



## 2nd quarter 2023: our active stewardship illustrated

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As a long-term investor, we engage in regular dialogue with the companies in which we invest to encourage them to improve their practices for taking environmental, social and governance (ESG) criteria into account. Find out how our active approach to stewardship was borne out in Q2 2023:

10

Engagements held

98%

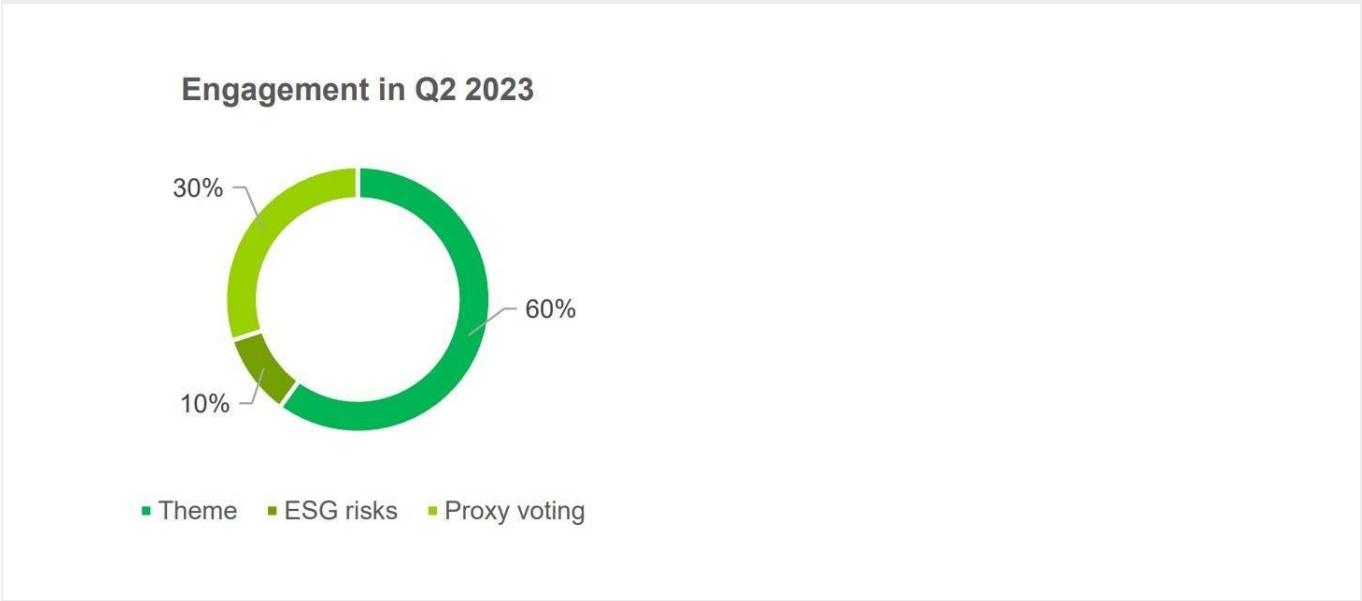
Of meetings voted

56%

Of meetings where  
Carmignac voted against  
management at least once

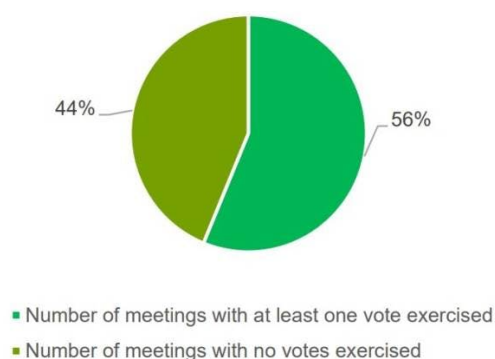
Carmignac is committed to aligning its dialogue strategy with five types of engagement: engagement on severe ESG risks, thematic engagement, impact engagement, engagement on controversial behaviour, and engagement on proxy voting decisions<sup>1</sup>.

Over the second quarter of 2023, we initiated dialogue with investee companies 10 times and covered three types of engagement:



Carmignac voted at least once **against** a motion put forward by investee companies' management teams at **56%** of general meetings at which a vote was held:

General meetings at which Carmignac voted for/against a motion at least once



Find out how we specifically engaged with two investee companies during Q2 2023:

## Public Power Corporation

**Sector:** Utilities

**Region:** Europe

Through managed portfolios, Carmignac holds two bonds linked to ESG constraints (*Sustainability-Linked Bonds* or SLB) issued by the company<sup>2</sup>.

### Engagement objective

Before Carmignac's decision to invest in the March 2021 and July 2021 SLBs, the company was included in our ESG Exclusion List. Under our [Exclusion Policy](#)<sup>3</sup>, we exclude power generators which do not follow the minimum thresholds set out in the policy. However, we reserve the right to make exceptions, and when the first sustainability-linked bond (SLB) was issued, we decided to remove the company from our ESG exclusion list and become one of its creditors. This decision was made on the basis of:

the company's historical power generation intensity (gCO<sub>2</sub>/kWh) data trends;  
its sustainability commitments, especially the phase out of existing lignite plants by 2023 and the full exit of lignite by 2028;  
the issuance of the two SLBs and their ambitious Sustainability Performance Targets (SPT).

In March 2023, the company announced it had failed to reach the SPT of its March 2021 SLB. This will trigger an interest rate step-up of 50bps from the next coupon date in October 2023. The SPT was a reduction of 40% of scope 1 emissions at year-end 2022. The company only achieved a 36% reduction. This event triggered an engagement with the company to understand the reasons for the SPT miss, as well as the implications for its climate strategy and targets.

