

SFDR Fund
Classification**



SRI Guidelines

Carmignac Portfolio Flexible Bond

January 2022

Carmignac's Overarching Sustainable Framework¹



Firm

- Our operations are Carbon neutral since 2019²
- Office Environmental practices
- UNPRI signatory 2012

3 key engagement themes

- Climate Change
- Empowerment
- Leadership

Do No Harm

- 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 labels³

- Rigorous 3rd party audit
- French ISR⁴
- Belgian Towards Sustainability⁵

ESG Platform START⁶

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

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

² 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

³ RI Labels: Not all Carmignac funds are concerned with this statement

⁴ French Label ISR. For further information, please visit <https://www.lelabelisr.fr/en/>

⁵ Belgian Label Towards Sustainability. For further information, please visit: <https://www.towardsustainability.be>

⁶ 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

Carmignac Portfolio Flexible Bond – Article 8 Fund with the French label accreditation

The fund has environmental (E) and social (S) characteristics according to Article 8 of EU REGULATION 2019/2088 (SFDR Sustainable Finance Disclosure Regulation)

Label supported by the French¹ government

Accredited upon a strict audit run by an independent body

Label renders SRI² products more visible for investors in France and across Europe



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

¹ Label obtained in September 2021. For further information, please visit <https://www.lelabelisr.fr/en/>

² Socially Responsible Investment

Environmental, Social and Governance (ESG) Risks

Analysis & Monitoring Embedded in the Investment Process



¹ The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. 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, 01/01/2022

Our Internal ESG Guidelines



Portfolio universe definition

For the Corporate bond portion of portfolio:

- ▶ Universe reduced by a minimum of 20%¹ through
 - Firm-Wide exclusions
 - Excluding poorly ESG-rated companies (using MSCI² and START³ scores)



Integration of ESG criteria

- ▶ Minimum 90% of portfolio holdings (equity and corporate debt) are analysed for ESG risks and opportunities
- ▶ Corporate bonds - ESG research system START used to centralize raw ESG Data, proprietary scoring and revenue impact for issuers
- ▶ Govt debt- Proprietary ESG scoring system used to monitor and score government issuers' debt through environmental, social and governance factors



Engagement

- ▶ We commit to a strengthened dialogue with companies and countries to improve their approach to ESG issues aligned with our corporate themes⁴

SFDR Category

- ▶ The fund has environmental (E) and social (S) characteristics. It complies with Article 8 of the EU Regulation No. 2019/2088 under the EU Sustainable Finance Disclosure Regulation (SFDR)

¹ B and CCC MSCI-rated companies are excluded, as are companies with less than 2/10 MSCI Environment and Social score, unless the proprietary score START is A, B or C

² 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

³ The proprietary ESG system 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

⁴ Please refer to our ESG-related themes at https://www.carmignac.lu/en_GB/responsible-investment/our-approach-4743
Source: Carmignac, January 2022

How do we comply with Article 8?

4 key elements for the corporate bond section of the portfolio



ASSESS ESG RISK

Assessing ESG risk on all asset classes (proprietary tool START¹)



FIRM-WIDE EXCLUSIONS

(Coal, High CO2 power companies, Tobacco, Adult entertainment, Controversary arms...)



ENGAGING

... with companies and issuers on ESG-related topics



REDUCING THE INVESTMENT UNIVERSE 20%

Exclude CCC & B MSCI-rated companies, unless START rating A-B-C

Exclude companies with an E or S pillar score of $\leq 2/10$, unless START rating A-B-C

¹ The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. 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, 01/01/2022

Going Beyond ESG Integration (Corporate Bonds)



¹ Investment Universe: ICE BofA Global Corporate Index, ICE BofA Global Non-Financial High Yield Index, ICE BofA Emerging Markets Corporate Plus Index
Portfolio composition may vary overtime
The investable universe is reviewed on a quarterly basis
Source: Carmignac, January 2022

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)

