

SRI Guidelines

Carmignac Portfolio Emerging Market Debt

February 2022



***SFDR: EU Regulation 2019/2088 sustainability-related disclosure requirements in the financial services sector. For more information, please visit: [EUR-lex](#).*

Carmignac's Overarching Sustainable Framework



Firm

- Our operations are Carbon neutral 2019¹
- Office Environmental practices
- UNPRI signatory 2012

3 key engagement themes

- Climate Change
- Empowerment
- Leadership

Firm-wide exclusions

- Tobacco Free supporter
- Coal exclusions and total coal exit 2030
- Energy investments aligned to Paris Agreement

100% ESG integration

- All portfolio managers and analysts are responsible for ESG integration

100% voting

- Fulfil our fiduciary duty
- Represent our shareholders rights

19 RI fund labels

- Rigorous 3rd party audit
- French ISR²
- Belgian Towards Sustainability³

ESG Platform START⁴

- Multiple source ESG indicators
- Proprietary scoring and analysis
- Smart interface for all PM ESG requirements

90% Article 8 and 9 (SFDR⁵)

- 17% Article 9 funds
- Over 70% Article 8 funds

¹ Scope 1, 2 and Scope 3 (business travel and IT services). For more information please consult https://www.carmignac.lu/en_GB/responsible-investment/snapshot-4742

² French Label ISR. For further information, please visit <https://www.lelabelisr.fr/en/>

³ Belgian Label Towards Sustainability. For further information, please visit: <https://www.towardsustainability.be>

⁴ 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

⁵ SFDR: Sustainable Finance Disclosure Regulation (EU) 2019/2088, assets under management as of January 2022, Source: Carmignac

Carmignac Portfolio EM Debt¹ at First Glance

OUR OBJECTIVE FOR INVESTORS

GENERATING THE BEST RISK-ADJUSTED RETURNS IN THE EM BOND SPACE
WHILE HAVING A POSITIVE IMPACT ON SOCIETY AND THE ENVIRONMENT

OUR TARGET

CARMIGNAC PORTFOLIO EM DEBT AIMS TO PROVIDE CAPITAL TO EMERGING
SOVEREIGNS AND CORPORATES THAT WILL DRIVE THEIR SUSTAINABLE DEVELOPMENT

¹ Carmignac Portfolio EM Debt is the new name of Carmignac Portfolio Unconstrained EM Debt since 10/03/2021
The Fund's objectives, investment strategy, risk management and fee structure remain unchanged
The fund investment objective is to outperform its reference indicator, calculated with coupons reinvested over a
minimum investment period of three years. JP Morgan GBI – Emerging Markets Global Diversified Composite
Unhedged EUR Index (JGENVUEG)
Source: Carmignac, September 2021

Carmignac Portfolio EM Debt¹ : ESG Criteria is Central in the Decision-Making Process

Carmignac Portfolio EM Debt's investment process



Systematic Signals

Looking at a mix of **systematic signals** which combine asset prices and macro variables, enabling to assess if a fixed income instrument (local debt, external debt, currencies) is rich or cheap relative to the macro fundamentals. Systematic signal examples: spread vs debt as years of revenues, budget deficit, rating, debt-to-GDP, current account, etc.



Hands-on Analysis

On the ground analysis to decide whether a relatively “cheap” asset is worth buying or a “rich” one worth selling by **engaging directly with local authorities** (ie political and central banks leaders, top companies' management) and the **financial community** (sell side + buy side).



ESG Assessment & Monitoring

Proprietary ESG scoring system for EM countries that focuses primarily on the dynamics with regards to ESG factors. As consideration of ESG issues does not end when the investment decision is made, the management team continuously reviews their investment ESG features through the tracking of key metrics.

