

ANNEX II

Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: CARMIGNAC PORTFOLIO LONG-SHORT EUROPEAN EQUITIES Legal entity identifier: 549300AX6ZJ3CNKJN243

## Environmental and/or social characteristics

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

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



Does this financial product have a sustainable investment objective?	
<input checked="" type="checkbox"/> <input type="checkbox"/> Yes	<input type="checkbox"/> <input checked="" type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective</b> : ___% <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul>	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of <u>0</u> % of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with a social objective</li> </ul>
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective</b> : ___%	<input checked="" type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>

### What environmental and/or social characteristics are promoted by this financial product?

The Sub-Fund promotes environmental and social characteristics by applying best-in-universe and best-effort approaches to invest in a sustainable manner: 1) ESG integration, 2) Negative screening, 3) Active Stewardship to promote Environment and Social characteristics, 4) Low-carbon intensity target, 5) Monitoring of Principal Adverse Impacts.

The Sub-Fund has not designated a reference benchmark for the purposes of attaining the environmental and/or social characteristics.

● **What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**

This Sub-Fund uses the following sustainability indicators to measure the attainment of each of the environmental or social characteristics promoted by the Sub-Fund :

**Sustainability**

**indicators** measure how the sustainable objectives of this financial product are attained.

**1) The coverage rate of ESG analysis:** ESG integration through ESG scoring using White Creek Capital LLP's ("White Creek") ESG analysis, which includes internal and external ESG ratings, is applied to at least 90% of the long equity portfolio.

**2) Amount the equities portfolio universe is reduced:** the initial investment universe for the purposes of universe reduction is defined as listed European equities with a market capitalisation above EUR 250 million, which amounts to around 2000-2500 stocks.

**i) Ethical:** Negative screening and exclusions of unsustainable activities and practices are identified using an international norms and rules-based approach on the following: (a) controversies against the OECD business guidelines, the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and UN Global compact principles, (b) controversial weapons, (c) thermal coal mining, (d) power generation companies, (e) tobacco, (f) adult entertainment, (g) oil and gas extraction, (h) weapons and (i) gambling.

**ii) Governance and Environmental:** The Sub-Fund's long equity positions with an Integrum rating below 2 (rating from "0" to "4") on governance pillar or having Carbon Emissions above 168 tCO<sub>2</sub>/mEUR are a priori excluded of the Sub-Fund's investment universe.

**iii) Reintegration:** Companies rated between "A" and "C" on the White Creek's ESG scoring process (rating from "E" to "A") may be reintegrated into the Sub-Fund's investment universe after an ad-hoc analysis which requires Risk Committee approval, and may involve an engagement with the company.

Prior to reducing the investment universe as described above, the equities and/or corporate bond, as applicable, universes are re-weighted in order to eliminate any bias that could lead to significant differences between the composition of these indices and that of the Sub-Fund's portfolio. Each issuer is re-weighted according to the Sub-Fund's historical weightings by sector, region (emerging markets/developed markets), and market capitalisation (small/mid/large), allowing for a +/-5% margin for each separate characteristic. The weights used are calculated annually, however the constituents of the universe and the ESG data used to reduce the universe are refreshed quarterly. The re-weighting is done using the Sub-Fund's historical weightings over its recommended investment period, considering sector, geography, and capitalisation rotations.

**3) Active stewardship:** ESG-related company engagements contributing to better awareness or improvement in companies' sustainability policies are measured by following indicators: (a) level of active engagement and voting policies, (b) number of engagements, (c) rate of voting and (d) participation at shareholder and bondholder meetings.

**4) Low-carbon intensity target:** The Sub-Fund aims in the equity and corporate bond part of the portfolio to achieve carbon emissions 30% lower than its designated composite reference indicator (75% MSCI Europe NR index and 25% S&P 500 index), general market index, measured monthly by carbon intensity (tCO<sub>2</sub>/ mUSD revenue converted to Euros; aggregated at portfolio level (Scope 1 and 2 of GHG Protocol).