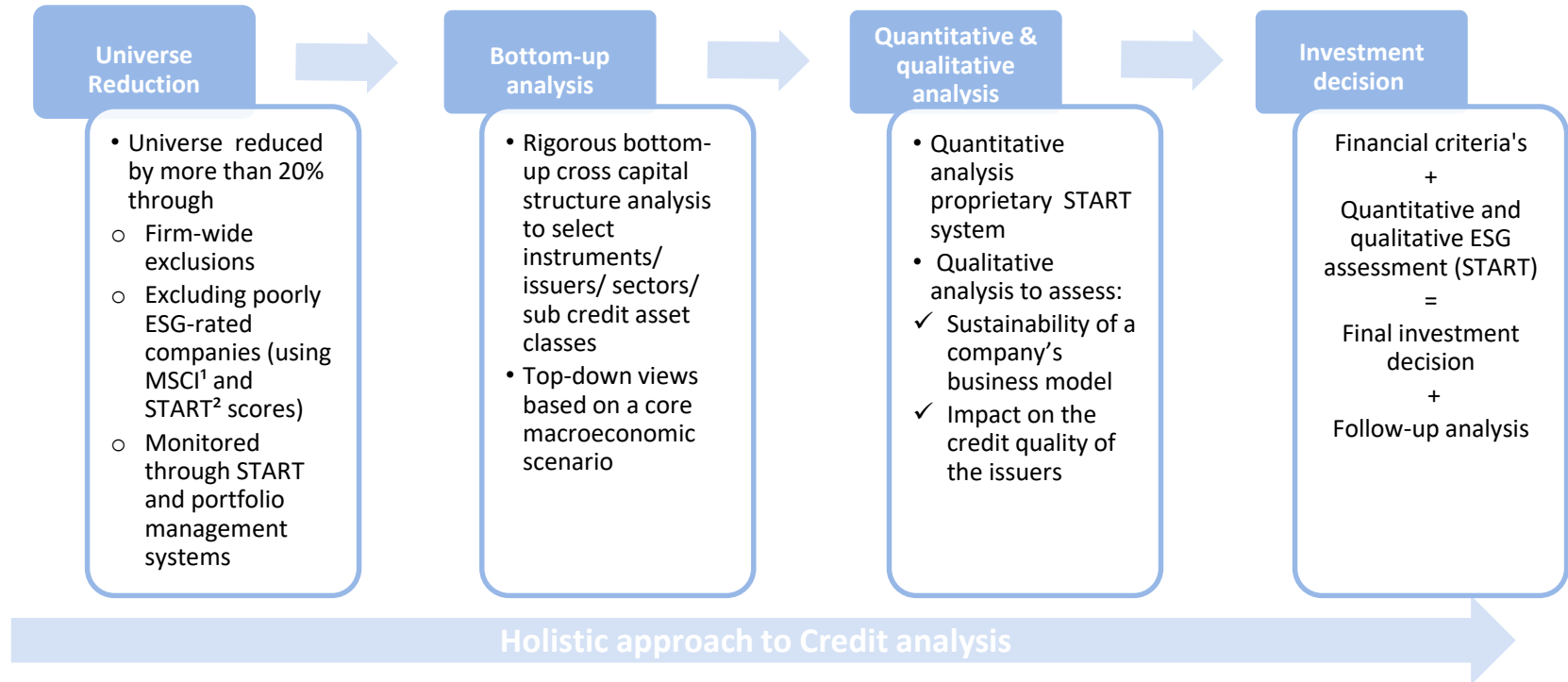
- ✘ **Controversial weapon manufacturers** that produce products that do not comply with treaties or legal bans ¹
- ✘ **Tobacco producers. Wholesale distributors and suppliers** with revenues over 5% from such products
- ✘ **Thermal coal miners** with over 10% revenues from extraction or 20 million tonnes from extraction
- ✘ **Power generators** that produce more CO₂/kWh than the defined threshold, ² 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.lu/en_GB/responsible-investment/policy
Exclusion lists are updated on a quarterly basis

Corporate Bonds ESG Approach

ESG integration for Corporate bonds



¹ 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 relative 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 Issues, 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 relative to industry peers, the rating cannot be taken as the objective / inherent assessment of the Company approach in regard to sustainability

² The proprietary ESG system START combines and aggregates market leading data providers ESG indicators 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, January 2022

Proprietary ESG Scoring System START¹ for Corporate Issuers

OBJECTIVE

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

METHODOLOGY

- **Group:** We compare a company vs. its peers to decide on which have similar significant stakeholders. Regrouping by region and size to constitute our own ESG peer groups
- **Collect:** We gather large quantities of raw data from specialised sources such as company reported data and controversies. This data is automatically transferred into START
- **Rank:** Companies are ranked within their ESG peer group based on financially material ESG metrics to provide a baseline quantitative rating of A-E
- **Analysis:** Our analysts use their in-depth company and industry knowledge and quantitative and qualitative analysis to provide unique insights and input

ESG INDICATORS

Environment

Capturing investment in climate mitigation and sustainable development

- ▶ Carbon Emissions
- ▶ Carbon Intensity
- ▶ Total Energy Use/ Revenues
- ▶ Water Use/ Revenues

Social

Long-term social improvements that drive growth and stability

- ▶ % Employee Satisfaction
- ▶ Employee Turnover
- ▶ Female Managers
- ▶ Employee Fatalities