¹ Carmignac Portfolio EM Debt is the new name of Carmignac Portfolio Unconstrained EM Debt since March 10th, 2021. The Fund's objectives, investment strategy, risk management and fee structure remain unchanged.
ESG = Environment, Social & Governance.
Source: Carmignac, 10/03/2021

Fixed income approach to socially responsible investment¹



Sovereign bonds

- ✓ Respect norms-based country exclusions
- ✓ Global country sanction list configured in portfolio management system
- ✓ Proprietary qualitative sustainable sovereign rating
- ✓ Seek sovereign bonds of country whose governments are raising the standards of governance
- ✓ Ongoing assessment of countries' governance sustainability
- ✓ **Proprietary EM Sovereign ESG Scoring System** supporting the management team to deliver returns by funding countries which are improving their environmental impact on the planet, their social impact on their population as well as their overall governance



Corporate bonds

- ✓ Filter the investment universe for financial and extra-financial criteria
- ✓ Assess company ESG risks, documented under specific ESG section in our ESG research system START²
- ✓ Respect firm-wide exclusions
- ✓ Engage with companies on E, S, G issues before and during investments and including during controversies

ESG = Environment, Social & Governance

¹ All the funds and underlying issuers are not concerned by this statement. For more details, please refer to: https://www.carmignac.com/en_US/responsible-investment/in-practice-4744

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
Source: Carmignac, 10/03/2021

Measurable ESG Objective: Proprietary Emerging Market Sovereign ESG Scoring System

SFDR Fund
Classification**

Article **9**

» WHAT?

- **Numerical scoring system** that goes from 1 (Bad) to 5 (Good) with 3 as a neutral point.
- Country score composed of the equally weighted average of the three components E, S, and G.

» WHY?

- **Article 9 fund**
- The model allows to **identify the causes of poor-performance for countries under difficulties and vice-versa.**
- **Methodology that contrasts with industry practice** as competitors tend to assign a high ESG score to the more developed countries
- **Lack-of-quality information in Emerging Market Debt.** Plus, available information tends to focus on static country situations and not on their trajectories

» HOW?

- **Each of E,S & G components is the average of their sub-components.** If a sub-component has a Static and Dynamic score they are averaged before being included in the component average calculation.
- **Fund score is then aggregated** as the weighted average of the country score and the exposure of the positions.

Proprietary Sovereign ESG Scoring System for Sovereign issuers

OBJECTIVE

- Identify ESG related risks and opportunities and integrate them in investment decisions

METHODOLOGY

- ESG indicators obtained from public sources such as the World Bank, Oxford University, IMF
- Numerical scoring system that goes from 1 (Bad) to 5 (Good) with 3 as a neutral point for each country.
- Country score composed of the equally weighted average of the three components E, S, and G.
- Each of these components is the average of their sub-components. A Static and Dynamic dimension is included which captures and weights improving (dynamic) ES & G indicators

INDICATORS IMPACT model

Environment

Long-term social improvements that drive growth and stability

- ▶ CO2 per capita
- ▶ Share of Renewables

Social

Capturing investment in climate mitigation and sustainable development

- ▶ GDP per capita PPP¹
- ▶ GINI²
- ▶ Life expectancy
- ▶ Education

Governance

Credit Worthiness, Rule of Law, institution & regulatory quality and control of corruption

- ▶ Ease of doing business
- ▶ Debt as years of Revenue Position
- ▶ Fiscal and Current account situation



MANUAL ADJUSTMENT FACTOR³ THAT MANAGEMENT TEAM CAN USE TO CORRECT ON AN AD HOC BASIS EACH OF THE E, S, AND G FACTORS FOR A COUNTRY

1. Gross domestic Product per capita purchasing power parity

2. GINI: Inequality index developed by Conrado GINI.

3. While the management team is aiming at having a transparent and thus relatively simple index, there are aspects that are not captured. Typically, these would be the impact of recent events not yet reflected in the data or that the data available does not cover fully the situation

Source: Carmignac, 31/03/2021

Proprietary Emerging Market Sovereign ESG Scoring System “Impact Model”

#	Criteria	Sources	Weights
Environmental			
1	CO ₂ emissions per capita	Our World In Data – Oxford University	33%
2	Share of Renewables in total installed capacity	BNEF (Bloomberg New Energy Finance)	33% (with a malus for high or increasing coal usage)
3	Ambient PM2.5 (fine particules)	Institute for Health Metrics and Evaluation	33%
Social			
4	Life expectancy at birth of both sexes	World Bank	25%
5	GINI ¹ – income coefficient	World Bank	25%
6	Education (PISA & Litteracy rate)	PISA (Reading, Maths, Science) – OECD Litteracy Rate – World Bank	25%
7	HDI	United Nations - Development Programme	25%
Governance			
8	Ease of Doing Business	World Bank	25%
9	Fiscal Position (deficit as % GDP)	IMF	25%
10	Debt as Years of Revenue	Gross Debt to GDP and Revenue to GDP – IMF	25%
11	Current Account Position	Current Account to GDP – IMF	25%

**MANUAL ADJUSTMENT FACTOR² THAT MANAGEMENT TEAM CAN USE TO CORRECT
ON AN AD HOC BASIS EACH OF THE E, S, AND G FACTORS FOR A COUNTRY**

¹ GINI: Inequality index developed by Conrado GINI.

