Fundrella X Carmignac - ESG Peer Group Analysis Carmignac Portfolio Grande Europe fund

In a volatile market with intensifying competition, both global and domestic asset managers are increasingly seeking a structured, qualitative assessment of their ESG positioning and fund comparisons.

Fundrella offers comparable ESG data to fast-track the shift of capital to impactful investment. Fundrella's ESG Peer Group Analysis is an in-depth report that allows asset managers to access positioning data against peers as well as alignment with the ESG requirements of Nordic professional investors ranging from leading banks, insurance companies and IFAs to life and pension companies (600 billion EUR in investable assets).

Together with Carmignac we would like to take a closer look at its Carmignac Portfolio Grande Europe fund which is currently positioned at the top of the European Equity funds ranking on Fundrella's platform during Q3 based on its alignment (%) with investor preferences. Additionally, the fund appeared in the most European Equity searches on the Fundrella platform during the last quarter.

Carmignac Portfolio Grande Europe is a long-only equity fund principally investing in larger capitalisations across western Europe. The fund follows an active, bottom-up, fundamental approach. Stock selection focuses on identifying companies with the most attractive long-term prospects, irrespective of sector or geography. Investments are made in the names with the best asymmetric risk/return profiles and in accordance with the strategy's sustainable investment objective.

As a result, the final portfolio is an actively managed, high conviction, concentrated selection of what we define as "European Leaders". While being fully aligned with the United Nations Sustainable Development Goals, the fund aims to outperform its reference indicator over a recommended investment horizon of five years.

The underlying holdings possess all the characteristics to be labelled quality companies, however, Mark Denham – the fund's portfolio manager – and his dedicated analyst Seyi Osoba, firmly believe that the region also offers fertile ground for investors in search of hidden opportunities. Accordingly, the fund also allocates to innovative names, albeit marginally. The resulting "innovation sleeve", is currently invested in biotech names.

Since Mark Denham took over management of the fund on 17 November 2016, to the end of October 2023, Carmignac Portfolio Grande Europe (F EUR Acc) recorded a cumulated performance of +65.18% vs +52.10% for its reference indicator (Stoxx Europe 600 (NR, EUR), equal to +7.48% annualised vs +6.21%. With an AUM of €516mn (as at 31 October 2023) , the fund has no capacity constrains given the large depth of its investment universe.

The peer group referred to in the article consists of actively managed European Equity funds that align with Article 8 and 9 of the SFDR disclosure.

Q&A

Exclusions:
Carmignac maintains several firm-wide exclusions, one of which is tobacco. This aligns with the mission of Tobacco-Free Portfolios where Carmignac is a supporter of the Tobacco-Free Finance Pledge.

Carmignac deems investing in tobacco companies unsustainable due to the health and environmental concerns associated with their products. Excluding not only companies directly involved in tobacco production but also those with substantial ownership in such companies. Additionally, it avoids companies engaged in wholesale tobacco distribution and suppliers, at a 5% revenue threshold.

Data reveals a notable trend: during Q3 2023, asset managers opted to include a tobacco exclusion criterion in their funds. Simultaneously, an equivalent proportion of professional investors also incorporated this exclusion into their ESG requirements. This signifies a growing alignment between asset managers and investors regarding tobacco-related exclusions.

Q: Why is the 5% revenue threshold chosen for distribution in your fund's exclusion policy, and are there any considerations or plans to potentially transition to a zero-tolerance approach in the future?

Carmignac A: Firm-wide, we consider investment in tobacco companies to be unsustainable, given that it is an unhealthy and polluting product. We have zero tolerance for companies that are involved in the production of it. We also exclude those which have significant ownership in such companies. However, we do not wish to exclude all retailers that sell tobacco when cigarette components such as filters represent less than 5% of their revenues. Indeed, the consumer staples industry can help protect the portfolio during recessions due to its defensive profile.

Proprietary ESG model:
Carmignac's proprietary ESG model facilitates the systematic integration of ESG research into its investment process. This system combines third-party data ESG sources with its in-house analysis to offer a forward-looking view of how a company is addressing its stakeholders and, in turn, managing ESG risks and benefitting from opportunities.
According to our data, all European equity article 8 and 9 funds available on the Fundrella's platform incorporate in-house ESG analysis. Additionally, a significant 97% of these funds utilize third-party ESG analysis. However, it's noteworthy that only 34% of them have a proprietary ESG quantitative model.

Q: Could you kindly provide insights into the process of ESG integration using Carmignac's proprietary ESG Research System, known as START?

Carmignac A:
START (System for Tracking and Analysis of a Responsible Trajectory) enables us to systemize the integration of ESG analysis in our funds' investment process. It provides:

- Systematic assessment of ESG criteria across all funds and all equity, credit and sovereign debt assets
- Ability to conduct scenario analysis and carbon analysis for issuers
- Appreciation of company's impact on the environment and society
- A centralised platform that also includes controversies data
- ESG sentiment assessment based on AI to identify company ESG turnaround
- A platform to track all ESG engagements and conduct follow-ups

START provides forward-looking ESG analysis that gives our investment team the insight they need to make appropriate investment decisions, to best serve our clients' long-term interests.

Overall, we analyse 31 specific ESG indicators that we have defined as financially material for around 8000 companies among 90 comparable peer groups, to which we add controversy and impact data. START allows our teams to add unique human insight and conduct company engagement surrounding these key indicators.