Governance

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

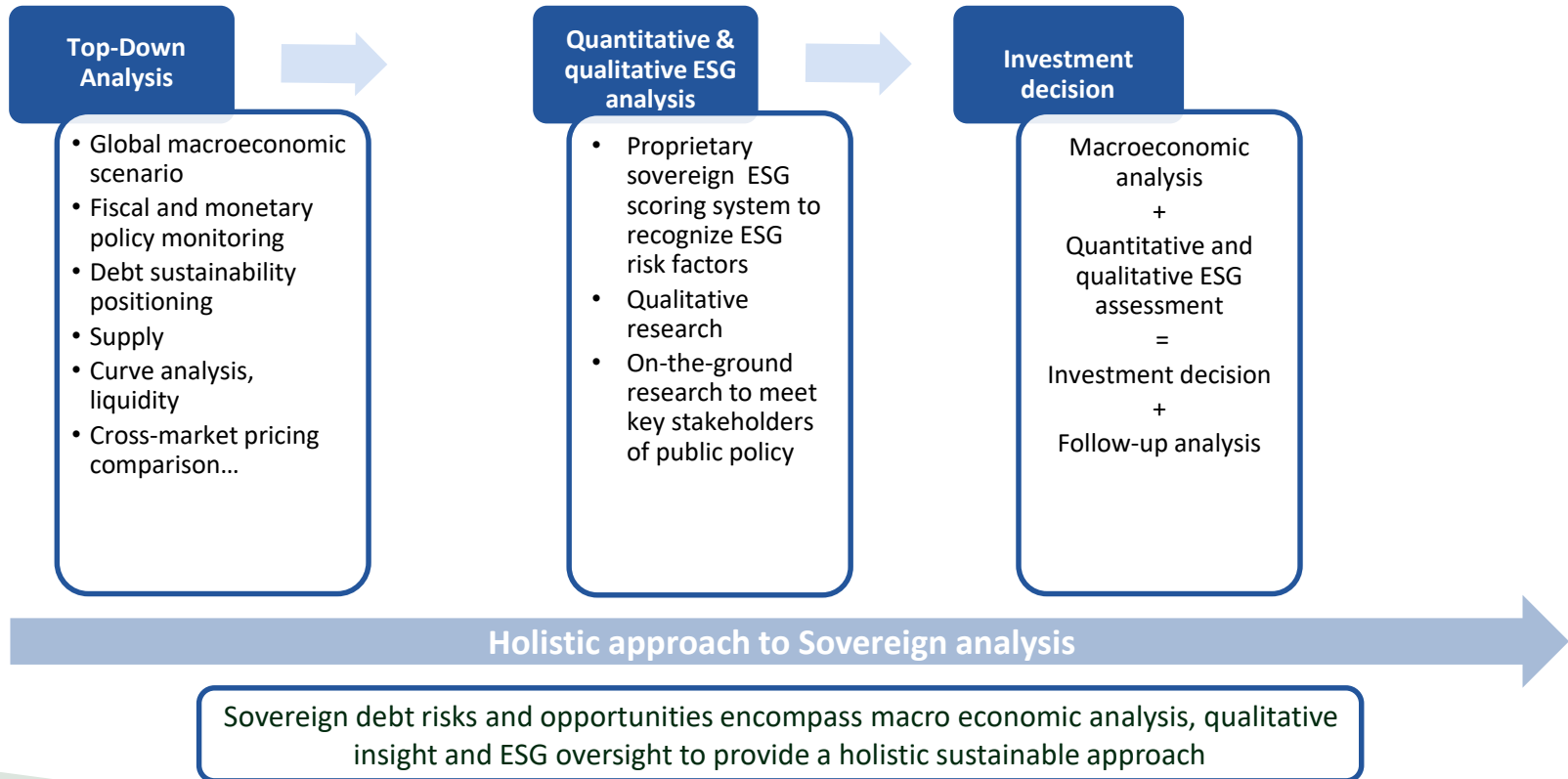
- ▶ % Audit Committee Independence
- ▶ Independent Board Members
- ▶ Highest Remuneration Package
- ▶ % Board Gender Diversity

QUALITATIVE ADJUSTMENT THAT MANAGEMENT TEAM CAN APPLY TO CORRECT ON AN AD HOC BASIS EACH OF THE E, S, AND G RATINGS FOR AN ISSUER

¹The proprietary ESG system START combines and aggregates market leading data providers ESG indicators 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
Please refer to the ESG Integration Policy on the Responsible Investment website at www.carmignac.com
Source: Carmignac, January 2022