**5) Principal adverse impacts:** Furthermore, this Sub-Fund is committed to applying the SFDR level II 2019/2088 Regulatory Technical Standards (RTS) annex 1 related to Principal Adverse Impacts whereby 14 mandatory and 2 optional environmental and social indicators will be monitored at the portfolio level to show the impact of investments against these indicators: Greenhouse gas emissions, Carbon footprint, GHG intensity (investee companies), Exposure to companies in fossil fuel sector, Non-renewable energy consumption and production, Energy consumption intensity per high-impact climate sector, Activities negatively affecting biodiversity-sensitive areas, Emissions to water, Hazardous waste ratio, Water usage and recycling (optional choice), Violations of UN Global Compact principles or OECD Guidelines for Multinational Enterprises, Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact and OECD Guidelines for Multinational Enterprises, Unadjusted gender pay gap, Board gender diversity, Exposure to controversial weapons, Excessive CEO pay ratio (optional choice).

● **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

N/A. The Sub-Fund does not commit to make sustainable investments.

● **How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?**

N/A.

*How have the indicators for adverse impacts on sustainability factors been taken into account?*

N/A.

*How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*

N/A.



**Does this financial product consider principal adverse impacts on sustainability factors?**

Yes

The Sub-Fund has committed to apply the SFDR level II 2019/2088 Regulatory Technical Standards (RTS) annex 1 whereby 14 mandatory and 2 optional environmental and social indicators will be monitored at the portfolio level to show the impact of such sustainable investments against these indicators: Greenhouse gas emissions, Carbon footprint, GHG intensity (investee companies), Exposure to companies in fossil fuel sector, Non-renewable energy consumption and production, Energy consumption intensity per high-impact climate sector, Activities negatively affecting biodiversity-sensitive areas, Emissions to water, Hazardous waste ratio, Water usage and recycling (optional choice), Violations of UN Global Compact principles or OECD Guidelines for Multinational Enterprises, Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact and OECD Guidelines for Multinational Enterprises, Unadjusted gender pay gap, Board gender diversity, Exposure to controversial weapons, Excessive CEO pay ratio (optional choice).

The Principal Adverse Indicators are monitored on a quarterly basis. Outlier adverse impacts are identified for degree of severity. After discussion with the investment team an action plan is established including a timeline for execution. Company dialogue is usually the preferred course of action to influence the company’s mitigation of adverse impacts. Engagement with companies is tracked by the investment team and monitored quarterly to ensure progress is made. Disinvestment may be considered with a predetermined exit strategy within the confines of this aforementioned policy.

To mitigate the adverse impacts if detected, further assessment is performed to identify an engagement strategy or potential divestment from the company.

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

No



## What investment strategy does this financial product follow?

In order to achieve its investment objective, the Sub-Funds implements a fundamentally driven long/short equity strategy. This strategy consists in building up a portfolio of both long and short positions on financial instruments eligible to the Sub-Fund's investment. The Sub-Fund invests at least 50% of its net assets in equities of companies domiciled in the European Economic Area. The remainder may be invested, directly or indirectly, in equities of issuers from outside the European Economic Area.

In terms of ESG integration, the investment universe is assessed for ESG risks and opportunities using inputs from third-party providers including Integrum, and internal research. This applies to long equity positions. The Environmental, Social and Governance analysis is incorporated in the investment process performed by the investment team using proprietary research and external research.

The extra-financial analysis is implemented in the investment strategy by undertaking activities described below whereby the Sub-Fund's investment universe is actively reduced.

### Universe reduction process:

**i) Sector and norms-based screening:** Negative screening and exclusions of unsustainable activities and practices are identified using an international norms and rules-based approach on the following: (a) controversies against the OECD business guidelines, the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and UN Global compact principles, (b) controversial weapons, (c) thermal coal mining, (d) power generation companies, (e) tobacco, (f) adult entertainment, (g) oil and gas extraction, (h) weapons and (i) gambling.

**ii) Governance and Environmental:** The Sub-Fund's long equity positions with an Integrum rating below 2 (rating from "0" to "4") on governance pillar or having Carbon Emissions above 168 tCO<sub>2</sub>/mEUR are a priori excluded of the Sub-Fund's investment universe.

**iii) Reintegration:** Companies rated between "A" and "C" on the White Creek's ESG scoring process (rating from "E" to "A") may be are reintegrated into the Sub-Fund's investment universe after an ad-hoc analysis which which requires Risk Committee approval, and may involve an engagement with the company.

**Active stewardship:** ESG-related company engagements contributing to better awareness or improvement in companies sustainability policies are measured by following indicators: (a) level of active engagement and voting policies, (b) number of engagements, (c) rate of voting and (d) participation at shareholder and bondholder meetings.

