

Sustainable Investing.



Nicolas Forest
CIO, Candriam

“ Sustainable investing is at the core of Candriam’s investment strategy. By allocating capital to companies that proactively address the challenges of tomorrow, we not only aim to deliver favorable outcomes for our clients, but we also aim to contribute to society as a whole. Through this approach, we aim to create a positive impact that resonates far beyond financial gain.

An Extensive Footprint in Responsible Investment.

Sustainability is at the core of Candriam's investment philosophy. The connection between ESG principles and the risk/return profiles of issuers is central to our long-term investment approach, one that is focused on helping clients meet their unique objectives.

At Candriam, we have been involved in responsible investment practices since 1996 and have a strong record of using a proprietary analysis method to select the companies we consider to be the most responsible in terms of environmental, social and governance (ESG) criteria.

Candriam has sustainable strategies across all major asset classes – equities, emerging market equities, bonds, high-yield bonds, emerging market bonds, money markets, private equity impact funds of funds, and through partners, real estate and private debt. In 2022, in line with Candriam's ongoing commitment to sustainable investing, the firm expanded its sustainable fund range:

- A global convertible strategy which invests in sustainable global convertible bonds with ESG KPIs of a 30% reduction in carbon footprint and a higher ESG score than its benchmark index.*
- A sustainable balanced asset allocation strategy which invests in the Candriam sustainable solutions and has a carbon reduction goal of 25% less than its benchmark index.*

- A new thematic strategy which invests in companies that contribute to the sustainable production of food and/or provide healthier and better nourishment.*
- A sustainable bond impact strategy investing in bond issuance that facilitates the development of projects to support the transition to a low carbon economy or to improve social disparity.*

Underscoring its commitment to achieving the best outcomes for its clients, Candriam's in-house ESG team of 26 experts analyses corporate business activities and stakeholder practices and conducts a norms-based and potentially controversial activities analysis, a process which helps to identify any overarching risks.

Using its nuanced proprietary sovereign model, the team also conducts country-by-country analysis of ESG risks and opportunities for sovereign debt issuers. Embedding ESG analysis across the investment process allows clients to achieve diverse financial, environmental, and social objectives while aligning their portfolios with their own values.

*Not available to US Persons as defined in Regulation S under the United States Securities Act of 1933, as amended.

How we Approach Sustainable Investing.

Norms-based violations and controversial activities

Check violations of UN Global Compact principles / exposition to controversial activities

Business activities analysis

Assess how business activities constitute to sustainability challenges

Stakeholder analysis

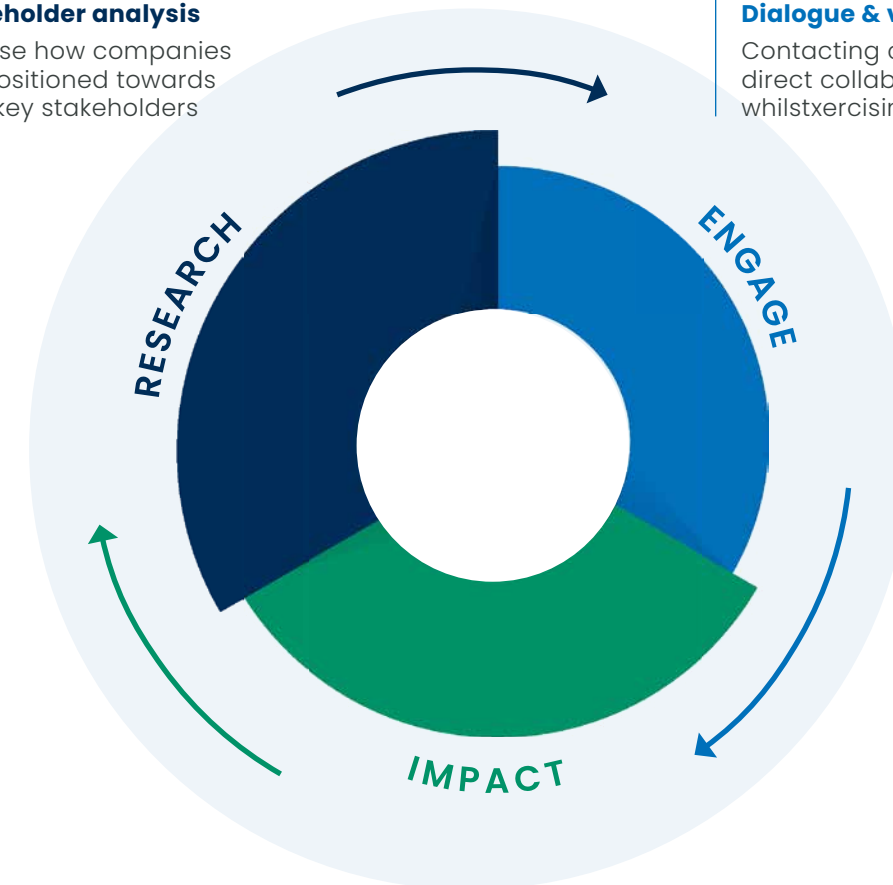
Analyse how companies are positioned towards their key stakeholders