Sovereign Bonds ESG Approach

ESG integration for Sovereign bonds



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

FACTORS

Environment

Long-term social improvements that drive growth and stability

Social

Capturing investment in climate mitigation and sustainable development

Governance

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



**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, January 2022

Our Global model: in theory

#	Criteria	Sources	Weights
Environmental			
1	CO ₂ emissions per capita	Our World In Data – Oxford University	20%
2	Share of Renewables in total installed capacity	BNEF (Bloomberg New Energy Finance)	20%
3	Share of Coal in total installed capacity	BNEF (Bloomberg New Energy Finance)	20%
4	Ambient PM2.5 (fine particules)	Institute for Health Metrics and Evaluation	20%
5	Ratification of Paris Accords	United Nations Framework Convention on Climate Change	Malus of 0.2 if not ratified
6	Environmentally controlled solid waste treatment	World bank report "What a waste 2.0". Data from United Nations Statistics, OECD, and regional and national reports	20%/3
7	Health years lost due to unsafe sanitation	Institute for Health Metrics and Evaluation	20%/3
8	Health years lost due to unsafe water	Institute for Health Metrics and Evaluation	20%/3
Social			
9	Life expectancy at birth of both sexes	World Bank	20%
10	GINI – income coefficient	World Bank	20%
11	Education (PISA & Litteracy rate)	PISA (Reading, Maths, Science) – OECD Litteracy Rate – World Bank	20%
12	GDP Per Capita PPP	IMF	20%
13	HDI	United Nations - Development Programme	20%
Governance			
14	Ease of Doing Business	World Bank	20%
15	Fiscal Position (deficit as % GDP)	IMF	20%
16	Debt as Years of Revenue	Gross Debt to GDP and Revenue to GDP – IMF	20%
17	Current Account Position	Current Account to GDP – IMF	20%
18	Economic freedom	The Heritage Foundation	20%

- This model analyses **more than 100 countries** across DM and EM.
- **18 E, S & G criteria** have been selected according to UNPRI guidelines, market relevancy, firm's values and industry standards.
- The model uses both quantitative and qualitative elements in order to capture both current risks and opportunities, as well as **forward-looking dynamic trends**.
- The quantitative basis for the model uses both spot levels and historic data, while **qualitative analysis**, for example from stakeholder engagement or recent news and policies not yet quantitatively captured, may result in a positive or negative adjustment.

Source: Carmignac, January 2022

Our Global model: in practice

# Criteria	France	Italy	Greece
Environmental			
1 CO2 Per Capita	3.3	3.5	2.8
2 Renewables	3.3	3.5	3.3
3 Coal	5.0	4.8	2.8
4 Pollution	5.0	4.0	4.0
5 Waste	5.0	4.0	4.0
6 Sanitation	4.5	4.0	4.3
7 Water	4.5	4.0	4.0
8 Paris Accords Malus	0.0	0.0	0.0
Qualitative adjustment	-	-	-
Total E	4.2	4.0	3.4
Social			
9 Life Expectancy	4.3	4.3	4.3
10 GINI Coefficient	3.5	2.8	3.0
11 Education	3.5	2.8	2.5
12 GDP Per Capita	4.5	3.8	3.0
13 HDI	3.3	3.3	3.5
Qualitative adjustment	-	-	-
Total S	3.9	3.4	3.2
Governance			
14 Ease of Doing Business	3.5	2.8	2.3
15 Fiscal Position	2.3	3.0	4.0
16 Debt Position	3.0	2.3	1.5
17 Current Account Position	3.3	4.0	2.5
18 Economic Freedom	3.3	3.0	2.8
Qualitative adjustment (Strong support from ECB buying programs and EU fiscal plans)		0.25	0.5
Total G	3.1	3.25	3.1
TOTAL OVERALL	3.7	3.4	3.1

- Countries are ranked **between 1 (bad) & 5 (good)**, with dispersion across the full range of scores. For any criteria, countries are ranked all together both on 1) spot data and 2) recent evolution/trends.
- These two rankings are then converted into an overall rating between 1 & 5.
- The dynamic rating is overweighed for EM countries (75%) and underweighed for DM countries (25%) in order to reward recent ESG-positive trends and to mitigate structural under-investment of EM countries in ESG projects.
- For any E, S & G pillar, criteria rankings are then averaged to get a pillar scoring. This score is then adjusted either positively or negatively, where appropriate, as a result of qualitative analysis.
- The overall ESG score is then composed of the equally weighted average of the three components E, S, and G.
- The fund's score is then aggregated as the weighted average of the country score and the exposure of the positions, reviewed semi-annually.

Source: Carmignac, January 2022
 Figures are provided for illustration purposes and will evolve over time

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CARMIGNAC GESTION – 24, place Vendôme - F - 75001 Paris - Tel: (+33) 01 42 86 53 35

Public limited company with share capital of €15,000,000 – RCS Paris B 349 501 676

CARMIGNAC GESTION LUXEMBOURG – City Link - 7, rue de la Chapelle - L-1325 Luxembourg - Tel: (+352) 46 70 60 1

Subsidiary of Carmignac Gestion. UCITS management company (CSSF authorisation of 10/06/2013).

Limited company (SA) with capital of €23,000,000 – Registration no.: RC Luxembourg B67549