The Sub-fund aims in the equity and corporate bond part of the portfolio to achieve carbon emissions 30% lower than its designated composite reference indicator (75% MSCI Europe NR index and 25% S&P 500 index), general market index, measured monthly by carbon intensity (tCO<sub>2</sub>/ mUSD revenue converted to Euros; aggregated at portfolio level (Scope 1 and 2 of GHG Protocol).

### What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?

The binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product are :

- ESG analysis applied to at least 90% of the long equity portfolio;
- Long Equity portfolio universe is actively reduced; and
- 30% of carbon emission lower than the aforementioned composite benchmark as measured by carbon intensity.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

- **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

The Sub-fund does not commit a minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy.

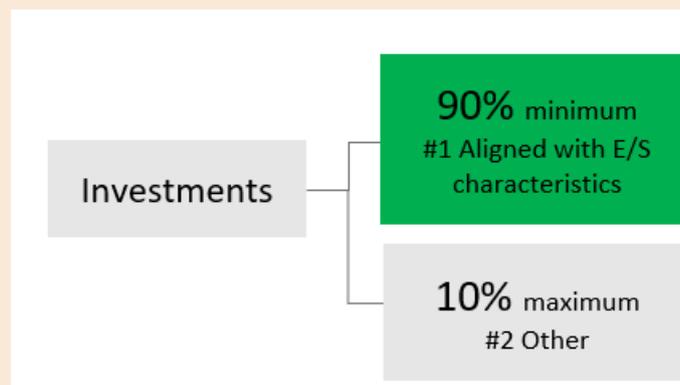
- **What is the policy to assess good governance practices of the investee companies?**

In order to assess good governance practices, the Sub-Fund excludes companies with low Governance scores. The Integrum Governance pillar scores are used in this process. Integrum Governance scores are calculated using 9 metrics (Management Process, Board Composition, Risk Management, Community Engagement, Audit, Remuneration Alignment, Remuneration Balance, Director Contracts, Shareholder Dillution Risk) and 39 sub-metrics. Governance data is collected from public company disclosures. Integrum Governance scores are on a scale of 0-4 where 4 is the best. The Sub-Fund invests in companies that score at least a 2. Any overrides to the Integrum Governance score must be presented to the Risk Committee with justification for approval.

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.



### What is the asset allocation planned for this financial product?



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

**Asset allocation** describes the share of investments in specific assets.

A minimum proportion of 90% of the investments in the long equity portion of the portfolio of this Sub-Fund is used to meet the environmental or social characteristics promoted by the financial product in accordance with the binding elements of the investment strategy.

The #2 Other investments are long equity investments which are not used to achieve the environmental or social characteristics promoted by the Sub-Fund promote environmental or social characteristics. They are investments made strictly in accordance with the Sub-Fund's investment strategy and have the purpose of implementing the Sub-Fund's investment strategy.

All such investments are subject to a screening of minimum safeguards to ensure that their business activities are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

- **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

The Sub-Fund does not use derivatives to attain the environmental or social characteristics it promotes.

● **What is the minimum share of investments in transitional and enabling activities?**

N/A.



**To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

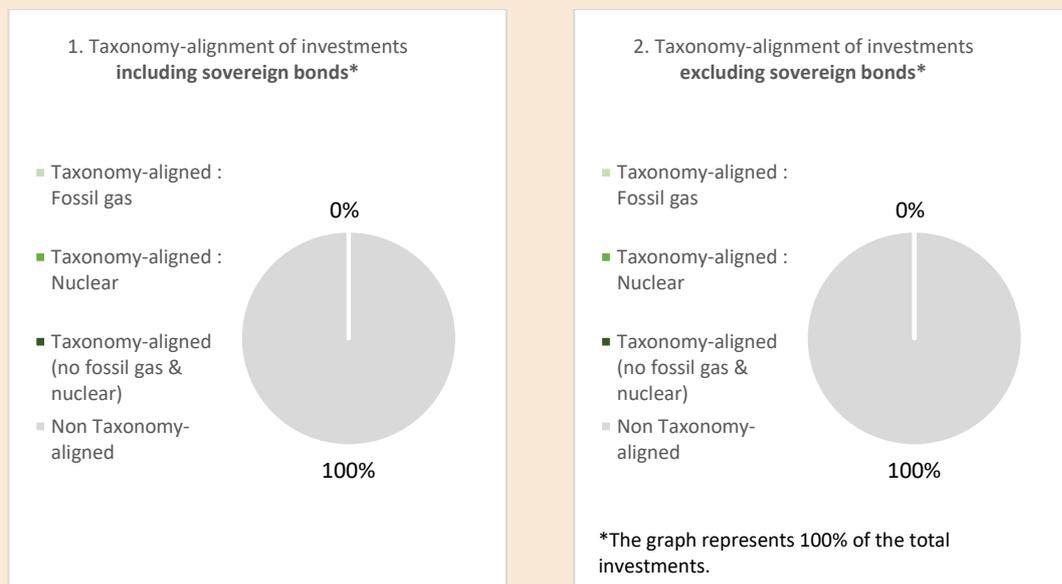
**Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>10</sup>?**