Coal exclusions and commitment to total coal exit in 2030
Coal exclusions and commitment to total coal exit in 2030 is another firm-wide exclusion Carmignac has in place. Recognizing the significance of reducing thermal coal emissions for a cleaner energy transition. Though thermal coal poses environmental challenges, potential investment opportunities lie with companies contributing to broader energy transition initiatives. While coal can play a role in improving electricity access and modernizing regions in the short term, it is essential to avoid oversimplification in evaluating a company's energy mix. A more comprehensive and nuanced approach is necessary to facilitate an effective energy transition.

Carmignac Portfolio Grande Europe demonstrates a strict zero tolerance stance against thermal coal in both production and distribution. This stands in contrast to only 9% of peers that maintain such a stringent exclusion on the production side and 6% on the distribution side.

Q: Can you provide some insights into your strategy for reducing carbon emissions and facilitating the transition to cleaner energy sources?

Carmignac A:
As an independent, active asset manager investing on behalf of long-term savers, we think it is part of our fiduciary duty to accompany and influence climate transition. Rewarding those entities that are already contributing to a cleaner and more sustainable world while encouraging others to enhance climate-related disclosures and efforts. Carmignac has been measuring the carbon emissions (total emissions, carbon intensity, % fossil fuels) of each of its portfolios (equity and corporate bond holdings) since 2017.

Carbon emissions of Carmignac Portfolio Grande Europe are significantly below the benchmark emissions and can be found in the monthly fund factsheet which is published on the Carmignac's fund webpage. The fund targets 50% lower carbon intensity than the benchmark by measuring Scope 1 and 2 emissions.

Signatories and labels
UN PRI, or the United Nations Principles for Responsible Investment, stands as a globally recognized initiative that advocates for the integration of ESG factors into investment practices. It has evolved into a fundamental standard, with an increasing number of funds joining this initiative. Notably, 100% of actively managed European Equity Article 8 and Article 9 funds, including Carmignac, on the Fundrella platform are UN PRI signatories, underlining the significance of this commitment within the industry.

The Net Zero Asset Managers initiative is making significant strides, with 77% of funds within the peer group on Fundrella actively participating. This shows the increasing momentum toward the goal of achieving net zero greenhouse gas emissions by 2050 or sooner.

Q: Does Carmignac have any plans to join The Net Zero Asset Managers initiative, and if you could share some insights on your strategy in this regard.

Carmignac A:
Committing to net zero is the end game but knowing how to get there is underestimated. Asset mangers' own carbon emissions are small compared to other industries but that doesn't stop our obligations as investors. We have been measuring our portfolios' carbon emissions for six years (only around 50% of the benchmark equivalent emission), along with active climate engagement for real decarbonisation. Since 2021, we measure our portfolio alignment to net zero.

Multiple pathways to net zero exist, as highlighted in the IPCC reports, and numerous assumptions needto be made throughout the calculation. We are currently undergoing a study on this, but the lack of standardisation amongst corporates emission reporting (ie are scope 3 emissions included) means there are a lot of estimations, so to promise net zero portfolios is not a quick win. For example, Sainsbury 2040 net zero commitments only include Scope 1 and 2, Microsoft Scope 1,2 and 3. Currently, we are investigating and will continue to measure our portfolio climate risks (transition and physical) as well as quantifying the temperature rise of each portfolio according to Paris agreement. These steps seem paramount before promising we will achieve net zero emissions.

Alignment with Professional Investors' ESG preferences
Carmignac Portfolio Grande Europe fund secured the top position on Fundrella's European equity funds' top list for Q3, signifying its outstanding alignment with investor requirements. This highlights that the fund meets the majority of investor requirements within its peer group, displaying an average alignment of 89% with investors' minimum requirements for both processes and exclusions.

Q: Do you have any noteworthy plans to enhance or modify any of your processes or exclusions in 2024?

Carmignac A: We intend to launch START 2.0, the second iteration of our ESG proprietary research platform. START 2.0 is Carmignac's new ESG proprietary scoring system that builds upon START 1.0. START 2.0 will encompass bespoke peer grouping based on multiple factors such as revenue splits, region, and market cap. It follows the Sustainability Accounting Standard Board (SASB) framework and includes a broader range of KPIs for ESG data, including historic, current, and forward-looking data from multiple data vendors assessed based on materiality and coverage. The scoring system will use AI powered sentiment data to dynamically compute the most and least material SASB categories for each entity.

In addition, as part of our strategy to align with long-term biodiversity objectives, we have approached various data providers to enable us to determine more gradually the biodiversity impacts of the investments underlying the portfolios in our range. We have chosen a biodiversity controversies metric that aggregates the results of a negative filter. This filter is determined by the areas of activity of greatest concern in terms of biodiversity. We aim to achieve a zero-controversy target for these investments by 2030. At the same time, we recognize our dependence on regulation and consumer choice.

Finally, we will continue to train our staff and our clients on ESG regulation, market trends and the adaptation of our fund range. We dedicate significant financial and human resources to upskilling investment and non-investment staff (legal, compliance, risk management, marketing, product, sales) on sustainable investment areas of focus in a fast-moving regulatory environment. The investment team's training will focus on climate risk, alignment with EU taxonomy and Sustainable Development Goals. We will also encourage employees to take the Chartered Financial Analyst (CFA) ESG certification and other ad hoc online ESG training courses.