Stewardship

Active ownership to encourage transparency, foster sustainable practices and support investment decisions

Dialogue & voting

Contacting companies by direct collaborative initiatives whilst exercising our voting rights



Transparency

Report on the impact of our investments in a transparent way: our investors know what their contribution is

Impact measurement

Develop and implement relevant indications to measure the contribution of our investment to sustainable challenges and SDGs

Leadership in Climate Change.

As addressing the impact of climate change becomes ever-more urgent, Candriam maintained its commitment to reducing the environmental impact of its investments and operations.

In 2021, we pledged our commitment to achieve net zero emissions by 2050 and became a signatory to the Net Zero Asset Managers Initiative (NZAMI). As we transitioned into 2022, we defined our net zero strategy in discussion with our investment teams to determine our perimeter. Following this, our methodology and defined perimeter underwent validation by our Group Strategic Committee (GSC), with implementation beginning in the final quarter of 2022 as well as reporting to NZAMI on our methodology and perimeter.

We will continue to report annually to the NZAMI on our net zero progress until 2025, including the ongoing monitoring of climate progress and objectives and integration of scope 3 targets.

Candriam is embedding net zero at the core of our sustainable investment strategy, through four pillars:

1. Active Engagement

Engagement is at the heart of our commitment to achieving net zero as it enables us to influence companies' approach to climate-related considerations. This interaction supports a more systematic integration of climate risk and opportunities into their strategic decisions. It is one of the most powerful ways to create real-world outcomes. We have set the objective of engaging directly or collaboratively with issuers accounting for at least 70% of our financed emissions by 2030.

2. Aligning our Investments with Net Zero

It is our conviction that it is crucial to systematically assess the climate positioning of the companies we invest in, especially the ones operating in sectors that are key to the transition. In particular, it is important to understand which high-stake companies are contributing positively or transforming their business credibly to align with the net zero goals. Accordingly, we are developing proprietary sector-specific net zero alignment frameworks to position companies on a net zero alignment maturity scale. We have set the objectives to have at least 50% of our financed emissions coming from companies assessed as «net zero» or «aligned to a net zero pathway» by 2030.

3. Decarbonising our Portfolios

Beyond our participation in the NZAMI, which commits us to being net zero by 2050, we have set the objective of reducing the carbon intensity of our portfolios by 50% by 2030. The initial weighted average carbon intensity (WACI, scope 1 and 2) of our net zero perimeter was 109t CO₂/m\$ of revenues in 2019. Our objective is to reach 54.32t CO₂/m\$ revenues by 2030. As of December 31, 2022, we have achieved a WACI of 78.09t CO₂/m\$ revenues.

We have selected three methods for demonstrating the alignment of our investments with a Paris-based net zero target: **Emission intensity reduction, temperature alignment and EU climate benchmarks.** These methods allow us to adapt measurements to a variety of investment strategies and their respective climate positioning.



4. Financing the Ecological Transition and Promoting Green Finance

In line with our net zero strategy, Candriam is committed to financing the ecological transition and to promoting green finance. We actively pursue these objectives through several avenues:

- **Climate-focused investment strategies:** Candriam manages a range of thematic, environmental strategies directly focused on climate-related matters. We continuously work to expand this offering, seeking opportunities to materially contribute to climate solutions across asset classes.
- **Commitment to green bonds:** Candriam has developed strategies for investing in green bonds and built the relevant expertise, both in the ESG analysis and in the financial analysis of such instruments. Our objective with these investments is to finance green activities that make significant positive contributions to the transition.
- **Measurement and reporting of contributions to greening the economy:** It is our conviction that thoroughly tracking and understanding our investments' contributions to climate-related matters is essential. To that end, Candriam allocates significant resources to the measurement and reporting of its investments' contributions to the transition.
- **Promoting green finance beyond our investments:** Our ESG experts conduct and publish research on the ecological transition and organise events which allow investors to gain insight into the role of finance in facilitating this transition. Candriam also has partnerships with renowned academic institutions to foster research and offers a public, free training programme on sustainable investing.