Yes :

In fossil gas       In nuclear energy

No

*The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



*\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures*

<sup>10</sup> Fossil gas and / or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objectives - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.



**What is the minimum share of socially sustainable investments?**

N/A.



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

N/A.



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

The remaining portion of the portfolio (outside the minimum proportion of 90%) may also promote environmental and social characteristics but are not systematically covered by ESG analysis. Such assets may include unlisted securities or securities that have been subject to an initial public offering, the ESG analysis of which may be carried out after the acquisition of said financial instrument by the Sub-fund, cash for liquidity management purposes as well as derivatives.

At issuer level (for equities and corporate bonds), all assets are examined for adherence to global norms on environmental protection, human rights, labor standards and anti-corruption, through controversy (“norms-based”) screening. The investments are subject to a screening of minimum safeguards to ensure that their business activities are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Environmental, social and governance considerations are integrated in synthetic instruments through the derivatives framework detailed below. The approach will depend on the type of derivatives instrument used by the Sub-Fund: single name derivatives or index derivatives.

**Single name derivatives**

Derivatives with a short exposure to a single underlying security do not go through any additional ESG related checks. The underlying issuer may be present in the Sub-Fund’s exclusion lists on the basis that signalling a lack of confidence in a business with poor ESG characteristics through shorting their security(ies) is considered reasonable in the pursuit of balancing shareholders’ investment objectives. Such derivatives are not subject to a White Creek ESG rating.

Derivatives with a long exposure to a single underlying company or issuer are subject to the same ESG integration policy as physical long equity and/or corporate debt positions, as applicable. These instruments must satisfy the same ESG integration and criteria, as described in this annex.

**Index derivatives**

Index derivatives, whether with a long or short exposure, may go through additional checks to ensure they are suitable for the Sub-Fund, depending on their purpose.

- Hedging and efficient portfolio management purposes: index derivatives purchased for hedging purposes are not analysed for ESG purposes.
- Exposure purposes: an index derivatives may be purchased by the Sub-Fund for exposure to the extent it meets the following characteristics, if it is to be held for more than one month :
  - Concentrated index (5 or less components in the underlying index): The index must not have any of its components in the Sub-Fund’s exclusion list.
  - Broad-based index (more than 5 components): the index must be composed in significant majority (>80% in exposure) of companies that are not in the Sub-Fund’s exclusion list.

 are environmentally sustainable investments that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

In addition, the weighted average ESG rating of the index must be above C (Integrum ESG and White Creek), and the ESG coverage of the index (either Integrum ESG or White Creek) must be greater than 90%.

The reference indicator of the Sub-Fund remains out of scope of this index derivatives framework, and is not considered for ESG purposes.

The Sub-Fund applies compensation calculation (netting of a long position with an equivalent issuer short positions using derivatives) for the purpose of measuring adverse impacts.

100% of the sub-fund's assets (excluding cash and derivatives) apply negative sectorial and norms-based screens and exclusions ensuring minimum environment and social safeguards.

In addition, the do no significant harm, exclusionary process and adverse impacts are monitored for all the Sub-Funds' assets.



**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

N/A.

● **How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?**

N/A.

● **How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?**

N/A.

● **How does the designated index differ from a relevant broad market index?**

N/A.

● **Where can the methodology used for the calculation of the designated index be found?**

N/A.

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.



**Where can I find more product specific information online?**

**More product-specific information can be found on the website:**

[https://www.carmignac.lu/en\\_GB/funds/carmignac-portfolio-long-short-european-equities/f-eur-acc/fund-overview-and-characteristics](https://www.carmignac.lu/en_GB/funds/carmignac-portfolio-long-short-european-equities/f-eur-acc/fund-overview-and-characteristics)