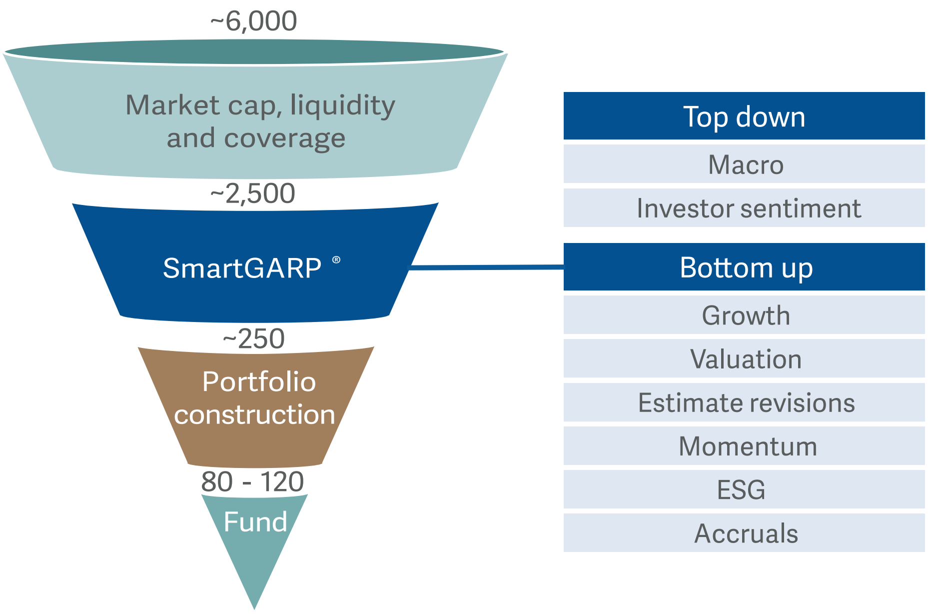
ESG *investment* methodology

How we integrate Environmental, Social and Corporate Governance factors into SmartGARP

Artemis Funds (Lux) SmartGARP Global Emerging Markets Equity

Overview

SmartGARP is Artemis' proprietary quantitative stock screening tool which the fund's managers rely on when managing the fund. SmartGARP has eight subcomponents, or 'factors', reflecting not just companies' individual financial characteristics, but also how they might be affected by changes in the macroeconomic environment and investor positioning.



The above information reflects the current view of the fund managers and may change over time. The numbers are typical. For information about formal investment restrictions relevant to this fund please refer to the prospectus.

ESG subcomponent

Of these eight subcomponents, the most recent (2019) addition to SmartGARP's subcomponents attempts to capture companies' environmental and social impact and the quality of their corporate governance, i.e. their 'ESG' characteristics. This factor uses an innovative approach that scans the internet for positive or negative research reports or news stories relating to companies and scores them according to whether the findings are good/improving or poor/deteriorating.

Within SmartGARP subcomponents, each company is given a score between 0 (poor) and 100 (perfect). The overall assessment of a company is then arrived at by aggregating companies' subcomponent scores and ranking them. Only the top 10% of companies by aggregated SmartGARP score are typically considered as potential additions to the fund.

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In practice this means that if a company has poor ESG characteristics, it is unlikely to have an aggregated SmartGARP score in the top 10% and thus unlikely to enter the fund's portfolio. Equally, if an existing investment's ESG characteristics deteriorate, its overall SmartGARP score will fall, meaning that it is less likely to remain in the fund.

Using SmartGARP, the manager constantly monitors whether holdings continue to satisfy the financial and environmental, social and governance characteristics that led to the initial investment and decides against this backdrop if and at what weighting a holding should remain in the fund.

Focus on carbon emissions and carbon footprint

Beyond taking into consideration how companies score on the SmartGARP ESG factor generally, the manager pays particular attention to companies' current and expected carbon footprint, with the fund aiming to have a falling carbon emission intensity over the long term, at least five years[1].

In 2021, we refined SmartGARP's ESG subcomponent further by complementing it with data on companies' current and expected future greenhouse gas emissions.

It is important to note, however, that in managing the fund we do not operate a threshold or cut-off beyond which we would never invest in a company.[2] Rather, by virtue of SmartGARP's design the fund on aggregate aims to have better ESG characteristics than its benchmark. Moreover, we would expect that, over time, the fund's ESG characteristics in general, and its carbon footprint in particular, will improve.[3]

Exposure to carbon intensive sectors and low-carbon technologies

While the expectation is that the fund's carbon emission intensity will fall over the long term, companies in carbon-intensive sectors will remain within the possible investment universe and the fund may invest in carbon intensive companies selectively. This is because these sectors cover a substantial part of the global economy's capital stock that will need to be de-carbonised at some significant expense. The manager believes that selectively allocating capital to companies engaged in making the requisite changes will facilitate climate transition more effectively than simply disinvesting. While investing exclusively in innovative companies with a low, or even negative, carbon footprint facilitates the energy transition to some extent, this alone will not suffice.

[1] The fund's carbon intensity is measured as the weighted portfolio average scope 1 and 2 emission of tons of Co2 per million dollars of sales.

[2] Except for the exclusions stated in the fund's prospectus:

- Tobacco: companies which derive more than 5% revenue from production, distribution or sale of tobacco
- Weapons: companies:
  - involved in the production of controversial weapons (including cluster munitions, landmines, biological and chemical weapons) or nuclear weapons; or
  - which derive more than 5% revenue from manufacture or sale of civilian firearms or ammunition;
- Coal: companies which derive more than 5% revenue from mining or sale of thermal coal.

[3] This is borne out by recent MSCI data, which shows that the fund's carbon intensity has fallen from 578 tons Co2/million dollars of revenue at the end of 2018 to 246 at 10 May 2022. During the same period, the carbon intensity of the fund's benchmark (MSCI Emerging Markets Index) has remained broadly stable around 340-350 tons/million dollars of revenue.

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