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### How has sustainable investing evolved over the past year?

The world has faced a number of challenges in the last year, including post-Covid economic upheavals, inflation and most recently, the war in Ukraine.

The events of the past year have once again underscored the critical importance of and interdependencies between issues across the ESG triptych. On the environmental front, the climate crisis continues to escalate, with the Covid-19 pandemic and the resulting economic slow-down the only period so far in which the reduction in greenhouse gas emissions was in line with the goals of the Paris Agreement. The Covid-19 crisis also illustrated the significance of social factors for sustainable development. Investors saw first-hand the potential repercussions of such factors – ranging from management of supply chains, safety policies in the workplace, to healthcare access and the crisis unfolding in Ukraine has, of course, highlighted the importance of in-depth, forward-looking analysis of governance-related matters, with regards to both corporate and sovereign investments.

### How has Candriam's approach to sustainability evolved in this complex environment?

As sustainable investors, it is vital that we stick to our sustainability convictions, especially during times of global uncertainty. Staying true to our sustainable investing principles in good times and bad has earned the trust of our clients, which is of paramount importance.

Thus, the terrible events that have unfolded in Ukraine, while consequential, do not alter our convictions or approach. We have excluded Russian sovereign debt from our sustainable strategies for several years now, due to governance concerns (including on human rights, rule of law, corruption, and external security) and a low natural capital score (including on environmental regulation, use of resources, carbon footprint, and greenhouse gas emissions).<sup>(1)</sup> Candriam's convictions on defence also remain the

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<sup>(1)</sup> For additional details, please refer to our paper "Sovereign Analysis: Natural Capital vs the Nature of Capital". [https://www.candriam.com/48ff47/siteassets/medias/publications/brochure/corporate-brochures-and-reports/sovereign-report/2021\\_01\\_sovereign\\_sustainability\\_en\\_web.pdf](https://www.candriam.com/48ff47/siteassets/medias/publications/brochure/corporate-brochures-and-reports/sovereign-report/2021_01_sovereign_sustainability_en_web.pdf)



same. Whilst we recognise the importance of the defence sector to national security, the ethical issues related to the use of weapons and the negative impact they may have on societies and human rights, is the responsibility of governments to solve, not private capital.<sup>(2)</sup> Our priority as a fiduciary to our clients is to invest their assets responsibly and sustainably. We take a considered and detailed approach to carefully review and assess individual companies and their products to understand their alignment with ESG standards. However, the defence industry is extremely complex, and it is difficult, if not impossible, to ensure that the companies or equipment that help protect vulnerable populations today will not be used to empower oppressive regimes tomorrow. Moreover, making the distinction between conventional and controversial weapons<sup>(3)</sup> is not as straightforward as it may seem. All these factors represent significantly high risks that in our view are incompatible with sustainable strategies.

Our strong convictions and disciplined approach to sustainable investing extends to how we implement regulation. Ever since we launched our first sustainable investment strategies in 1996, in-depth analysis of ESG factors has been a cornerstone of our investment process. Accordingly, a very large part of our product range was already classified within Article 8 and 9 under the EU's Sustainable Finance Disclosure Regulation.

We've used the implementation of this regulation as an opportunity to continue offering clients ever-more granular views of sustainability risks.

### **How do you ensure, in an ever-more uncertain world, that Candriam's ESG framework is future-proofed for tomorrow's realities?**

Candriam's ESG framework was built to be forward-looking. Our objective is to identify and reduce the sustainability risks of today and tomorrow for our clients'

investments, thereby making a positive contribution to a more sustainable future.

We also aim to uncover and capture present and future sustainability-related growth opportunities in the portfolios we manage. To achieve these objectives, when assessing the sustainability of companies, we analyse their adherence to international norms, their involvement in controversial activities, how they manage their stakeholder relationships and the key sustainability challenges that they are exposed to. In fact, a company's relationship with its stakeholders and its exposure to key sustainability challenges are determinants of long-term corporate value.

For countries, our analytical framework includes filters for high-risk, oppressive regimes and standards of democracy. Furthermore, we assess each country's ability to manage its environmental, human, social and economic capital in a sustainable fashion, today and in the future. The framework has three distinguishing features. First, the breadth of data – historical, real-time, and forward-looking – that it analyses. Secondly, the framework integrates materiality, meaning that it takes into account the variations in relevance of different factors for the future sustainability of each country.

This approach to corporate and sovereign sustainability focuses not only on reducing sustainability risks for investors' portfolios and negative impacts of investments on the environment and society but on identifying and capturing sustainability-related opportunities for our clients. Structural trends such as the transition to a carbon-neutral and more circular economy mean a reshuffling in industrial structures and capital allocations, which in turn, creates pockets of growth for innovative companies that develop or adopt solutions for the world's environmental and social challenges. •

<sup>(2)</sup> For additional information on this subject, please read our market insight "Weapons manufacturing is not sustainable. No ifs or buts" published on our website <https://www.candriam.com/en/professional/market-insights/topics/sri/weapons-manufacturing-is-not-sustainable-no-ifs-or-buts/>  
<sup>(3)</sup> Controversial weapons include landmines, cluster bombs, depleted uranium, chemical and biological weapons. They are prohibited by international treaties.