Through managed portfolios, Carmignac also holds another SLB issued by the company in July 2021. This has an SPT of a 57% reduction in scope 1 emissions by December 2023 compared to the 2019 level.

### **Engagement method**

We held a call with a company investor relations representative and the treasurer.

### **Engagement summary**

The company explained to us the exceptional circumstances which resulted in the March 2021 SLB SPT miss. The energy crisis triggered because of the war in Ukraine resulted in an increase in lignite-fired generation to safeguard the security of supply in the electricity system of Greece.

As a result of our substantial bond holdings and in light of these explanations, we encouraged the company to publicly set out its strategy for meeting the objective of the second SLB before the maturity date of December 2023. We also asked the company to provide more clarity to investors on its revised decommissioning plan. This included information on its compatibility with its 2040 net-zero emissions goal as well as its commitment to eliminating lignite use by 2028. We indicated our support regarding the company's commitment to have certified science-based targets.

### **Outcome and next steps**

We will continue to engage with the company on this topic.



# TotalEnergies

**Secteur:** Oil & Gas

**Region:** Europe

Certain portfolios from the Carmignac range invest in the company's equities and bonds<sup>4</sup>.

## Engagement objective

As part of our ESG strategy and in line with our engagement focus on the topic of climate change, we monitor this oil & gas company's climate strategy. At the 2022 Annual General Meeting (AGM), we voted against the company's sustainability and climate transition plan<sup>5</sup>. In 2023, and before the 2023 AGM, scheduled for 26 May, Carmignac held two meetings with the company.

## Engagement method

The first engagement with the company was an in-person meeting with the CEO held in April. The follow-up engagement was a call with the company's investor relations representatives held in May, before the AMG.

## Engagement summary

These two meetings were an opportunity for Carmignac to provide feedback to the company on its climate strategy. We acknowledged the company's efforts regarding its performance on a range of sustainability issues and the maturing of its energy transition strategy.

We highlight below the key points of discussion with the company:

Responsibility for indirect CO2 emissions (Scope 3);

Evolution of low-carbon energies capex;


Use of offsetting mechanisms instead of technology to reduce carbon emissions directly;

Articulation of environmental benefits of the gas expansion strategy using forward looking scenario analysis against other viable technologies.

## Outcome and next steps

As a result, Carmignac voted against the company's *2023 sustainability & climate progress report*<sup>6</sup>. We remain concerned that the company's report is missing material information to enable us to understand and compare its energy transition strategy with peers. Also, we think there is insufficient appetite by management to acknowledge the company's responsibility for its products' emissions. We think this stance will not be tenable in the medium to long term from a legal perspective.

We also voted against a shareholder-led resolution<sup>7</sup> to align its existing 2030 reduction targets covering



the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement target<sup>8</sup>. We do not believe, at present, that the proposed action is an effective method of addressing climate change and could have unintended negative consequences, such as forcing the sale of assets to less sustainable stewards, regressive price impacts and increasing reliance upon states with geo-political risk. As the energy industry shifts towards an increased supply of clean energy, it may prove appropriate to set a target for indirect CO2 emissions (Scope 3) in future, but at present we feel it would be unsuccessful on a global scale.

Approximately 11% of shareholders voted against the company's report and 30% supported the shareholder-led resolution<sup>9</sup>.

We will continue our engagement with the company on the topic.

For more information on our voting decision at the AGM, please consult our voting disclosure site<sup>10</sup>.

<sup>1</sup>For more information, please consult our engagement policy, which is available at [https://www.carmignac.fr/en\\_GB/sustainable-investment/policies-and-reports](https://www.carmignac.fr/en_GB/sustainable-investment/policies-and-reports).

<sup>2</sup>As of 31<sup>st</sup> May 2023 : Carmignac Portfolio Flexible Bond, Carmignac Portfolio Global Bond, Carmignac Patrimoine, Carmignac Portfolio Patrimoine, Carmignac Sécurité, Carmignac Portfolio Sécurité.

<sup>3</sup>[https://carmidoc.carmignac.com/SRIEXP\\_INT\\_en.pdf](https://carmidoc.carmignac.com/SRIEXP_INT_en.pdf).

<sup>4</sup>As of 31<sup>st</sup> May 2023 : Carmignac Portfolio Climate Transition, Carmignac Credit 2025, Carmignac Credit 2027, Carmignac Portfolio Flexible Bond, Carmignac Portfolio Credit, Carmignac Portfolio Global Bond, Carmignac Investissement, Carmignac Portfolio Investissement, Carmignac Patrimoine, Carmignac Portfolio Patrimoine, Carmignac Portfolio Sécurité, Carmignac Sécurité.

<sup>5</sup>Resolution 16 – Approve Company's Sustainability and Climate Transition Plan; TotalEnergies AGM 25 May 2022.

<sup>6</sup>Resolution 14 – Approve the Company's Sustainable Development and Energy Transition Plan, TotalEnergies AGM 26 May 2023.

<sup>7</sup>Resolution A – Align Targets for Indirect Scope 3 Emissions with the Paris Climate Agreement (Advisory), TotalEnergies AGM 26 May 2023.

<sup>8</sup>To limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

<sup>9</sup>Source: [https://totalenergies.com/sites/g/files/nytnzq121/files/documents/2023-05/AG2023\\_Resultats-des-votes-par-resolution\\_EN.pdf](https://totalenergies.com/sites/g/files/nytnzq121/files/documents/2023-05/AG2023_Resultats-des-votes-par-resolution_EN.pdf).

<sup>10</sup><https://vds.issgovernance.com/vds/#/ODI4OQ==>

To find out more on our responsible investment philosophy, please visit our Responsible Investment section:

**Responsible Investment**



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