² While the management team is aiming at having a transparent and thus relatively simple index, there are aspects that are not captured. Typically, these would be the impact of recent events not yet reflected in the data or that the data available does not cover fully the situation.

Source: Carmignac, 10/03/2021.

Proprietary Emerging Market Sovereign ESG Scoring System Example



CHILE

Impact scoring system at Country's level	
CO2 per Capita	3.00
Share of Renewables	4.00
Adjustment ¹	
ENVIRONMENT	3.50
Life Expectancy	2.00
GDP Per Capita PPP	3.00
GINI Coefficient	3.50
Education	4.00
Adjustment	
SOCIAL	3.13
Ease of Doing Business	3.00
Fiscal Position	3.00
Debt Position	2.50
Current Account Position	2.50
Adjustment	
GOVERNANCE	2.75
TOTAL	3.13

Fund score aggregated as the weighted average of the country score



ESG scoring system at CEMD's level			
	% Exposure >3	% Exposure >2.6	Weighted Average Fund Score
Sovereign & Quasi Sovereign Debt	75.88%	100.00%	3.22
Sovereign Debt	87.79%	100.00%	3.31

Sustainable objective portfolio rules (for the sovereign part of the portfolio) :

- **60% above a score of 3**
- **90% above to a score of 2.6**
- **Average exposure weighted score above 3**

¹ While the management team is aiming at having a transparent and thus relatively simple index, there are aspects that are not captured. Typically, these would be the impact of recent events not yet reflected in the data or that the data available does not cover fully the situation. For illustrative purpose, composition of the portfolio may vary at any time. Source: Carmignac, 31/01/2021

Corporate Bond Approach to Socially Responsible Investment¹

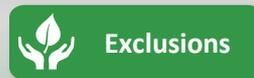
EMERGING CORPORATE BOND UNIVERSE²

≈ 700 issuers



INVESTABLE UNIVERSE ACCORDING TO FINANCIAL CRITERIA

≈ 320 issuers



SUSTAINABLE EMERGING CORPORATE
BOND UNIVERSE

≈ 250 issuers

Macro
Level

Micro
Level

 Carmignac Portfolio
EM Debt

¹ All the funds and underlying issuers are not concerned by this statement. For more details, please refer to: https://www.carmignac.com/en_US/responsible-investment/in-practice-4744 2.Universe: JPM CEMBI Index (USD). Portfolio composition may vary overtime. Data as of 30/09/2021. Source: Carmignac, October 2021.

² Carmignac Portfolio EM Debt is the new name of Carmignac Portfolio Unconstrained EM Debt since March 10th, 2021. The Fund's objectives, investment strategy, risk management and fee structure remain unchanged

Exclusions Across All Funds



Exclusions

Our exclusions policy

Our exclusion list contains companies and sectors that are excluded due to their **activities** or their **business norms**.

This policy applies to **all funds** where Carmignac acts as an investment manager

Firm-wide hard restrictions

(transactions are prohibited and blocked on trading tools)

- ✘ **Controversial weapon manufacturers** that produce products that do not comply with treaties or legal bans¹
- ✘ **Tobacco producers. Wholesale distributors and suppliers** with revenues over 5% from such products
- ✘ **Thermal coal miners** with over 10% revenues from extraction
- ✘ **Power generators** that produce more CO₂/kWh than the defined threshold² or do not publish their CO₂ 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.

¹ 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

² In line with the 2 ° C scenario suggested by the IEA or new coal/nuclear build or Gas>30%, Coal >10%, Nuclear >30% revenues if CO₂ data not available

Please refer to Carmignac's exclusion policy for further detail :

https://www.carmignac.com/en_US/responsible-investment/template-hub-policies-reports-4528

Exclusion lists are updated on a quarterly basis

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The recommended investment horizon is a minimum and not a recommendation to sell at the end of that period.

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Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law. The Management Company can cease promotion in your country anytime.

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In Switzerland: the prospectus, KIIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon.

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