ESG Analysis– 2022 Case Study

Candriam's in-house ESG team analyses issuers' business activities and stakeholder practices. Additionally, the team conducts a norms-based and controversial activity analysis to identify any overarching risks, along with country-by-country analysis based on its proprietary sovereign model. This process of embedding ESG analysis across the investment process ultimately allows clients to achieve diverse financial, environmental and social objectives, aligning their portfolios with their values.

This process is applied across asset classes. For example, Candriam engaged with Teleperformance, the global digitally integrated services and customer call centre business, on governance and social performance issues following several years of controversy over its duty of care and the working conditions of its employees. Recognising these potential risks, Candriam first engaged with the company directly and then joined a group of French investors who were also concerned about these same issues. This collaborative outreach has led to some progress, such as the development of a more detailed due diligence plan and the creation of a CSR committee. However, as the progress made fell short of expectations, Candriam removed Teleperformance from its ESG-eligible universe for Article 9 funds and sustainable portfolios in mid-2022. While controversies over the conditions of workers continues, Teleperformance has taken some recent positive steps, which Candriam is continuing to monitor.

Embedding Climate Change into the Core of our Investment Strategy

At Candriam, we actively participate in the fight against climate change. As a global investor, we believe it is our responsibility to protect our clients' investments while also addressing the concerns of wider society for the long-term sustainability of our planet.

In 2021, we committed to becoming net zero by 2050, which will redefine the way we invest, impact how our investment teams manage climate risks and ultimately create positive climate benefits. We also firmly believe that responsible investing is a key driver of social, economic, and environmental progress, which benefits long term financial value creation for our clients. This encompasses the following strategy:

1. **Exclude:** Exclude activities that are deemed incompatible with the objectives established by the Paris Agreement.
2. **Integrate:** Integrate climate risks and impacts in our investments.
3. **Engage:** Engage with high emitting companies to accelerate their transition strategy.
4. **Report:** Report on the climate impacts of our portfolio in a comprehensive and transparent manner.

Candriam signed the Montreal Carbon Pledge in 2015 and we have been disclosing carbon emissions of all our sustainable strategies (with the exception of our sovereign market bond due to methodological constraints) since 2018, with the overarching ambition to reduce the carbon footprint of these strategies year-on-year. Candriam defined specific indicators to assess the companies' performance towards climate change mitigation and adaptation, both at the operational and investment level.

Candriam has a partnership with Carbon4Finance* that helps us assess the temperature alignment of a portfolio, i.e., which climate trajectory the portfolio is aligned with. This analysis is based on both historical and prospective data and allows us to assess the impact of each company and the whole portfolio on the pursuit of a decarbonisation trajectory that would maintain the increase in temperature "well below 2 °C".

Our 2030 objectives:

- **Engagement:** We aim to engage with companies that account for at least 70% of our financed emissions.
- **Emissions reductions targets:** We strive to reduce our average Weighted Average Carbon Intensity (WACI, scope 1-2) by at least 50%.
- **Aligning our investments with net zero:** We plan to have at least 50% of our financed emissions coming from companies assessed as Net Zero or aligned to Net Zero pathways.
- **Financing the ecological transition:** We will measure and maximise the share of our investments contributing positively to the transition.



* Carbon4 Finance provides financial institutions with a complete set of climate and biodiversity data solutions enabling them to be actors of a just transition.

Ensuring the Robustness of our Stewardship Policies.

“ **Engagement and voting form the core of our investment strategy. We are dedicated to collaborating with our clients and investee companies, striving to maintain consistency on ESG strategies and actions. However, we firmly believe that progress is born out of constant evolution. As such, we consistently seek to elevate not only our own ambitions but also those of our stakeholders.** ”



Sophie Deleuze
Lead ESG Analyst, Stewardship

Stewardship, engagement and collaboration are essential components of ensuring progress on responsible investment.

Candriam has dedicated over two decades to engaging with companies on responsible investing through proxy voting, both direct and with collaborative dialogue, and the promotion of sustainable finance. Since 2015, Candriam has prioritised three main, long-term conviction topics:

- Energy transition
- Fair working conditions
- Business ethics

Ramping up our engagement activities.

We define engagement as interactions we have on ESG issues, not only with current or potential investees but also with entities which, through their competence and/ or authorities, are able to initiate or influence change in the regulatory or market frameworks involving ESG aspects.

Engagement covers constructive individual/direct outreach as well as collaborative dialogues with issuers on issues such as ESG and voting. As an extension, resolution co-filing, public statement or preannouncement of voting intentions also fall under this definition as such actions may be considered as escalation measures.

