



**CARNOT**  
CAPITAL

# Engagement Policy Statement



Carnot Funds | September 2020

Version 1.0

## Carnot Impact beyond ESG



In cooperation with:



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**Carnot Capital** is an investment management company, specialized in energy and resource efficiency. We founded the company in 2007 in Zurich and received 2013 the permission as an asset manager for collective investments by the Swiss Financial Markets Supervisory Authority FINMA.

We manage the equity funds Carnot Efficient Energy and Carnot Efficient Resources performing a sustainability examination ESG. We buy stocks of listed companies with products and technologies, that lower the consumption of natural resources. Due to rising scarcity and increasing environmental problems, those companies profit from structural growth. The stock picking is based on a value approach, where the quality of the company is central. We only invest in established, profitable companies with strong balance sheets.

Carnot Impact Investing is a blended approach, which differentiates itself through financial as well as social-ecological performance and by combining these two qualities and revealing the positive effects they have achieved (impact from ESG & SDG mapping).

The name Carnot Capital refers to the French physicist Nicolas Léonard Sadi Carnot (1796 - 1834) who was able to define the maximum physical efficiency of a steam engine. Improving energy efficiency is nothing more than increasing the level of efficiency when converting primary energy to useable energy. To a certain extent, we relate maximizing the degree of efficiency to our investment activities as well: Applying strict risk-return criteria and that's why our creed is: Investments featuring a maximum degree of efficiency. **Carnot Capital**



## 1. Introduction

This policy statement details how Carnot Capital AG approaches shareholder engagement (SE). In particular it explains the rationale, SE objectives, governance structure and how the policy is implemented. Where appropriate, portfolio managers should consider engagement for all investment strategies.

Depending on the asset management contracts with funds or any mandate given to Carnot Capital, the level of engagement may vary reflecting the different investment approaches and the difference in client needs.

This policy statement reflects Carnot Capital's current SE approach, and we expect that our policy will evolve over time to reflect changes in business practices, business structures, technology, and the law.

## 2. Monitoring of investee companies

Carnot Capital is an active asset manager and strongly believes in the fundamental analysis and monitoring of investee companies. The portfolio managers invest in the equities (or similar instruments) of companies after seeking to gain a deep understanding of a company's business strategy, risks, capital structure, and corporate governance structure.

Carnot Capital is committed to integrating Environmental, Social and Governance factors ("ESG") into the investment processes where appropriate, not only «top-down» but also in a «bottom-up»-process.

Carnot Capital believes an effective identification of material ESG risks requires thorough analysis and continuous monitoring. The «Carnot impact analysis» goes a step further beyond ESG and analyses the positive impact of product, services and projects by mapping and measuring the reaching of the UN SDGs<sup>1</sup>. Also see the research paper «Carnot Capital Impact Investing», where all the processes are specified in detail.

The portfolio managers of Carnot Capital have developed research and monitoring models in accordance with the different investment approaches. They have access to internal (Impact-/ ESG-/ Engagement questionnaires) as well as to external ESG data providers and ESG specialists.

## 3. Engagement with investee companies

Carnot Capital considers engagement to be an important element of its investment activities. As an active manager, Carnot Capital generally prefers to engage

with the managements of investee companies directly. Carnot Capital does not have a standalone engagement team. It believes in the direct contact between investee company management teams and investment professionals such as portfolio managers and analysts who have the specific expert knowledge and understanding of the context in which the company has been selected as an investment. In addition, the portfolio managers have access to proxy voting and engagement service providers to support them in their engagement activities and decision-making process.

Reasons to engage with an investee company can include:

- business strategy,
- business strategy,
- change in the capital structure,
- remuneration issues,
- identified environmental and social risks as well as
- Investor Relations support concerning SDG-communication.

Engagement includes ongoing communications between the portfolio managers and the management teams of investee companies and can range from ongoing updates and questioning of the current and future business model, to engagement on specific issues that may cover ESG or Impact concerns.

In certain circumstances, portfolio managers may take a more targeted and focused approach, depending on the circumstances and the nature of the situation. Engagement could be escalated through additional meetings with the management and dialogue with the board chairman and non-executive directors.

Where these engagements do not progress in the direction that the portfolio managers believe is in the best interests of shareholders or the shareholding is insufficient for an effective escalation on a standalone basis, other options are considered, including, but not limited to:

- Voting against resolutions at shareholder meetings;
- Collaborating with other institutional investors; and/or
- Selling some or all of the investment in the context of the value proposition of the investment as a whole.

## 4. Cooperation with other shareholders

In certain cases, the portfolio managers may collaborate with other asset managers if they consider it to be in the best interest of investors. This may be by signing

<sup>1</sup> United Nations (2015), Sustainable Development Goals, Knowledge Platform SDGs.



up to collaborative shareholder initiatives or joining other asset managers in company meetings. As a signatory of the Principles for Responsible Investment (PRI) Carnot Capital considers this asset owner driven investor network a good partner for collaborative engagement.

The full list of our memberships and initiatives is available on [www.carnotcapital.com](http://www.carnotcapital.com).

## 5. Voting rights

Carnot Capital recognizes that the exercise of voting rights is an important aspect of shareholder engagement, particularly if the holding is material regarding the outstanding share capital of the investee company and a position in the managed portfolios.

Portfolio managers are ultimately responsible for determining how to vote, within a framework established by the Fund Management Companies of the Carnot Funds. The Fund Management Companies have engaged proxy service providers in order to have access to their research and recommendations to support Carnot Capitals portfolio managers in der decision-making process.

Details are described in separate Voting Policies.

## 6. Management of conflicts of interest

Carnot Capital is aware of potential conflicts of interest when engaging with companies and has measures in

place to limit potential conflicts. An important element is the structure of Carnot Capital, there are policies and controls in place that are aimed at detecting and preventing activities of employees that could cause conflicts.

## 7. Disclosure and update

Carnot Capital will publish on a yearly basis the «Carnot Impact Report», a report outlining the Shareholder Engagement but also most importantly the impact of the Carnot Funds towards the SDGs.

Details of its voting history and the use of proxy voting and engagement are listed by the Fund Management Companies that have mandated the service providers. In addition, Carnot Capital will also report to its mandate clients on an individual basis.

This Engagement Policy Statement is available free of costs for all investors under [https://www.carnotcapital.com/\\_pdf/dokumente/](https://www.carnotcapital.com/_pdf/dokumente/).

This Engagement Policy Statement is updated regularly. Changes can be made by Carnot Capitals Compliance or its executive board.

## 8. Entry into force

This policy statement enters into force on September 1, 2020.