



# Responsible investing

The United Nations Sustainable Development Goals (UN SDG) impacted



**63%**  
of total AUM = ESG Assets

ESG AUM:  
**€88.3bn**

## Sustainable investing

### What was the impact of the 2020 pandemic on ESG investing?

The world changed, almost instantly, in March 2020. With full effects still unfolding, Covid-19 has clearly intensified and accelerated a range of trends. Permanently changing the future of society, work, geopolitics and business, it also emphasised the growing relevancy of wider stakeholder-oriented company models, which provide equitable returns not just to shareholders, but also to employees, customers and suppliers. Covid-19 not only brought the greatest recession since World War II, but also renewed the focus on climate change. It should be seen as a wake-up call, accelerating the need to invest for a better future. Now that policymakers are looking at how to bring the global economy back to life, they should put sustainability at the heart.

### With the increase of regulation across the industry in relation to sustainable investing, how do you see this trend evolving? What impact will it have on the investment community?

The increased regulation is contributing to raising the bar on how sustainability is integrated by investors and sets to change the way capital is channelled in building a financial system attracting long-term capital to support the transition to a more sustainable economy. We also see an acceleration in regulation focused on corporate disclosure of environmental, social and governance in particular to climate-related factors, stewardship and investor duties. Investors will play a key role not only in the allocation of their capital, but more importantly as stewards of their investments. 'Build back better' has become the new mantra for our post-Covid-19 society. Companies have a crucial part to play in reforming harmful practices and facilitating positive change. Investors are pivotal to drive this change, not least through channelling

**“Our goal remains to offer our clients cutting-edge investment solutions that have a real, inclusive and sustainable impact.”**



**Vincent Hamelink**

Chief Investment Officer

their capital accordingly and deliberately adopting a long-term perspective, valuing natural and human capital. Governments more than ever need to seize the opportunity by using this economic recovery momentum to address climate, sustainability and economic inclusion goals and to accelerate a just transition.

### How has CANDRIAM's ESG platform evolved, and what are your plans for the next years?

As a responsible asset manager, sustainability is an active choice. Acknowledging our leading role in shaping the world of tomorrow, we will act to drive change across society, addressing social inequalities and prioritising our planet. We are committed to the continuous

development of our long-standing and holistic Environmental, Social, and Governance analysis approaches, and to the ongoing expansion of our large range of SRI investment products.

From a few funds 25 years ago, the spectrum of investment strategies where ESG is integrated has grown to encompass almost all investment products in a large variety of asset classes within CANDRIAM's investment scope. Following our own path, we will continue to develop our expertise by enhancing our processes, the developing of a proprietary ESG dashboard and refining our knowledge of ESG impacts and materiality. Our goal remains to offer our clients cutting-edge investment solutions having a real, inclusive and sustainable impact, not only searching immediate profit for the investor, but to all stakeholders in society.

# Steering capital to sustainable and inclusive economic activities

As mentioned in our name, an acronym that stands for **C**onviction **and** **R**esponsibility. In **A**sset **M**anagement, we are fully committed to contributing to the broader sustainability objectives of the Paris Agreement and the UN Sustainable Development Goals (SDG).

As an active and responsible asset manager at the forefront of sustainable investing ever since launching our first responsible funds back in 1996, the explicit and systematic integration of environmental, social and governance (ESG) issues is an integral part of our investment strategy across all asset classes. This is our responsibility both to clients and society, particularly during times of geopolitical and socio-economic uncertainty.

A multi-layer sustainability approach: Our responsible investment approach applies **firm-wide exclusions** of companies involved in thermal coal mining, coal-fired power generation, tobacco and controversial armaments. These activities do not embody sustainability as they can compromise public health and the environment.

Economic development and growth should be sustainable and inclusive in the long run to benefit everyone across generations

Companies that embed sustainability in their governance, strategies and business operations tend to outperform or have less downside risk than peers that do not consider sustainability.



In addition, we believe that companies should respect universally agreed upon principles of human and labour rights and abstain from corruption or actions that damage the environment. To this end, companies that repetitively and severely violate the principles of the **UN Global Compact** are excluded.

Further to exclusions, **ESG integration** is imperative as some of the sustainability challenges we face could test the resilience of our financial and economic systems.

Our ESG analysis adds essential layers of information that encompass the “intangible” aspects of a business not fully captured by traditional financial analysis. In our ESG approach, sustainability challenges are analysed from two different but interlinked angles and cater to the specific needs of each investment asset class.

**Business Activities Analysis** looks at a company’s exposure to five key sustainable challenges: Climate Change, Resource & Waste, Healthy living & Well-being,

Demographic Shifts and Digitalization & Innovation. These environmental and societal trends drive consumer behaviour, regulatory policy and the economic landscape and shape the future challenges and long-term growth prospects of companies.

**Stakeholder Analysis** evaluates the extent to which each company incorporates the interests of stakeholders (investors, employees, customers, suppliers, society and environment) in its long-term strategy. The factors give rise to opportunities as well as risks and are therefore key determinants of long-term value creation or risk exposure.

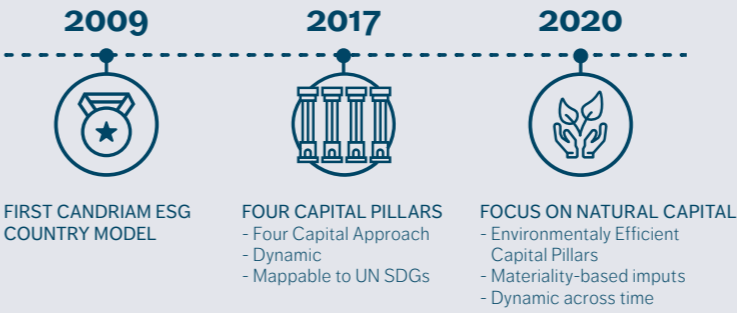
## Updated Sovereign Sustainability Model

In 2020, CANDRIAM’s ESG analysts worked on an updated version of its Sovereign Sustainability Model, highlighting how the emphasis of sovereign analysis must prioritise sustainable development alongside economic development.

The new evolved model goes beyond typical country sustainability models which assume all forms of capital are perfectly interchangeable, putting four types of capital (Human Capital,

### TIMELINE

The evolution of our investment strategy to focus on Natural Capital



Social Capital, Economic Capital, and Natural Capital) at the same level. CANDRIAM’s model puts climate change and environmental preservations at the core of the investment process as it focuses more on how countries manage their Natural Capital, as well as the interdependencies between Natural Capital and the three other capital forms.

This move was based on the findings of CANDRIAM’s research that if environmentally inefficient countries continue to deplete large amounts of natural resources which are by definition finite, they will eventually experience a negative impact across four types of capital – Human Capital, Social Capital, Economic Capital, and Natural Capital – which will have devastating social, economic, and environmental repercussions. By placing

Natural Capital at the centre of the Sovereign Sustainability model, CANDRIAM offers a unique and forward-looking outlook on sustainability analysis.

Another finding was that most of the environmental impact over the coming decade has already been determined by current and past economic activities and Natural Capital cannot be replaced with other forms of capital. Therefore how countries manage their Natural Capital will, to a significant extent, shape their social and economic development. For example, in the case of deforestation, land use change and habitat destruction all contribute to ecosystem degradation, which in turn exacerbates climate change and increases the severity of natural disasters. Related to this, research has found direct links between



## Kroum Sourov

Sovereign Sustainability Analyst

We see increased recognition regarding the importance of climate change and environmental preservation by regulators. The industry should take the lead in implementing changes in the way that we think about production, consumption, and investing. Sustainability issues can no longer be papered over, as the cracks have become just too large.

ecosystem degradation and zoonotic disease transmission from wild animal populations to humans. Such transmission is suspected in the case of the Covid-19 pandemic, for instance.

\* Additional details about the model and its methodology can be found here: [The new sovereign sustainability model](#)

## Engagement

# Effecting change through stewardship

As a responsible asset manager, the careful selection of sustainable investments is only one tool in CANDRIAM's box when it comes to promoting and championing ESG. Increasingly, as markets, clients and regulatory interests grow, so too has the importance of CANDRIAM's stewardship activities\*. Through proxy voting, direct dialogue, collaborative dialogue, and the promotion of sustainable finance, CANDRIAM is able to exert effective pressure at investee company level, thus advancing our agenda on the energy transition, fair working conditions, and business ethics.

\* All reports related to CANDRIAM's stewardship activities are available here [SRI publications](#)



## Engagement through proxy voting

Voting is integral to our stewardship of client investments, and critical for increasing awareness on what is important for shareholders and stakeholders. Our voting policy is defined around three cornerstones, which are the rights and equal treatment of shareholders, the accuracy of financial information, and the independence and accountability of the board. The policy applies to open-ended funds managed by the Group's entities, and in certain cases to dedicated funds and mandates.

During 2020, CANDRIAM made its voice heard in 1,180 ordinary and extraordinary general meetings, voting on 15,899 resolutions for our open-ended equity funds. These votes covered diverse topics, from the election of directors, appointment of auditors and remuneration of management and directors to the share capital, and anti-takeover measures. In terms of shareholder resolutions, CANDRIAM supported more than 60% of environmental and social resolutions on the agenda.

## Dialogue on social and environmental issues

Social issues remained a primary focus of our direct engagement in 2020. Notable among these, the use of Uighur labour in China, and the possible non-compliance of Teleperformance with human rights provisions under French law. Social unrest and the Black Lives Matter protests originating in the US ensured diversity remained steadily in the spotlight. CANDRIAM also extended its work with the Workforce Disclosure Initiative with a direct engagement campaign targeting small and mid-cap companies. Environmental issues, primarily climate change and biodiversity were also priority targets. Here, CANDRIAM's engagement focused on topics including the energy transition, and opportunities for a socially-just transition and reducing financing for high greenhouse gas-emitting companies. Pressure was consistently increased on emitters to implement a zero-emission 2050 commitment. CANDRIAM joined the Investors Policy Dialogue on Deforestation (IPDD), established in July 2020 to coordinate public policy debate on halting deforestation.

## Adapting actions to the pandemic

The global pandemic resulted in unprecedented delays and cancellations of annual general meetings across the world, while virtual shareholder meetings reached an all-time high. Faced with this reality, CANDRIAM reorganised its dialogue campaigns to offer companies the time to adapt to the new norms. Early on, CANDRIAM focused its direct dialogue efforts on European companies, facilitated by their historical and geographical proximity. We also helped catalyse investors to call on European business and political leaders to act on reducing the pandemic's impact on society and markets. These recommendations included best practices such as maintaining workforces, a focus on B2B relationships, paid leave, and the need to respect health standards. They also called leaders to use recovery plans for supporting an accelerated transition to a net zero emissions economy in line with the Paris Agreement.



## Looking forward

In 2021 and beyond, CANDRIAM will continue its efforts on climate, digital and human rights, diversity, and inequality as part of our long-term framework on energy transition, fair working conditions, and business ethics.

































## Sophie Deleuze














































Lead ESG Analyst, Stewardship

Engagement & voting are core components of ESG integration: in addition to supporting our investment decisions and impacting positively on issuers' practices, they also offer a favourable exchange ground for analysts and fund managers. While governance & business ethics remain fundamental pillars of our engagement activities, climate attracted most of the attention again in 2020. However, human rights & workforce-related matters as well as biodiversity are definitely gaining traction.


























































The table shows collaborative initiatives active in 2019/2020

Collaborative initiatives for a call to action	ESG	Joined /Signed in
Making Finance Work for People and the Planet 	ESG	2019 one off
PRI-coordinated Investor Working Group on Sustainable Palm Oil  	ES	2019
Investor Mining and Tailings Safety Initiative   	E	2019
Statement for Mandatory Human Rights Due Diligence 	S	2019 - 2020
2019 Global Investor Statement to Governments on Climate Change 	E	2019 one off
Investor Statement on Turkmen Cotton (Sourcing Network) 	S	2019
2019-2020 Initiative for Pesticide Use Reduction and Safer Chemicals Management - Grocery Retail  	ES	2019
Investor Statement On Deforestation & Forest Fires in the Amazon  	E	2019 one off
Investor Statement to Support Gender Equality in the Workplace 	S	2019 - 2020 Now completed
Australian Extractives Sector, IGCC Public Sign On Letter  	E	2019 one off
Open Letter in support of Amazon Soy Moratorium  	E	2019 one off
PRI Investor statement on Climate change for Airlines & Aerospace companies 	E	End 2019/2020 one off
PRI Investors Letter to SEC 	ESG	End 2019/2020 one off
CHRB - Investor statement calling on companies to improve Human Rights performance  	S	2020 one off
Investor Statement on Coronavirus Response  	ESG	2020 one off
The Investor Agenda   Open investor letter to EU leaders on a sustainable recovery from Covid-19 IIGCC   Open letter to EU leaders from investors on a sustainable recovery from Covid-19 	ESG	2020 one off
Support brought to Joint-statement-on-the-NFRD-revision (7 recommendations) 	ESG	2020 one off
Collaborative dialogue on Teleperformance 	S	2020
Investors' Policy Dialogue on Deforestation in Brazil 	E	2020
Investor Engagement Group - Xinjiang Uighur Autonomous Region (XUAR) 	S	2020
Micro Fibre Engagement 	E	2020

Since 2006, as a founding signatory to the UNPRI, we have signed the following statements:

Commitments	ESG	Joined /Signed in
PRI - Principles for Responsible Investment 	ESG	2006
UNGC Call to Action on Anti-Corruption  	G	2014
G20 Energy Efficiency Investor Statement   	E	2015
Adhesion to Green and Social Bond Principles            	ES	2017
Montreal Carbon Pledge   	E	2015
Paris Pledge for Action   	E	2015
UK Stewardship code 	ESG	2016
Investor Statement on ESG Credit Ratings 	ESG	2017
Adhesion to Green and Social Bond Principles            	ES	2017
Tobacco-Free Finance Pledge  	S	2018
The Investor Agenda 	E	2018
Commitment to Support a Just Transition on Climate Change 	ESG	2018
TCFD supporter   	E	2021

Supported by CANDRIAM in previous years, their impact, and CANDRIAM's specific contributions:

Collaborative initiatives for a call to action	ESG	Joined /Signed in
CDP - Carbon Disclosure Project (incl. Climate Change, Water and Forest programs)    	E	2004
Sustainable Stock Exchanges  	ESG	2010
Access to Medicine (AtM) 	S	2010
Access to Nutrition  	S	2013
Bangladesh Initiative on garment industry   	S	2013
Labour practices in agricultural supply chain   	S	2016 - 2020 Q1 now completed
Fiduciary Duty in the 21 <sup>st</sup> Century 	ESG	2017 one-off
Engagement on antibiotics overuse in livestock supply chains  	ES	2017
Sustainable Protein Engagement  	E	2017
Workforce Disclosure Initiative  	S	2017
Banking on a Low Carbon Future  	E	2017 - 2020
Engagement on Cybersecurity	SG	2017 - 2020 now completed
Expectations on Corporate Climate Lobbying 	E	2017 one-off
Decarbonisation Initiative (incl. RE100 & EP100 Engagement)  	E	2017
Combating Child Labour in Cocoa Supply Chains   	S	2017 - 2019
Corporate Tax Responsibility 	G	2017 - 2020 now completed
Climate Action 100+  	E	2017
CA100+ related - Paris-aligned accounting and audit  	E	2019
PRI - Climate change transition for oil and gas  	E	2018 - 2020 Merged with CA100+
BBFAW Investor Collaboration on Farm Animal Welfare  	ES	2018
PRI Water Risks in Agricultural Supply Chains 	E	2018 - 2020Q1 now completed
Plastic Solutions Investor Alliance    	E	2018
UK Living Wage Engagement Campaign  	S	2018
PRI Supported Engagement on Responsible Sourcing of Cobalt  	ES	2018
Corporate Accountability for Digital Rights  	SG	2018
Investor Statement to EU Policymakers on the future of Corporate Reporting  	ESG	2018 one-off
Investors call on power companies to accelerate decarbonisation and support ambitious climate policy   	E	2018 one-off
Open Letter to Index Providers on Controversial Weapons Exclusions  	SG	2018 one-off

## A responsible provider



## Understanding our clients' needs

In a year marked by social distancing, maintaining customer proximity took on renewed urgency and importance. A wide-ranging customer feedback survey carried out in November 2020 invited more than 200 investors to have their say on CANDRIAM's services and solutions, with the goal of better understanding and adapting to customer needs. Respondents included wholesale investment companies, fund distributors and institutional investors, of which more than 40% were long-term CANDRIAM clients. The results revealed high levels of satisfaction across CANDRIAM's activities, with nearly 96% describing the partnership as good or excellent.

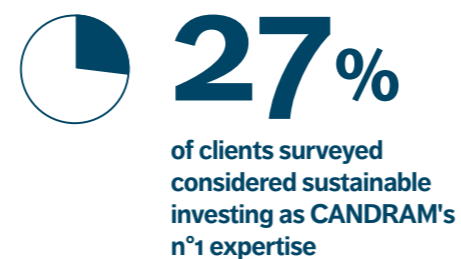
Clients were asked what they considered distinctive about CANDRIAM's investment expertise, with sustainable investing the most-cited (27%), followed by fixed income (21%) and equities (19%). The respondents gave CANDRIAM's services an overall rating of 4.25 out of 5. Highest-rated was the CANDRIAM Academy on ESG (4.32), with the continuity of support, roadshows and conferences, and CSR report also highly valued services. The availability of information and quality of reporting were also singled out. Thanks to a pledge to plant one tree for every response, the survey will not only help CANDRIAM and our valued customers, but the environment also.

## Improved communication

With many in-person events cancelled or postponed due to the pandemic, CANDRIAM organised regular client video conferences, while boosting its webinars, podcasts and newsletters. More than one million emails were delivered, 10 webinars hosted and 20 podcasts listened to more than 6,000 times. The CANDRIAM Academy launched a new webinar series, ESG Talks, exploring the pressing economic, social and environmental issues of the day. At the same time, CANDRIAM started Convictions: Small Talk, Big Opportunities, a bi-monthly English newsletter to share insights in a direct, close and friendly tone. The first edition was sent to 3,000 institutional clients, distributors and financial advisors, and complements the ever-popular Coffee Breaks weekly and monthly newsletters.

## Taking impact investing further

Two new strategies launched by CANDRIAM in 2020 underlined its impact investing ethos. First was an impact strategy that focused on social and environment factors. The immediate focus was to support Europe's post-Covid-19 recovery. The second launch was a strategy that supports a circular economy to help further our commitment to a sustainable future. Given the stakes, it should be no surprise the CANDRIAM Academy also now offers a dedicated module on the circular economy.



## “Education on ESG is key to successfully transforming the private clients investment landscape.”

### Michelle Owen

Managing Director, Global Head of Funds and EMEA  
Head of CIO & Investment Solutions, IPB  
Deutsche Bank AG, Filiale London

#### What do you look for when you select your (ESG) fund managers?

Deutsche Bank International Private Bank (IPB) aims to be the house of choice for clients who wish to make a positive social change. Fund managers play a crucial role in enabling our clients to achieve this goal, and our partnerships with them are integral to selecting offerings with strong ESG standards. DB IPB has developed an extensive ESG screening approach to ensure that our product achieves two hurdles. Firstly, funds must have clear ESG investment intent, such as evidenced through Article 8 and 9 classification in the EU. Secondly, funds must demonstrate that they have fulfilled this intent through their underlying holdings and exclusions. Beyond a strong range of high quality ESG products, we also look for our asset management partners to share a wider vision and commitment for the future of ESG investing, with ongoing collaboration on the evolution of ESG and impact topics, and continued education of our staff and clients.

#### How do you encourage your employees to become more aware of ESG matters?

Education on ESG is key to successfully transforming the private clients investment landscape. At Deutsche Bank, we see ourselves as translators of this investing revolution for our clients, being able to talk fluently to all levels of investors about the purpose of ESG, the performance opportunities and risk management.



To equip our employees, we are investing heavily in educating all of our staff over 2021 and beyond. We are deploying a range of in-house and external education initiatives including certification programs with the leading providers across Europe and globally. Furthermore, we have built strong partnerships with universities and networks such as Cambridge University and the Ocean Risk and Resilience Action Alliance (ORRAA) in order to develop and share deeper insights on crucial ESG topics such as Biodiversity and the Blue Economy with our clients, prospects and staff.

#### How does SFDR impact the way you select your investment managers/partners?

Europe's SFDR regulation has really set the stage for clear standards and structures to deliver ESG investing. As the industry embraces this new regulation, we have absorbed it into the centre of our selection process. One of the first questions we now ask fund managers when we engage them, is whether they consider the principal adverse impacts of their investment decision-

making on sustainability factors, and whether their products will meet the Article 8 or Article 9 hurdles. Sustainability regulation is an evolving field and it will remain important for fund managers and private clients advisors to continue adapting solutions for clients in line with our global regulators' expectations. In this landscape, partnerships are more important than ever, and we anticipate that the standard set by SFDR and the entire EU action plan, will be the advent of a more harmonised global approach to ESG frameworks in the coming years.