ESG *investment* methodology

How we consider climate risk in our investment processes

Artemis Funds (Lux) – US Select
Artemis Funds (Lux) – US Smaller Companies
Artemis Funds (Lux) – US Extended Alpha

Overview

The manager seeks to decrease the sub-fund's exposure to climate risk and benefit from the opportunities associated with the transition to a net-zero emissions economy through investing in companies which are actively managing their carbon exposure and setting meaningful targets.

Over the last few years, the impact of environmental considerations on stock prices has become increasingly pronounced. The manager believes this trend is set to continue for a number of reasons including political, regulatory and consumer pressure.

With increasing capital being allocated to those companies which have meaningful greenhouse gas emission reduction targets and/or strongly rising future green revenues, the manager believes that these companies represent a long term investment opportunity especially given the prevailing political climate in the US following President Biden's election.

Climate assessment process

The manager considers a number of factors to assess the environmental impact of current or potential holdings. These are assessed as part of the fundamental upside/downside analysis and include:

- carbon intensity and absolute emissions;
- targets set (short/medium/long term);
- long term ambition, for example a net zero long term target;
- company disclosure on material issues and metrics;
- a decarbonisation strategy including exposure and capital expenditure assigned to green revenues;
- governance including oversight and executive remuneration.

Inputs to undertake this assessment come from a number of different sources including company disclosures, company engagement, and data from sources such as MSCI Carbon Analytics, Climate Action 100+ and the Transition Pathway Initiative.

While the fund screens out companies which derive more than 5% revenue from mining or sale of thermal coal, carbon intensive companies from other industries or sectors remain within the possible investment universe. This is because the climate transition will require significant structural changes in these sectors and selectively allocating capital to companies engaged in making the required changes should facilitate climate transition more than disinvesting indiscriminately.

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More detailed environmental analysis is however performed on those companies which are considered high impact as set out in the Paris Aligned Investment Initiative Net Zero Investment Framework Implementation Guide (March 2021). These are:

- companies on the Climate Action 100+ focus list
- companies in high impact sectors consistent with Transition Pathway Initiative sectors
- banks
- real estate

This includes active engagement and monitoring, both of the company but also in relation to peers.

The assessment of environmental factors, as with other ESG risks and opportunities, feeds into the fundamental assessment of holdings which includes analysis of the business model, financial model, a company's management, and its valuation.

Our time horizon on holdings does vary considerably and this is also reflected in the time we spend assessing all factors related to a company.

Use of Derivatives – Artemis Funds (Lux) – US Extended Alpha only

The manager implements a '130/30' strategy for this fund which includes the use of long and short derivative positions in order to generate incremental alpha and improve the risk profile of the portfolio.

Where deemed material, ESG considerations can be both a positive or a negative factor in the future share price of the business, and as such may be a key factor in our long or short investment thesis. The manager may take long derivative positions in companies which it determines has positive ESG characteristics, as outlined in this methodology, and may take short derivative positions in companies which it determines has downside ESG risks. However, ESG considerations are only one aspect of the manager's broader investment analysis and it will not always be the case that a short position will have negative ESG characteristics or a long position will have positive ESG characteristics.

The fund-level exclusions are applied to all holdings, including short positions.

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