

## INDEX SRI FUNDS



## Statement of Engagement

Sustainable & Responsible Investment is an essential part of the strategic positioning and behavior of Candriam. We have been involved in SRI since 1996 and welcome the European SRI Transparency Code.

This is our tenth statement of commitment and covers the period 2019-2020. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Please note that we have also drafted Transparency codes for:

- Candriam's Core SRI funds, which include open-end SRI funds invested in various asset categories;
- Candriam's SRI Emerging Markets Equity funds, which invest in sustainable & responsible companies in emerging markets;
- Candriam's SRI ETFs, which factor ESG criteria into their investment process.
- Candriam's Climate Change Thematic funds, which invest in companies providing climate change solutions

The responses to the European SRI Transparency Codes for all the above-mentioned funds are available on our corporate website and our dedicated SRI website: <https://www.candriam.com/en/professional/market-insights/sri-publications/>.

## Compliance with the Transparency Code

Candriam is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Candriam meets the full recommendations of the European SRI Transparency Code.

*June 2019*

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## 1. List of Funds Covered by the Code

Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset Class	Exclusions standards and norms	Labels
<input type="checkbox"/> Best in class Investment Section <input type="checkbox"/> Engagement & Voting <input type="checkbox"/> ESG Integration <input checked="" type="checkbox"/> <b>Exclusion</b> <input type="checkbox"/> Impact investing <input checked="" type="checkbox"/> <b>Norms-based Screening</b> <input type="checkbox"/> Sustainability Themed	<b>Passively managed</b> <input checked="" type="checkbox"/> <b>Passive investing – core benchmark: specify the index tracking</b> - iBoxx Euro Corporate - ML EMU Corporate AAA-A - JPM GBI EMU - JPM GBI EMU IG - JPM GBI EMU +10Y - JPM GBI EMU 1-3Y - MSCI EMU NR - MSCI Europe - MSCI Pacific NR - MSCI US NR - MSCI World NR  <input type="checkbox"/> Passive investing –ESG/SRI benchmark: specify the index tracking  <b>Actively managed</b> <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input type="checkbox"/> International Shares <input type="checkbox"/> Bonds and other debt securities denominated in euro <input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> <b>Controversial weapons</b> <input type="checkbox"/> Alcohol <input type="checkbox"/> Tobacco <input type="checkbox"/> Arms <input type="checkbox"/> Nuclear power <input checked="" type="checkbox"/> <b>Human rights</b> <input checked="" type="checkbox"/> <b>Labour rights</b> <input type="checkbox"/> Gambling <input type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input checked="" type="checkbox"/> <b>Biodiversity</b> <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> <b>CO2 intensive (including coal)</b> <input type="checkbox"/> Genetic engineering <input checked="" type="checkbox"/> <b>Global Compact</b> <input type="checkbox"/> OECD Guidelines for MNCs <input checked="" type="checkbox"/> ILO Conventions <input checked="" type="checkbox"/> <b>Other (please specify)</b> -Freedom House (countries)	<input type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)

In accordance with legal requirements, please refer to our website to access information regarding specific funds in our SRI fund range available in your jurisdiction and information on the corresponding Transparency Code:

- **Belgium:**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/belgium-transparency-codes-fund-registration-table.pdf>
- **Austria:**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/austria-transparency-codes-fund-registration-table.pdf>
- **France:**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/france-transparency-codes-fund-registration-table.pdf>
- **Germany**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/germany-transparency-codes-fund-registration-table.pdf>
- **Ireland**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/ireland-transparency-codes-fund-registration-table.pdf>
- **Italy**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/italy-transparency-codes-fund-registration-table.pdf>
- **Luxembourg**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/luxembourg-transparency-codes-fund-registration-table.pdf>
- **Netherlands**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/netherlands-transparency-codes-fund-registration-table.pdf>
- **Switzerland**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/switzerland-transparency-codes-fund-registration-table.pdf>
- **United Kingdom**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/uk-transparency-codes-fund-registration-table.pdf>

## 2. General information about the fund management company

### 2.1. Name of the fund management company that manages the applicant fund(s)

The portfolio management companies that manage the applicant funds are the following:.

*Candriam Belgium*  
*Avenue des Arts, 58*  
*1000 Brussels – Belgium*

*Candriam Luxembourg*  
*Serenity Bloc B*  
*19-21 route d'Arlon*  
*L-8009 STRASSEN*

Please consult our website for further information: [www.candriam.com](http://www.candriam.com). This code applies to the SRI Index funds managed by Candriam.

Any question regarding sustainable and responsible investment (SRI) at Candriam can be e-mailed to the following address: [investor.support@candriam.com](mailto:investor.support@candriam.com).

The investment firm's SRI assets under management totalled €38.5 billion, i.e. 31% of total AuM, as of March 2019.

### 2.2. What are the company's track record and principles when it comes to integrating SRI into its processes?

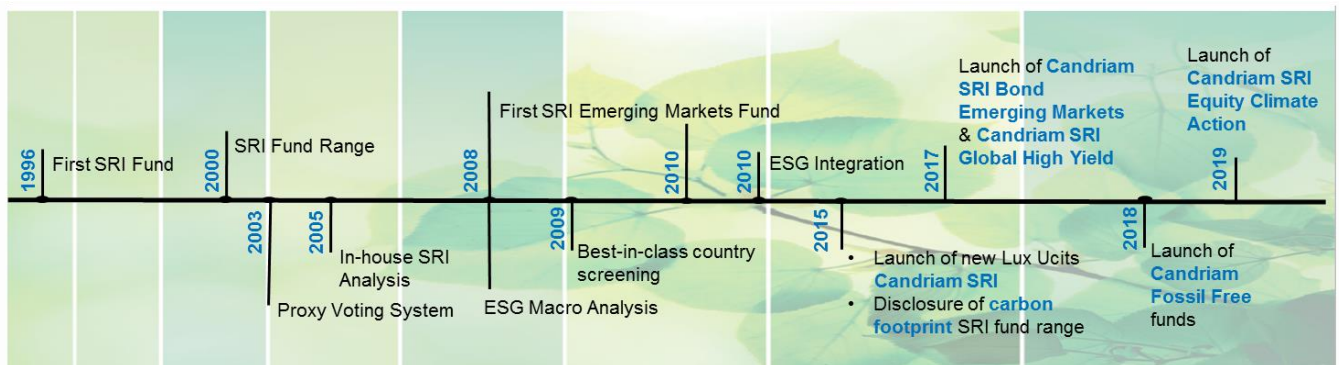
Sustainability is rooted in Candriam's operating model and forms a key part of our corporate culture. Our sustainable development strategy leads us to incorporate the overall trends that will shape the world of tomorrow when defining our strategic operational choices. This strategy aims to establish and maintain a balance between, on the one hand, responsible behaviour towards all stakeholders and, on the other, (a) the synergies between our SRI and traditional investment activities, and (b) the determination to run the company in consideration of the Environment and of Society.

Candriam has been managing Sustainable Investments since 1996. As a responsible asset manager for over two decades, we are committed to the continuous development of our long-standing and holistic Environmental, Social, and Governance analysis approaches, and to the on-going expansion of our large range of SRI investment products. All ESG processes, both active and indexed, are covered by publicly-available transparency and methodology descriptions such as the Eurosif Transparency Codes.

To increase the visibility of sustainable investments to the financial community, we offer investors an SRI solution alongside the traditional investment process whenever possible. We increasingly integrate Environmental, Social, and Governance criteria into all our investment processes.



*Over Twenty Years of Sustainable Investing --- Founding Signatory of UN PRI in 2006*



### ***Milestones in Candriam's Environmental, Social, and Governance Investing:***

**1996 -- First Sustainable Equity Fund.** In 1996, Candriam's predecessor company, Cordius Asset Management, offered investors our first Sustainable Equity Fund.

**2003 -- Structured Proxy Voting System Established.** Candriam was a pioneer among Belgian investment managers in exercising the voting rights of its clients to improve investment returns. In 2003 we began a systematic and structured proxy voting effort.

**2005 -- Proprietary Environmental, Social, and Governance research.** In 2005, Candriam launched its in-house ESG analysis, using a 'Best-in-Class' approach. Our BIC approach includes a sophisticated set of 25 Micro factors in six Micro domains of Investors, Employees, Environment, Suppliers, Customers, and Society and are the core of the approach to Best-in-Class investing.

**2005 -- Engagement Embedded in the Research Process.** Our Engagement activities began at the outset of our in-house ESG research in 2005. Engagement arose from our dialogues with companies to obtain additional information. Our direct engagement with companies has grown organically over the years; for Candriam, Dialogue is synonymous with ESG Research.

**2006 -- Founding Signatory of the UN Principles for Responsible Investing.** Candriam was present at the birth of the PRI. Candriam has been participating in industry working groups and sustainable investing organisations since 2003.

**2008 -- Emerging Markets ESG Investing.** We believe that analysing ESG issues in Emerging Markets requires a different approach to accommodate the lower levels of information and transparency, as well as lower levels of issuer and investor experience with ESG factors.

**2009 -- Best-in-Universe country screening established.** Our analysis of sovereign and related issuers, based on the four pillars of Human Capital, Natural Capital, Social Capital, and Economic Sustainability, includes 23 sub-categories and 75 themes.

**2010 -- First Steps of ESG Integration --** In 2010, following the controversial armaments exclusions firm-wide, Candriam decided to apply its SRI screening to its indexed fund range and start ESG integration.

**2016 --- Engagement: from Initiation to Influence.** In 2016, we significantly increased our commitment by dedicating a group of our experienced Sustainable Investing professionals to full-time coordination of our decade-long efforts. Currently, we are putting our Engagement efforts behind three 'Conviction Topics': Corruption, Energy Transition, and Well-Being at Work.

**2017 --- Responsible Investing in Emerging Market Debt and High Yield Debt.** In 2017, our expansion of our ESG included SRI Bond Emerging Markets, and SRI Bond Global High Yield. Five Candriam SRI funds were awarded AFNOR Certifications by the French-government-backed organization, making our High Yield fund the first to receive an SRI label.



**2017 – Helping to Train the Next Generation of Responsible Investors** – In October, 2017, Candriam launched the Academy for Sustainable and Responsible Investing. The **Candriam Academy** aims to raise awareness, promote education, and improve knowledge of sustainable investing via an innovative and accredited online educational platform.

**2018 --- Launch of Fossil Free funds.** Launch in September 2018 of two Candriam Fossil Free funds to support investors moving towards carbon neutrality.

**2018 --- Exclusion of Thermal Coal and Tobacco from *all* investments.** In 2018, all Candriam strategies divested from companies with more than 10% of their activities in thermal coal, and from any companies which initiate new thermal coal projects, based both on stranded asset and sustainability considerations<sup>1</sup>. Candriam also divested from any companies with more than 5% of their activities stemming from tobacco. These exclusions demonstrate our commitment to both investment performance and responsibility.

**2019 --- Launch of Climate Action strategy.** Launched in May 2019, the fund invests in companies providing tangible solutions in terms of mitigation and adaptation to Climate Change.

**2019 and beyond – Holistic Integration of Sustainability in Finance.** In 2019 and beyond, we plan to continue not only to innovate new Sustainable investment products, but to increasingly integrate ESG and sustainability factors in all our investments, drawing on our more than two decades of experience in responsible investing.

### 2.3. How does the company formalise its sustainable investment process?

**Responsible Investment Policy** – We have actively incorporated ESG analysis in our investing since 1996.

At Candriam, we believe that a company's long-term value is not purely measurable by purely financial metrics. By evaluating ESG criteria, investors can identify additional factors which affect a company's long-term value.

ESG considerations are central to Candriam's investment philosophy. To this end, Candriam's company-wide controversial activities policy integrates ESG factors including exclusions on controversial weapons, thermal coal and tobacco.

The policy is applicable to all funds for which Candriam has the full discretion as management company and investment manager. Except if otherwise agreed between the relevant parties, the following portfolios are therefore excluded from the scope of this policy:

- Funds for which Candriam is the Management Company but has delegated the investment management activity to another entity.
- Funds for which Candriam is not the Management Company but has received the investment management activity through a delegation by another entity.
- Third party discretionary portfolio mandates managed by Candriam.
- Fund of Funds managed by Candriam where the underlying funds are not managed by Candriam.

For additional information, please find Company-Wide Controversial Activities Policy published on our website:

<https://www.candriam.fr/siteassets/medias/publications/201906-new-cap-final.pdf>

In addition to publishing our Transparency Codes, Candriam formalises its sustainable investment process through publishing its Engagement and Proxy Voting Policies:

<https://www.candriam.be/49648e/siteassets/medias/publications/brochure/commercial-brochures/sri-brochure/stewardship-policy-2019.pdf>

<sup>1</sup> Please refer to 2.3 for the scope covered.



[https://www.candriam.be/496468/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxy-voting-policy\\_2018.pdf](https://www.candriam.be/496468/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxy-voting-policy_2018.pdf)

**Responsible Practices at Candriam** - Sustainability is embedded in Candriam's business model and forms an essential part of our culture. We are committed to incorporating the global trends that will shape tomorrow's world in our strategic business choices and our daily life. We balance responsible behaviour towards our stakeholders with the synergies between our ESG and traditional financial investment activities, as well as with our role in environmental and societal stewardship.

We offer transparency through our annual review of our own internal Environmental, Social, and Governance practices, and the results are published in our annual Corporate Sustainability Report (CSR). Candriam's CSR lists our concrete achievements and our 'deliverables' in our commitment to develop our own company responsibly. The latest version is available on our corporate website at <https://www.candriam.com>.

Commitment at all levels is essential. Our Group Strategic Committee regularly assesses our relevant sustainability challenges to determine how Candriam should manage our stakeholder relations and how we should attune our business model and practices to all of these long-term challenges.

## 2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?

Candriam considers that a company's long-term value is not solely influenced by financial criteria such as income or growth in the operating margin. By incorporating environmental, social and governance (ESG) criteria, we identify other factors liable to influence a company's value and competitiveness over the medium and long term. Within the analysis of Environmental factors, we take into account a company's exposure and strategy in terms of Climate Change.

The inclusion of ESG factors rounds out the assessment of risks incurred by issuers. These risks can be broken down into four categories:

- **Operational risk:** risk of losses stemming from a failure or inadequacy in an institution's procedures, staff, internal systems or due to external events.
- **Reputational risk:** risk of loss in enterprise value stemming from the materialisation of a risk, affecting the perception of the company held by its clients, shareholders, counterparties, regulators or investors.
- **Strategic risk:** risk of losses stemming from an actual or potential risk, affecting capital and profit, and resulting from changes in business model or adverse commercial decisions, a lack of responsiveness to a market development, or the inappropriate implementation of decisions.
- **Financial risk:** risks arising from banking and financial activities, predominantly including foreign exchange, interest rate and liquidity risks.

More specifically, climate change is a source of financial and reputational risk for investors. There are two types of climate risks: physical risks and risks associated with a transition to a low-carbon economy.

### Physical risks

Physical risks cover immediate material and financial aspects, as well as operational aspects (e.g. production halts, water scarcity) and reputational aspects (e.g. conflicts with local populations, major migratory flows).

### Transition risks

Searching for solutions to climate change issues can generate risks and opportunities for some sectors/companies. In particular, these risks cover:

- Changes in prices of energy resources and energy efficiency, with the added drawback of leaving companies with stranded assets:

- Reduction of renewable energy costs, and increase in supply of renewable energies, have driven down demand for the highest-polluting energies (with coal in the lead);
- Reserves of the highest-polluting energies may end up never being used, forcing the owners to write them off.
- Changes in anti-pollution tax systems and more restrictive carbon markets, driving up prices of CO2 per metric ton;
- Financing risk for companies active in high-polluting sectors or involved with obsolete energy activities:
- This risk has arisen due to the growing preference of clients and other stakeholders for energy transition financing and associated risks.

## Type of Risks

Climate Risks	RISKS	OPERATIONAL	REPUTATIONAL	STRATEGIC	FINANCIAL
	Physical risks	✓	✓		
	Transition risks - <i>asset value</i>			✓	
	Transition risks - <i>legal and market constraints</i>	✓		✓	✓
	Transition risks - <i>financing/funding</i>		✓		✓

Candriam decided to exclude companies on a firm-wide level displaying more than 10% in thermal coal activities and those launching new projects in order to take into account potential stranded assets linked to climate change.

At Candriam, the inclusion of ESG criteria is the first step in the responsible investment process. Candriam's SRI analysis is designed to select those issuers that best manage the challenges related to sustainable development, including climate change and energy transition.

All these issuers form the SRI universe. The investment portfolios are then compiled from this SRI universe and in accordance with analysts' recommendations. This rigorous investment process ensures that short-, medium- and long-term ESG and financial risks and opportunities are taken into account and thus adds value to the investment as it enables the selection of issuers best positioned both from a financial point of view and from a sustainable-development point of view.

To help investors manage the risks associated with climate change and to take advantage of the opportunities presented by the transition to a low-carbon economy, Candriam offers investment solutions such as

- Excluding exposure to coal or the highest-polluting activities
- "Low-carbon" solutions
- Investment in green bonds

- Thematic Strategies, including Climate Change

These investment solutions are offered after reviewing the portfolio in terms of carbon footprint/exposure to fossil fuels and the portfolio's exposure profile in terms of energy mix with respect to the 2-degree global warming scenario. These solutions are developed in accordance with the financial risk/reward targets specific to the portfolio under analysis.

For more information, visit our website <https://www.candriam.com/en/professional/market-insights/article-173>

For specific information the incorporation of climate change for the Index strategies, please refer to question 3.4.

## 2.5. Which Teams are involved in the company's sustainable investment activity?

Candriam launched its first SRI fund in 1996. For more than 20 years now, the company has developed expertise in ESG analysis thanks to its **dedicated ESG Team**. The team comprises analysts who specialise in specific sectors, sovereign analysis and active engagement activities. The team has developed its own ESG analysis methodology applied to governments, corporations and supranational agencies/organisations.

For the majority of our SRI strategies (i.e. strategies based on our proprietary Best in Class approach), the ESG analysts determine the SRI investment universe for the portfolio manager teams. The **portfolio managers** then apply their respective investment processes and select issuers from this SRI universe. For specific strategies (cfr. The Candriam SRI Equity Climate Action strategy), the eligibility of issuers is determined in conjunction with the investment teams.

Furthermore, in order to enhance synergies between the ESG Team and portfolio management teams, **one or more portfolio managers/analysts on each portfolio management team are designed as "SRI Ambassadors."** The ESG analysts regularly take part in Portfolio Management Committees and on a quarterly basis the SRI ambassadors and ESG Team discuss ongoing projects and exchange ideas on ESG themes.

## 2.6. How many employees are directly involved in the company's sustainable investment activity?

There are 38 employees directly involved in the company's sustainable investment activity.

## 2.7. Is the company involved in any RI initiatives?

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
<input type="checkbox"/> ECCR – Ecumenical Council for Corporate Responsibility <input checked="" type="checkbox"/> EFAMA RI WG <input type="checkbox"/> European Commission's High-Level Expert Group on Sustainable Finance <input type="checkbox"/> ICCR – Interfaith	<input checked="" type="checkbox"/> CDP – Carbon Disclosure Project (including Climate Change, and Water and Forest programmes) <input type="checkbox"/> Climate Bond Initiative <input checked="" type="checkbox"/> Green Bond Principles <input type="checkbox"/> IIGCC – Institutional	<input checked="" type="checkbox"/> Access to Medicine Foundation <input checked="" type="checkbox"/> Access to Nutrition Foundation <input checked="" type="checkbox"/> Accord on Fire and Building Safety in Bangladesh <input checked="" type="checkbox"/> Other <i>-Please refer to the section below for</i>	<input type="checkbox"/> ICGN - International Corporate Governance Network <input checked="" type="checkbox"/> Other <i>-Please refer to the section below for further information</i>

Center on Corporate Responsibility <input checked="" type="checkbox"/> <b>National Asset Manager Association (RI Group)</b> <input checked="" type="checkbox"/> <b>PRI - Principles For Responsible Investment</b> <input checked="" type="checkbox"/> <b>SIFs - Sustainable Investment Fora</b> <input checked="" type="checkbox"/> <b>Other</b> <i>-Please refer to the section below for further information</i>	Investors Group on Climate Change <input checked="" type="checkbox"/> <b>Montreal Carbon pledge</b> <input checked="" type="checkbox"/> <b>Paris Pledge for Action</b> <input type="checkbox"/> Portfolio Decarbonization Coalition <input checked="" type="checkbox"/> <b>Other</b> <i>-Please refer to the section below for further information</i>	<i>further information</i>	
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As a responsible asset manager, the United Nations Principles for Responsible Investment are an important initiative to support.

We are proud to have been one of the first signatories to the UN-PRI. The PRIs are a voluntary initiative aimed at encouraging investors to include ESG (Environmental, Social & Governance) considerations in their investment decisions.

The most recent version of the PRI Report is available on the PRI website:

<https://www.unpri.org/signatory-directory/>

Candriam has undertaken to observe and promote SRI principles, having signed a number of initiatives applicable to its activities as an investment firm:

COMMITMENTS		E-S-G	JOINED IN/ SIGNED IN	DESCRIPTION	CANDRIAM'S COMMITMENTS
<b>PRI - Principles for Responsible Investment</b>		ESG	2006	PRI	PRI Public Transparency report Top A+ PRI score for our RI approach & policies
<b>UNGC Call to Action on anti-corruption</b>		G	2014	UNGC Call to action on anti-corruption	
<b>G20 Energy Efficiency Investor Statement</b>		E	2015	G20 Energy Efficiency Statement	
<b>Montreal Carbon Pledge</b>		E	2015	Montreal Carbon Pledge	Montreal Carbon Pledge - Statement
<b>Paris Pledge for Action</b>		E	2015	Paris Pledge for Action	
<b>UK Stewardship code</b>		ESG	2016	Financial Reporting Council - FRC	The UK Stewardship Code Tier 1 rating
<b>Investor Statement on ESG credit ratings</b>		ESG	2017	Statement on ESG credit ratings	
<b>Adhesion to Green and Social Bond Principles</b>		ES	2017	Green and Social Bond Principles	
<b>Tobacco-Free Finance Pledge</b>		S	2018	The Tobacco-Free Finance Pledge	
<b>The investor Agenda</b>		E	2018	The Investor Agenda	Controversial Activity Policy
<b>Commitment to support a just transition on climate change</b>		ESG	2018	Climate change the just transition	

In 2018, Candriam signed new initiatives in-line with our newly adopted Controversial Activities policy, which extended our exclusion policy to thermal coal and tobacco. Candriam considers these two activities incompatible with sustainable and responsible development and a source of value-related risks with potential stranded assets.









Candriam is also a member of numerous collaborative engagement initiatives designed to encourage – collectively, within investor groups – companies to improve their practices as well as communication and transparency in terms of sustainable development challenges.

The table shows collaborative initiatives active in 2018 as well as their impact and Candriam's contribution towards these initiatives.

COLLABORATIVE INITIATIVES Initiatives for a call to action	E-S-G	JOINED IN/ SIGNED IN	IMPACT	OUR CONTRIBUTION	
CDP - Carbon Disclosure Project (incl. Climate Change, Water and Forest programs)	 E	2004	2018: over 7,000 companies responded	Lead investor on over 40 companies to encourage them to fill in the questionnaire.	
Sustainable Stock Exchanges	 ESG	2010	Engagement with IOSCO, the International Organization of Securities Commissions, which released a statement on disclosure of ESG matters by issuers in January 2019.	• Support to SSE during engagement with IOSCO	
Access to Medicine (AtM)	 S	2010	20 of the world's largest research-based pharmaceutical companies analysed and ranked : 2018 AtM index launch.	• Letters' co-signer & Lead for one target company • Active exchanges with companies	
Access to Nutrition	 S	2013	• Release of the 2018 Global Access to Nutrition Index and the first US Spotlight Index • Start of the related engagement campaign	• Letters' co-signer & Lead for one target company • Active investor for 1 extra company on Breast Milk Substitutes marketing practices	
Bangladesh Initiative on garment industry	 S	2013	• Improvement of local practices at garment practices (The Accord) • Support to The Accord for mission's continuity	• Statements' & Letters' co-signer to companies, OECD and authorities • Active engagement with 15 companies to encourage them to join or support The Accord	
Sustainable Palm Oil practices	 E	2015	Investor letter to the Roundtable on Sustainable Palm Oil (RSPO) in March 2018 regarding the need for a more transparent and responsive complaints mechanism to uphold its labor standards.	Signatory	
Labour practices in agricultural supply chain	 S	2016	Disclosure improvement at several target companies. Areas of improvement clearly remain however. Initiative to be completed in 2019.	• Co-lead investor for two corporates, supporting investor for one.	
Fiduciary Duty in the 21st Century	 ESG	2017	• Report publications	Signatory	
Engagement on antibiotics overuse in livestock supply chains"	 ES	2017	• Number of target companies doubled since 2016 ; 80% of these has a publicly available policy on antibiotics.	Letters co-signer.	
Sustainable Protein Engagement	 E	2017	Growing understanding of the issue but only few companies with a clear and structured strategy.	• Letters co-signer. • Co-lead investor for 2 corporates	
Global Investor Statement on climate Change	 E	2011	Letters	Signatory	
Workforce Disclosure Initiative	 S	2017	Extension of target scope, increased support to companies for filling the questionnaire.	• Letters co-signer. • Co-lead investor for 7 corporates	
Banking on a Low Carbon Future	 E	2017	Regional deep dive	• Letters co-signer. • Participation to group calls	
Engagement on Cybersecurity	 SG	2017	More than 60% of the 64 initial target companies accepted to engage.	• Letters co-signer. • Lead investor on 1 corporate • Participation to exchanges with several corporates	
Expectations on Corporate Climate Lobbying	 E	2017		Signatory	
Decarbonisation Initiative (incl. RE100 & EP100 Engagement)"	 E	2017	60 additional companies targeted. Positive evolution for one third of the 150 companies involved.	Letters co-signer.	
Combating Child Labour in Cocoa Supply Chains	 S	2017	Progress report release. 3 companies committing to elimination of child labour in cocoa production.	• Statement' co-signer to companies and related stakeholders • Active investor for 1 company	
Corporate Tax Responsibility	 G	2017	50% of the 39 targeted companies accepted to engage.	• Letters co-signer. • Lead investor on 2 corporates • Participation to exchanges with several corporates	
Climate Action 100+	 E	2017	Over 250 focus company engagements have taken place	Active supporting investor for 5 corporates	

In 2018, we joined 10 new collaborative initiatives as described in the table below:



COLLABORATIVE INITIATIVES Initiatives for a call to action		E-S-G	IMPACT
Climate change transition for oil and gas		E	Affiliated with the Climate Action 100+ with an exclusive focus on oil & gas companies.
BBFAW Investor Collaboration on Farm Animal Welfare		ES	Engagement with the 110 companies covered by the Business Benchmark on Farm Animal Welfare (BBFAW) to recognize the importance and materiality of the topic to encourage companies to use the benchmark.
PRI Water risks in agricultural supply chains		E	Encourage companies to implement appropriate policies and measures to migrate water risks and impacts and promote public disclosure.
Plastic Solutions Investor Alliance		E	Call global consumer companies for a reduced usage of plastics, improved collection and recycling channels, and development of sustainable alternatives to plastic packaging.
UK Living Wage Engagement Campaign		S	Initiative to encourage all FTSE 100 companies to apply Living Wage standards in their UK operations. Focus on UK companies and low-paid staff.
PRI supported engagement on responsible sourcing of cobalt		ES	Seek to improve companies' performance and impact in terms of human right risk assessment and impact monitoring including ground remediation.
Corporate Accountability for Digital Rights		SG	Calls on the 22 ICT companies covered by the Ranking Digital Rights (RDR) Corporate Accountability Index to respect human rights and refer to that index to help them improve their governance systems.
Investor Statement to EU Policymakers on the future of Corporate Reporting		ESG	Call on EU policymakers to implement a fit-for-purpose framework of corporate reporting that is consistent with investor information needs.
Investors call on power companies to accelerate decarbonisation and support ambitious climate policy		E	Letter sent to power companies to encourage them to accelerate decarbonisation and support ambitious climate policy within the Climate Action 100+ initiative.
Open Letter to index providers on controversial weapons exclusions		SG	Letter sent to index providers asking them to exclude controversial weapons from global indices.

Candriam also participates in sustainable development working groups within professional and other organisations, in order to raise awareness in the industry of the importance of integrating ESG issues. This gives us an excellent viewpoint on discussions and trends in today's market. An overview of the main working groups in which we participate is provided below:

NAME OF ASSOCIATION			Joined in
SRI WORKING GROUPS WITHIN ...	BEAMA	Belgian Asset Managers Association	2002
	AFG	Association Française de la Gestion financière	2003
	EFAMA	European Fund and Asset Management Association	2010
SEVERAL SOCIAL INVESTMENT FORUMS, SUCH AS:	VBDO	Dutch Sustainable Investment Forum	2007
	FNG	Forum Nachhaltige Geldanlagen (Germany, Switzerland & Austria)	2010
	SSF	Swiss Sustainable Finance (Switzerland)	2014
	FIR	Forum pour la Finance Responsable (French SIF FIR)	2014
	FFS	Forum per la Finanza Sostenibile (Italy)	2015
	UKSIF	United Kingdom Sustainable Investment Forum	2016
	US SIF	United States Forum for Sustainable & Responsible Investment	2016
SUSTAINABLE DEVELOPMENT INFORMATION CENTRES	ABIS	Academy of Business in Society	2005



Furthermore, every year, we organize, for our clients, thematic conferences at which we present and discuss our view of the latest SRI market trends and some of our expertise. Private events – requested by our clients, by New York Life or by our teams – are also organized.

Candriam strives to ensure that ESG issues and sustainable investments are brought to the fore. This was the case when Candriam organized in June 2018 its Annual Investor Seminar focused on “Sustainable Growth” and its International Media Seminar in October 2018. In 2019, Candriam’s Investor Seminar on also placed the spotlight on sustainable topics such as, the “Green Revolution” and investing in a 1.5°C world.

In addition to these, and besides press interviews, Candriam shares its SRI expertise as a regular speaker at key SRI conferences in Europe and abroad. The main public events we took part in as speakers in 2018 are listed below.

ORGANISATION ENTITY	Country	Date	Subject
<b>THE EUROPEAN SUSTAINABLE INVESTMENT FORUM</b>	France	Mar-18	The search for Growth. Wealth, Investments and Regulation
<b>GENEVA FORUM FOR SUSTAINABLE INVESTMENT</b>	Switzerland	May-18	Impact Investing Conference Roundtable: Impact investing and dialogue with companies: demystification of impact's measures
<b>BUSINESS &amp; CLIMATE SUMMIT</b>	United Kingdom	Oct-18	Managing climate risks and capitalizing on opportunities
<b>EFAMA ASSET MANAGEMENT INVESTMENT FORUM</b>	Belgium	Nov-18	Roundtable: Sustainable finance and the role of asset managers
<b>ABIS ANNUAL COLLOQUIUM</b>	Belgium	Nov-18	17th abis Annual Colloquium <i>Sustainability as a Business Opportunity</i>
<b>INSTITUT DES RÉVISEURS D'ENTREPRISES</b>	Belgium	Nov-18	The Award for Best Belgian Sustainability Reports Workshop: <i>Non Financial Information Reporting, lessons learned from the new regulation</i>

## 2.8. What is the total number of SRI assets under the company’s management?

As of March 2019, the firm’s SRI assets under management totalled €38.5 billion.

## 2.9. What is the percentage of total SRI assets under the company’s management?

As of March 2019, the firm’s SRI assets under management represented 31% of total AuM.

## 2.10. Which are the SRI funds publically managed by the company?

In accordance with legal requirements, please refer to our website to access information regarding specific funds in our SRI fund range available in your jurisdiction and information on the corresponding Transparency Code:

- **Belgium:**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/belgium-transparency-codes-fund-registration-table.pdf>
- **Austria:**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/austria-transparency-codes-fund-registration-table.pdf>
- **France:**  
<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/france-transparency-codes-fund-registration-table.pdf>

- **Germany**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/germany-transparency-codes-fund-registration-table.pdf>

- **Ireland**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/ireland-transparency-codes-fund-registration-table.pdf>

- **Italy**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/italy-transparency-codes-fund-registration-table.pdf>

- **Luxembourg**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/luxembourg-transparency-codes-fund-registration-table.pdf>

- **Netherlands**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/netherlands-transparency-codes-fund-registration-table.pdf>

- **Switzerland**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/switzerland-transparency-codes-fund-registration-table.pdf>

- **United Kingdom**

<https://www.candriam.be/siteassets/medias/publications/brochure/corporate-brochures-and-reports/transparency-codes/uk-transparency-codes-fund-registration-table.pdf>

### 3. General information about the SRI fund(s) that come under the scope of the Code

#### 3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?

Candriam considers that a company's long-term value is not solely influenced by financial criteria such as income or growth in the operating margin. By incorporating environmental, social and governance (ESG) criteria, we identify other factors liable to influence a company's value and competitiveness over the medium and long term, which are not always immediately obvious in traditional financial analyses. External factors such as CO2 costs or health and safety standards affect most companies and issuers, either positively or negatively, when integrated into their economic model. Some factors offer a new opportunity while others are considered a threat to the business model.

#### 3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

The ESG Investments & Research Team has developed its own ESG methodology applied to governments, corporations and supranational agencies/organisations. The portfolio managers then apply their respective investment processes and select issuers from this SRI universe. The ESG Analysts use internal and external research to feed their models.

The Team strives to source information from diverse sources as we consider information from different providers to be complementary. This is as a result of providers' varying coverage, methodologies, as well as culture which may ultimately lead to discrepancies in views and final ratings. These different assessments enable our ESG analysts to have a more holistic view of a company.

Please find below an overview of the external ESG data providers used by the Team:

Rating Agencies	Certification	Scope	Types of Screening	Link
<b>MSCI ESG Research</b>	-	International Companies	ESG Criteria – Controversial Activities – Norms-based Criteria	<a href="https://www.msci.com/esg-integration">https://www.msci.com/esg-integration</a>
<b>Vigeo-Eiris</b>	Arista	European Companies	ESG Criteria – controversial activities – Norms-based criteria	<a href="http://www.vigeo-eiris.com/">http://www.vigeo-eiris.com/</a>
		Governments – World	ESG Criteria	
<b>ISS-Ethix</b>	-	Emerging Markets Companies	Norms-based Criteria	<a href="https://www.issgovernance.com/home/iss-ethix/">https://www.issgovernance.com/home/iss-ethix/</a>
		International Companies	Screening criteria used to exclude the weapon industry	
<b>S&amp;P Trucost</b>	-	International Companies	Environmental Data Greenhouse gas emissions, energy mix, percentage of exposure to fossil fuels	<a href="https://www.trucost.com/">https://www.trucost.com/</a>

<b>Sustainalytics</b>	-	International Companies	ESG Criteria – Controversial Activities – Norms-based Criteria	<a href="https://www.sustainalytics.com/">https://www.sustainalytics.com/</a>
<b>Wood Mackenzie</b>	-	International Companies	Energy and mining sectors screening used to exclude unconventional extractions and thermal coal	<a href="https://www.woodmac.com/">https://www.woodmac.com/</a>

Furthermore, we also source information from academic experts, sector federations, the media, and NGOs. Examples of NGOs used in analysis include:

- **Freedom House:** measure of freedom and democracy, understood via electoral process, political pluralism, functioning government, rule of law etc. (<https://freedomhouse.org/>)
- **Fraser Institute:** measure of human freedom, understood as the absence of coercive constraint (<https://www.fraserinstitute.org/>)
- **Transparency International (CPI):** measure of public sector corruption. (<https://www.transparency.org/>)

Lastly, our ESG analysts obtain information from various International Organizations, which are either an integral part of the Best-In-Universe framework or serve as additional information in analysis. Examples of International organizations include: World Bank, IMF, World Health Organization, UN Programme for the Environment, International Labour Organisation, United Nations Development Programme, United Nations Organisation Food and Agriculture Organisation.

### 3.3. What ESG criteria are taken into account by the fund(s)?

Candriam defines SRI as the incorporation of environmental, social and governance (ESG) criteria in investment decisions.

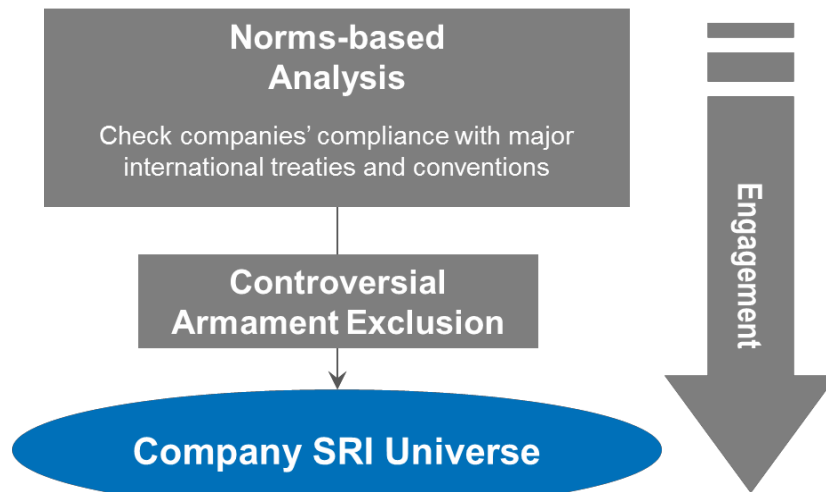
In order to take into account the stakes and challenges specific to each issuer in terms of ESG, Candriam has developed an internal SRI analysis by type of issuer:

- SRI analysis for companies issuing equities and/or bonds;
- SRI analysis for countries, i.e. public bond issuers such as public organisations and others<sup>2</sup>;

#### **BASIC PRINCIPLES OF SRI ANALYSIS FOR COMPANIES ISSUING EQUITIES AND/OR BONDS**

In the interest of selecting companies for index funds, Candriam has established a structured and rigorous three-step SRI analysis shown in the diagram below:

<sup>2</sup> The group of public issuers comprises public organisations at several administrative levels, ranging from local to national/federal institutions. We apply the "top-of-the-pyramid" rule when selecting these institutions: if the SRI analysis of a country is positive, then all public organisations in that country will be deemed eligible, and thus considered to be amongst the best positioned public issuers in terms of ESG aspects. We also verify the mission of the organisation to ensure it is aligned with sustainable practices.



- **Norms-Based Analysis**

The aim of the norms-based analysis is to determine if a company observes the ten principles of the United Nations Global Compact. These principles cover four main categories: Human Rights (HR), Labour (L), Environment (ENV) and Anti-Corruption (COR), as defined below:

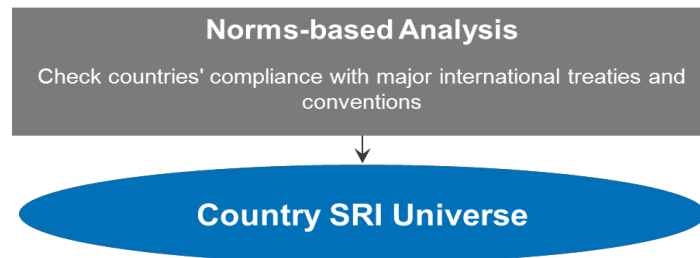
Area	Principles
Human Rights	Businesses should: 1. Support and respect the protection of internationally proclaimed human rights; and 2. Make sure that they are not complicit in human rights abuses.
Labour Standards	Businesses should: 3. Uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. Eliminate all forms of forced and compulsory labour; 5. Abolish the child labour; 6. Eliminate discrimination in respect of employment and occupation.
Environment	Businesses should: 7. Support a precautionary approach to environmental challenges; 8. Undertake initiatives to promote greater environmental responsibility; and 9. Encourage the development and diffusion of environmentally friendly technologies.
Anti corruption	Businesses should: 10. Work against corruption in all its forms, including extortion and bribery.

- **Verification of exposure to controversial weapons and other controversial activities**

During the verification of **exposure to controversial weapons**, companies are evaluated on the basis of their involvement in controversial weapons activities , for example anti-personnel mines, cluster bombs, depleted uranium. We also verify their involvement in **other controversial activities** including thermal coal and tobacco.

## ***BASIC PRINCIPLES OF SRI ANALYSIS FOR COUNTRIES, I.E. PUBLIC BOND ISSUERS SUCH AS PUBLIC ORGANISATIONS AND OTHERS***

In the interests of selecting supranational organisations with good ESG practices, Candriam has established a structured and rigorous 2-step SRI analysis procedure as shown in the diagram below:



The **norms-based analysis** determines whether or not a country is considered as "not free" by Freedom House<sup>3</sup>, if they have signed and ratified the main international conventions and, lastly, evaluates their compliance with these conventions.

### **3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?**

Our ESG framework for Index Funds assesses risks and opportunities by verifying the respect of the main international conventions, which includes environmental and climate change related norms.

#### **Corporates:**

We apply a norms-based and controversial activities filter to exclude companies which may represent high risk due to violation of international laws and non-sustainable activities. In the norms-based analysis, we determine whether companies respect the principles of the UN Global Compact. This includes the respect of Environmental norms, with the following underlying principles that businesses uphold:

- Support a precautionary approach to environmental challenges
- Undertake initiatives to promote greater environmental responsibility
- Encourage the development and diffusion of environmentally friendly technologies

Furthermore, the strategy excludes companies deriving more than 10% thermal coal. This exclusion is part of our efforts to tackle climate change and align our portfolios with the targets set by the Paris Agreement.

#### **Sovereign Issuers**

We apply a norms-based analysis and verify the ratification of the main international conventions and compliance with these conventions. The latter includes both climate change and environmental related norms such as:

- Paris Agreement
- Cartagena protocol on bio-safety
- Convention on Biological Diversity

<sup>3</sup> Freedom House is an international institution, based in the United States, which classified countries according to the level of freedom of their population. Click on the following link for more information: <http://www.freedomhouse.org/>.

### 3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

#### **ANALYSIS CRITERIA FOR COMPANIES ISSUING EQUITIES AND/OR BONDS**

- **Norms-Based Analysis**

The norms-based analysis determines whether a company complies with the 10 Principles of the United Nations Global Compact for each of the main categories: Human Rights (HR), Labour (L), Environment (ENV) and Anti-Corruption (COR).

Information regarding actual, suspected and/or related incidents or breaches of international standards are collected through external research combined with internal analyses performed by our ESG analysts.

After identifying any breaches of the Global Compact principles, the analysis uses several parameters to evaluate the severity and magnitude of the breaches:

- **Temporal proximity:** when did the incident happen and how long did it last?
- **Magnitude:** what financial costs and environmental damage are related to the incident?
- **Credibility:** does the incident involve allegations, legal proceedings, etc?
- **Recurrence:** is this a one-off incident or is there proof of repeated incidents over a given period?

Emphasis is also placed on a company's response when an incident occurs. A company that takes positive, responsible measures to ensure that such a breach does not happen again is considered more favourably than a company that does not acknowledge its responsibility and/or does not take any corrective measures.

Based on this information and in accordance with the evaluation framework described above, the colour code is determined as follows for each of the four main categories.

Green	- No evidence of repeated or significant violations of the Global Compact principles
<hr style="border-top: 1px dashed #ccc;"/>	
Orange	- Evidence of repeated violations of the Global Compact principles but these do not appear to be significant; or - Evidence of significant violations of the Global Compact principles but these do not appear to be repetitive; or - Evidence of repeated and significant violations of the Global Compact principles, but the company has taken appropriate corrective measures/actions
<hr style="border-top: 1px dashed #ccc;"/>	
Red	- Evident of repeated and significant violations of Global Compact principles and the organisation has no appropriate response/behaviour

For an issuer to be able to successfully negotiate the norms-based analysis filter, it must not have been attributed "red" in any of the four fields. This filter eliminates up to 4% of the companies analyzed. The companies are permanently controlled and continuously updated.

- **Verification of exposure to controversial weapons industry**

Companies exposed to the **controversial weapons industry** are permanently excluded from the ESG universe if:



- they are involved in the manufacture or sale of anti-personnel mines, cluster bombs, depleted uranium weapons and/or chemical, nuclear or biological weapons, regardless of the income generated;
- they hold a stake (in shares) of more than 50% in a company directly involved in these controversial weapons; or
- if they allocate more than 50% of their loan book to companies directly involved in these controversial weapons.
- derive more than 5% of their total sales/revenues from the production, manufacturing, trade, testing or maintenance of white phosphorous weapons; the 5% threshold is adopted in order to acknowledge the fact that phosphorous is a dual-use substance.

- **Verification of other controversial activities**

Company involvement for other controversial activities is assessed for the following activities:

- **Tobacco**

Candriam excludes from its investments all companies directly involved in the **tobacco industry** that derive more than 5% of their revenues from the manufacturing or retailing of tobacco products.

Candriam does not sanction a priori companies indirectly involved in the tobacco industry through supporting products and/or services (e.g. providers of packaging materials) as their operations are not solely geared towards the tobacco industry. However, if companies have developed products and production systems tailored to the tobacco industry, they will be excluded.

- **Thermal Coal**

Candriam excludes from its investments all companies directly or indirectly involved in the thermal coal industry, as described above, deriving more than 10% of their revenues from coal extraction or power generation from coal.

The exclusion of companies launching new projects is appreciated without a minimum revenue threshold.

Lastly, Candriam acknowledges that transitioning into a low-carbon economy requires time. For this reason, our approach also take into consideration the energy transition strategy of the company and the implementation of explicit objectives to reduce emissions.

## ***ANALYSIS CRITERIA FOR COUNTRIES, I.E. PUBLIC BOND ISSUERS SUCH AS PUBLIC ORGANISATIONS AND OTHERS***

- **Norms-Based Analysis**

In the norms-based analysis, the analysts verify whether or not the country has signed and ratified the main international treaties and conventions, and whether or not any breaches have occurred. This verification covers:

- the main Human Rights conventions;
- the Conventions of the International Labour Organisation;
- the Ottawa Anti-Personnel Mine Ban Convention;
- the Convention on Biodiversity and Protocol on Biosecurity;
- the Paris Agreement.

The aim of the norms-based analysis is to determine if:

- the countries included in the SRI universe are considered as "free" by Freedom House ;
- the countries have signed, ratified and observed the international conventions.

### 3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

Each sector and country is periodically analysed by assessing the evolution of sustainability trends, as well as the relevance and materiality of each model or framework used.

The goal is to ensure that the Best-In-Class models used by the analysts optimally reflect the sustainable development risks and opportunities affecting the sector in question. As companies are continuously being monitored, they are subject to frequent updates within the framework of the Best-In-Class Sector Model.

If there is a major event that may affect the rating assigned to a company (i.e. merger and acquisition, scandal, sustainability controversy etc.) or country (i.e. war, natural disaster, coup d'Etat, etc.), the ESG analyst will launch an alert on the issuer.

There are several types of alerts that can be considered:

- SRI Monitoring Alert (for information only): This alerts explains how the SRI team assessed the incident or controversy, even if there is no immediate change in the decision about the company's eligibility.
- SRI Alert: This alert means that the portfolio manager will no longer be able to add to his position in this issuer. The output of an SRI Alert can be:
  - An immediate change in the final decision on the company's eligibility criteria (from "eligible" for an SRI portfolio to "non-eligible"). In this case the portfolio manager must sell the position within a 3-months period.
  - No immediate change in the final decision on the company's eligibility, but there is a high probability that there will be a change in the near future following the result of the analysis. No immediate selling is required. Within the following three months of the alert, the company will be reviewed according to the new information. A longer period for the revision is allowed when justified by objective reasons, such as, on-going dialogue with the company or awaiting the result of a lawsuit.

## 4. Investment Process

### 4.1. How are the results of the ESG research integrated into portfolio construction?

Candriam's SRI investment process is a two-step process that first of all calls for the definition of the eligible investment universe, followed by a financial selection from within this eligible universe.

The SRI universe consists of all the companies that have successfully passed the Norms-Based Analysis and Controversial Activities screening for controversial weapons, tobacco and thermal coal exposure.

The financial selection of issuers from within this SRI universe is based on a financial analysis and optimal management of risks and of the portfolio.

Any investment outside the SRI universe is prohibited.

In addition, ESG considerations are taken into account within the individual investment processes.

The selection of SRI issuers is confirmed by the SRI analysis team on a monthly basis, and on a one-off basis in exceptional circumstances. When there is a change in the SRI universe and an issuer is excluded, the approach consists in excluding this issuer from the SRI portfolios within a period of 3 months, depending on market conditions (very rare exceptions may be granted in order to accommodate a potential liquidity problem).

The Risk Management department ensures that all securities in the portfolios comply with the SRI universe.

### 4.2. How are criteria specific to climate change integrated into portfolio construction?

Portfolios are constructed using the eligible ESG Universe resulting from the research and analysis of the ESG Team. Investments teams may not invest in companies outside of the eligible universe.

### 4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?

All issuers in the portfolio must be subject to an ESG assessment and determined as eligible for the ESG universe. All investments outside of the eligible universe are prohibited.

### 4.4. Has the ESG evaluation or investment process changed in the last 12 months?

There have not been any material changes to the norms-based analysis framework over the past 12 months.

In September 2018, Candriam extended its company-wide controversial activities policy to include tobacco and thermal coal as investments in these companies are increasingly incompatible with our long-term risk/return objectives and our sustainability targets such as the 2 Degrees Initiative. To this end, the portfolio divested its exposure in these activities.

### 4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

The funds covered by this Code seek to avoid investing in companies involved in major controversies linked to social issues. The funds do not however seek to overweight entities that specifically target social goals.

#### 4.6. Does (do) the fund(s) engage in securities lending activities?

The SRI funds do not conduct securities lending/borrowing.

#### 4.7. Does (do) the fund(s) use derivative instruments?

Depending on the investable asset classes and within the limits defined by the approved prospectus, SRI portfolios may use derivatives, as defined below. The general principle on the use of derivatives is that short positions via derivatives can only be used to cover long positions. No net short positions are authorized, except in exceptional cases where adequate hedging cannot be achieved due to lack of instrument coverage.

For all derivative transactions, the fund is required to use as counterparty, only those financial institutions that comply with the principles of the United Nations Global Compact, as described in Section 3.3 of this Code at the time of the transaction.

- Interest rate futures: management of the funds in question involves the regular use of interest-rate futures based on government bonds belonging to the SRI universe, in order to adjust the portfolio's duration (upward or downward) across the different segments of the yield curve. These transactions are limited by the legal rules applicable to funds subject to the European Directive, i.e., to 100% of the fund's assets (including other derivatives). As the underlying is included in the SRI universe, there is no impact on the fund's ESG quality.
- Interest-rate swaps: management of the funds in question may involve the use of interest-rate swaps in order to trade a fixed rate for a variable rate, if the counterparty belongs to the SRI universe. These transactions are limited by the legal rules applicable to funds subject to the European Directive, i.e., to 100% of the fund's assets (including other derivatives). As the underlying is included in the SRI universe, there is no impact on the fund's ESG quality.
- Equity swaps: these transactions are permitted, provided that the index or basket of shares meets the criteria of the SRI universe.
- Credit derivative indices: management of the funds in question may involve the temporary use of credit-derivative indices, in cases where the funds must quickly adjust their exposure to the markets. These positions are temporary (max one week) and are limited to 10% of the fund's assets.
- Credit Default Swaps (CDS): the funds in question may use CDS on an SRI issuer in the portfolio if the counterparty to the transaction is a financial institution that also belongs to the SRI universe. As both the issuer subject to the CDS and the counterparty to the transaction belong to the SRI universe, these transactions have no impact on the fund's ESG quality.
- Equity index futures: management of the funds in question may involve the temporary use of equity index futures, in cases where the funds must quickly adjust the portfolio's exposure to the equity markets. These positions are temporary (max one week) and are limited to 10% of the fund's assets.
- Forwards: forwards are exclusively used to quickly adjust the portfolio's exposure to foreign exchange risk in the event of strong market fluctuations or a major change in the portfolio's composition. These transactions, which have no impact on the fund's ESG quality, have to be done with a credit institution that is part of the SRI universe.
- Listed options / OTCs on individual equities or on bond issuers: these options are valid provided the issuers are in the SRI universe.

Please note that investments in commodities as well as forward contracts on commodities are forbidden.

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#### **4.8. Does (do) the fund(s) invest in mutual funds?**

The strategies covered by this Transparency Code do not seek to actively invest in mutual funds. Nevertheless, certain funds may invest in liquidity solutions via money market funds. In accordance with the Internal Risk Management Policy, they may only invest in Candriam SRI UCITS & AIF which are subject to the SRI policy.

## 5. ESG Controls

### 5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?

At Candriam, several departments are in charge of internal control: risk management, internal audit and compliance.

Each department is independent of the Fund Management Department and is placed directly under the authority of Candriam's Group Strategic Committee.

The risk management department ensures that the securities making up the portfolios comply with the SRI universe.

One of the tools used by this department is the constraints server, a tool that combines all the constraints and limits required to manage the investment funds. It contains regulatory and contractual constraints as well as internal limits and constraints used to prevent operational errors. Constraints are applied, for example, to:

- the SRI investment universe;
- the list of authorised investments;
- the potential ratios (liquidity, dispersion) defined;
- the main regulatory constraints applicable to the fund;
- the "list of credit warnings" and "list of equity warnings".

Once the constraints have been configured in the constraints server, any order entered by the portfolio manager is immediately checked against them before the order is sent to the markets (**ex-ante control**). The portfolio manager is alerted in the event of a breach of constraint.

The Internal Audit Department carries out inspections and subsequently advises as necessary to ensure the performance and effective implementation of the internal control system in force. The inspection missions represent the lion's share of the audit department's work and aim to provide the Executive Committee with an objective and independent assessment of a particular domain (function, process, system, ...). In this context, the application of the SRI methodology and its application in the SRI portfolio management process are regularly monitored by internal audit.

## 6. Impact Measures and ESG reporting

### 6.1. How is the ESG quality of the fund(s) assessed?

The carbon and water footprints are calculated for the funds covered by this Code. These indicators provide a good proxy of environmental performance.

Furthermore, the Constraint Server ensures ESG quality by impeding issuers that do not meet the defined ESG standards from being included in the funds.

### 6.2. What ESG indicators are used by the fund(s)?

We are able to provide the following indicators upon request:

#### 1. ENVIRONMENTAL INDICATORS

##### Carbon Footprint



The carbon footprint measures the quantity of greenhouse gas emissions in CO<sub>2</sub> equivalent (CO<sub>2</sub> eq.) generated by a company or organisation's activities. The carbon footprint can also be calculated for the investments making up a portfolio. A portfolio's carbon footprint answers the question: what level of CO<sub>2</sub> emissions are “held” and “financed” by my portfolio? This indicator is used to compare a portfolio's carbon footprint to its benchmark index.

The Greenhouse Gas Protocol distinguishes between three scopes of emissions, which are used to assess a company's carbon footprint:

- **Scope 1:** Direct emissions generated by sources owned or controlled by the company. Example: for a company in the utilities-electricity generation sector, the emissions generated by electricity generation are Scope 1 emissions.
- **Scope 2:** Indirect emissions from electrical power used by the company's operations. Example: for a company in the banking sector, the emissions associated with electricity purchased through the power network to run its computers and light its offices fall into this category.
- **Scope 3:** Other indirect emissions generated upstream in the goods and services production chain (suppliers) and when goods and services are used downstream (customers). Example: for a company in the oil extraction sector, downstream emissions are emissions associated with the combustion of extracted hydrocarbons.

We made the choice to only include information on Scope 1 and Scope 2 emissions due to the relatively limited information available on Scope 3 emissions<sup>4</sup>.

The calculation methodology allocates to the portfolio, the emissions generated by a given company relative to the investment ratio, i.e. the percentage of the company owned via the portfolio. For example, if I own 0.1% of a company through my portfolio, this means I also own 0.1% of its CO<sub>2</sub> emissions.

<sup>4</sup> Due to the absence of Scope 3, this calculation does not represent the total level of CO<sub>2</sub> emissions for the fund nor the benchmark.



We chose the following methodology for our portfolio reports:

$$\text{Portfolio Carbon Footprint} = \frac{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{Scope 1 and 2 emissions}) \}}{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{Revenues}) * \text{Exchange rate at the end of the reporting year} \}}$$

(tons CO2eq / mld USD revenues)

$$\text{Enterprise Value} = \text{Market Capitalisation (priority shares included)} + \text{Net Financial Debt} + \text{Minority interests} - \text{Cash}$$

$$\text{Value of holding} = \text{Weight of the company in the portfolio} * \text{Total value of the portfolio}$$

### **Water Footprint**



Just as the carbon footprint measures emissions in terms of CO2 eq, the water footprint aims to measure water consumption by portfolio companies. Thus, by combining the different companies' water footprint, we determine the portfolio's water footprint.

Water is becoming an increasingly scarce resource and companies have a responsibility to maximise their efforts to reduce their consumption and use as much recycled water as possible in their own production process.

Please find below the methodology chosen for our portfolios:

$$\text{Water Carbon Footprint} = \frac{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{water consumption in m3}) \}}{\sum \{ (\text{Value of holding} / \text{Enterprise Value}) * (\text{Revenues}) * \text{Exchange rate at the end of the reporting year} \}}$$

$$\text{Market Capitalisation (priority shares included)} + \text{Net Financial Debt} + \text{Minority interests} - \text{Cash}$$

$$\text{Weight of the company in the portfolio} * \text{Total value of the portfolio}$$

### **6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?**

The documents and information on our SRI funds address the ESG quality of the portfolio via:

- the fund's investment strategy;
- the selection of the biggest securities in the portfolio, as described in the fund report.

Details of the securities in the portfolio are also available on our corporate website, in dedicated product sheets, in the "Search for a Fund" section;

All core SRI funds are described on the corporate website via the fund-search

engine:

<https://www.candriam.com/en/professional/funds-search/#/sri=true>

The SRI Engagement Report can be viewed at the following link:

[https://www.candriam.be/496382/siteassets/medias/publications/brochure/corporate-brochures-and-reports/engagement-report/engagement-activities\\_annual-report2018.pdf](https://www.candriam.be/496382/siteassets/medias/publications/brochure/corporate-brochures-and-reports/engagement-report/engagement-activities_annual-report2018.pdf)

The Proxy Voting Annual Review can be viewed at the following link:

<https://www.candriam.be/49639d/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxyvotingannualreview2018.pdf>

Details of votes cast can be viewed on our website at the following link:

<https://www.candriam.be/en/professional/market-insights/proxy-voting-candriams-votes-2018/>

The Sustainable Development Report can be viewed at the following link:

<https://www.candriam.be/4ac218/siteassets/medias/publications/brochure/corporate-brochures-and-reports/csr-report/csr2018.pdf>

For any request on research available to investors/savers or the breakdown of the securities in the portfolios, please contact [Investor.support@candriam.com](mailto:Investor.support@candriam.com).

#### **6.4. Does the fund management company publish the results of its voting and engagement policies?**

Yes, the company publishes the results of its voting and engagement policies.

Please refer to question 6.3. for the links to our publications.

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