Our scope of engagement covers the full range of issuers and regions, to address our complete investment universe, with priority given to issuers covered through our ESG analytical framework.

Because Candriam offers sustainable investment processes for all major asset classes, we engage across equity and bonds assets, and across corporate and noncorporate issuers, including private equity. Our dedicated **Engagement and Voting team**, created in 2016, includes five ESG analysts who specialise in engagement and voting.

The team coordinates dialogue and voting activities across Candriam. They work in close collaboration with the ESG research team's sector and thematic specialists, and of course alongside the investment teams, who are regularly informed of engagement follow-up and often take part in the dialogues.

Consistency between ESG opinion, dialogue and voting is crucial in order for Candriam to speak with one voice and play a credible role in influencing investment strategies. ESG analysis and opinion feeds the engagement design and process, while the outcomes of the engagements feed the ESG analysis and serve the investment strategies. Together, our Candriam teams create a common understanding of which concerns to pursue, and which best practices we want to promote and defend. This requires close collaboration.

During 2022, we targeted 336 corporate issuers through our direct dialogue efforts, resulting in a total of 427 dialogues on a range of topics. These issuers account for 42% of Candriam AUM*, based on corporate instruments (stock and bond instruments, direct lines) in funds or mandates for which Candriam ensures the management activity.

336
issuers targeted in 2022
for a total of 427 dialogues

While engagement may be prompted by exceptional events such as an acquisition, a change in the issuer's business model or a controversial event (accident, investigation announcement, charges laid down by stakeholders), proactive engagement, such as thematic campaigns, remains the norm. Based upon our internal ESG analysis (and materiality assessment), priorities and timeline of engagement are defined and/or updated amongst others in light of Candriam's level of exposure (assets), investment teams' interest, trendsetter nature of the topic, engagement's history, and momentum, the pre-AGM period appears to be the best time to influence issuers on their corporate governance practices.

We will also prioritise engagement related to the three topics of conviction that Candriam has chosen to put on the forefront since 2015, namely: **Energy Transition, Fair Work Conditions and Business Ethics**. Whether we use direct or collaborative dialogue, our contact point is chosen based on our history of contacts with the issuer in question, and on how well the position of our contact(s) matches with the engagement topic. If relevant, we may also dialogue with other stakeholders such as unions, industry or consumer federations, non-profits, or academics to have a more precise or balanced approach.

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*Limiting the AUM scope to Corporates invested in direct lines (both through equity and fixed income instruments) in funds or mandates for which Candriam ensures the management activity. Source: All data is from Candriam, unless otherwise specified

Supporting Investees ESG Programmes through Voting.

Voting is essential for clarifying the firm's views on sustainable programmes and outlining to the companies in which we are invested what we expect of them.

The cornerstones of Candriam's voting policy are:

- Shareholder rights – corporate governance structure and company practices should protect the rights of shareholders;
- Equal treatment of shareholders – all shareholders of the same class should be treated equally, “one share-one-vote” principle;
- Board accountability – fully informed board which acts in the interest of the sustainable medium and long-term interests of shareholders;

Transparency and Integrity of Financial Statements – accurate, transparent and independently audited financial information.

During 2022, Candriam made its voice heard in 1,939 ordinary and extraordinary general meetings, voting on 25,715 resolutions for the firm's open-ended equity funds, dedicated funds, and mandates under Candriam's voting policy. Candriam opposed around 27% of total management resolutions.

Collaborative initiatives

Using Candriam's influence as a shareholder and, more broadly, as a recognised leader in sustainable investing, is one of the cornerstones of our sustainable approach to investing.

In order to have a positive impact on the overall market and address systemic risks, such as climate change or human rights, we have found collaborative initiatives to be one of the most effective tools. For those collaborative initiatives in which we participate, we select initiatives where we believe our voice and organisation can be most impactful and then elect to lead the engagement.

Ensuring Oversight and Accountability.

Candriam's ESG governance structure and more specifically our Sustainability Risks Committee, our Proxy Voting Committee and our Stewardship Workstream ensure Candriam's policies of engagement and voting are aligned with our duties and convictions, regularly updated, and well-implemented.

Because these governance bodies shape and monitor our approach, they ensure that our engagement priorities are well-considered, closely followed, and that related information is shared and discussed to eventually validate important steps of engagement, such as escalations.

Candriam published its first engagement report in 2009 and since then, we have continuously aimed to increase not only our reporting transparency and market practices, but also – and primarily – paying close attention to the expectations of our clients and those of society.

For additional details on our Engagement activities, you can read our 2022 annual engagement and voting report on our website:

