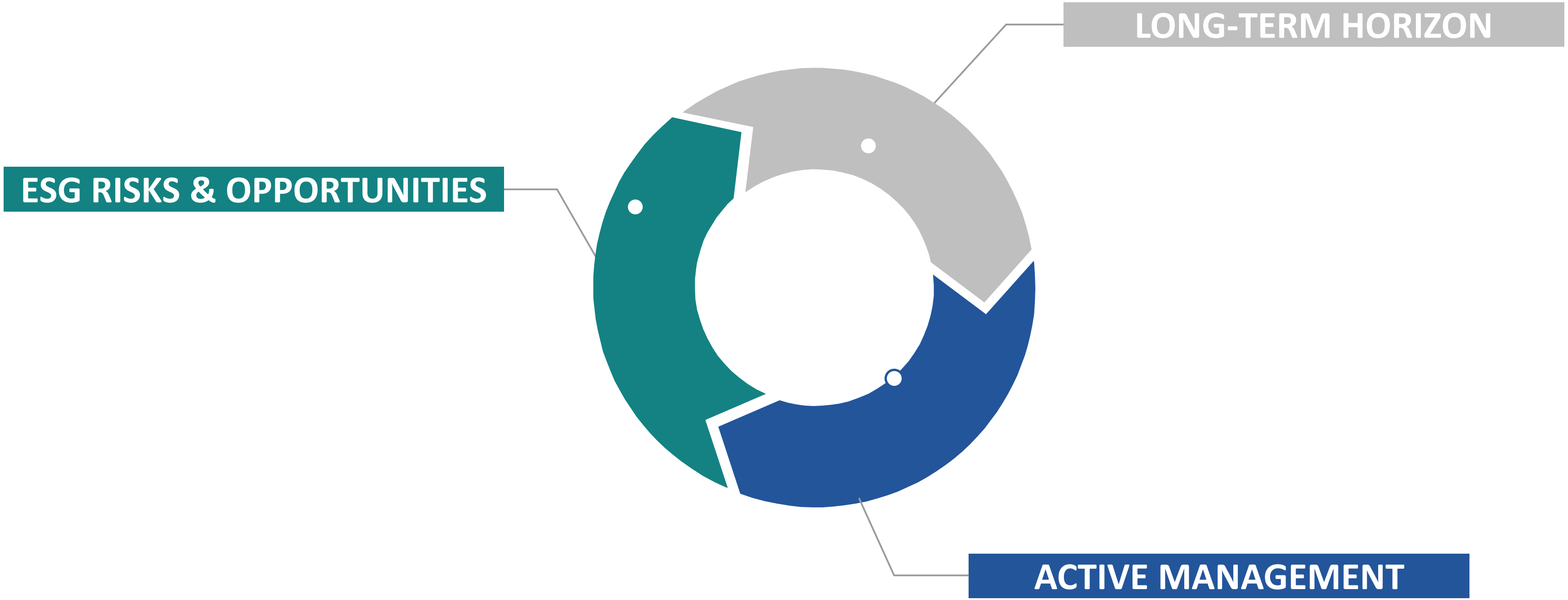
Mark Denham

2016: Carmignac – Head of European Equities, Fund Manager

2017: Carmignac Portfolio Grande Europe in line with Mark's strategy and approach

*Stoxx Europe 600 (NR, EUR). From 01/01/2013 the equity index reference indicators are calculated net dividends reinvested. Share class used for Carmignac Portfolio Grande Europe: F EUR Acc. The performance of the Fund shown above is net of all annual fees applicable on fund level. To achieve the assumed investment amount of EUR 100, an investor that was charged the maximum sales charge of 4 would have had to pay a total of EUR 104,00. Safe custody fees, if any, payable by such investor would further reduce investment returns. Past performance is not a guarantee for future results. The return may increase or decrease as a result of currency fluctuations. Source: Carmignac, 31/07/2020.

Actively managed ESG considerations are inherently linked to long-term performance



Main risks of the fund

Carmignac Portfolio Grande Europe

Recommended minimum investment horizon: 5 years

Lower risk						Higher risk
Potentially lower return						Potentially higher return
1	2	3	4	5	6*	7

Equity
The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

Currency
Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

Discretionary management
Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.

Share class F EUR Acc

Source: Carmignac at 15/07/2019
Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment.
This indicator may change over time.

Haftungsausschluss

Dieses Dokument ist für professionelle Kunden bestimmt. Dieses Dokument darf weder ganz noch teilweise ohne vorherige Genehmigung durch die Verwaltungsgesellschaft reproduziert werden. Es stellt weder ein Zeichnungsangebot noch eine Anlageberatung dar. In diesem Dokument enthaltene Informationen können unvollständig sein und ohne Vorankündigung geändert werden.

Die Bezugnahme auf bestimmte Werte oder Finanzinstrumente dient als Beispiel, um bestimmte Werte, die in den Portfolios der Carmignac-Fondspalette enthalten sind bzw. waren, vorzustellen. Hierdurch soll keine Werbung für eine Direktanlage in diesen Instrumenten gemacht werden, und es handelt sich nicht um eine Anlageberatung. Die Verwaltungsgesellschaft unterliegt nicht dem Verbot einer Durchführung von Transaktionen in diesen Instrumenten vor Veröffentlichung der Mitteilung. Die Portfolios der Carmignac-Fondspalette können ohne Vorankündigung geändert werden.

Carmignac Portfolio bezieht sich auf die Teilfonds der Carmignac Portfolio SICAV, einer Investmentgesellschaft luxemburgischen Rechts, die der OGAW-Richtlinie entspricht. Für bestimmte Personen oder Länder kann der Zugang zu den Fonds beschränkt sein. Sie dürfen insbesondere weder direkt noch indirekt einer „US-Person" wie in der US-amerikanischen „S Regulation" und/oder im FATCA definiert bzw. für Rechnung einer solchen US-Person angeboten oder verkauft werden. Die Fonds sind ist mit einem Kapitalverlustrisiko verbunden. Die Risiken und Kosten sind in den Wesentlichen Anlegerinformationen (WAI) / im Kundeninformationsdokument (KID) beschrieben. ● **Für Deutschland :** Die Prospekte, WAI und Jahresberichte des Fonds stehen auf der Website www.carmignac.de zur Verfügung und sind auf Anforderung bei der Verwaltungsgesellschaft bzw. Die Wesentlichen Anlegerinformationen sind dem Zeichner vor der Zeichnung auszuhändigen.

MSCI ESG Ratings is a proprietary methodology from MCSI. 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 followed all the sustainable aspects from the development of companies but Carmignac ensure that it is the most appropriate ones.

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.

CARMIGNAC GESTION – 24, place Vendôme - F - 75001 Paris – Tél : (+33) 01 42 86 53 35
Von der AMF zugelassene Portfolioverwaltungsgesellschaft – Aktiengesellschaft mit einem Grundkapital von 15.000.000 Euro - Handelsregister Paris B 349 501 676

CARMIGNAC GESTION Luxembourg – City Link - 7, rue de la Chapelle - L-1325 Luxembourg – Tel : (+352) 46 70 60 1
Tochtergesellschaft der Carmignac Gestion. Von der CSSF zugelassene Investmentfondsverwaltungsgesellschaft Aktiengesellschaft mit einem Grundkapital von 23.000.000 Euro - Handelsregister Luxembourg B67549